

NZSIF



New Zealand
Social Infrastructure
Fund Limited



Interim Report

for the nine-month period to 30 September 2010

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29 November 2010

Dear Shareholder

I am pleased to present the New Zealand Social Infrastructure Fund's (NZSIF) interim report for the period from inception to 30 September 2010. The report also includes unaudited financial reporting for the 9-month period to 30 September 2010.

Background

NZSIF invests as a Limited Partner in the Public Infrastructure Partners Limited Partnership (the PIP Fund). The PIP Fund is an institutional fund established by Morrison & Co to invest in public-private partnerships (PPPs) that deliver social infrastructure assets (such as schools, hospitals and local government facilities) to the community.

Limited Partnership and Capital

The PIP Fund is well on the way to raising \$150 million with the expectation of growing this to \$200 million. The PIP Fund has a final close date of 31 December 2010. At 30 September NZSIF held a 28.4% interest in the PIP Fund. As more partners are admitted to the partnership they introduce more capital for investment and reduce individual partner exposure to the risks associated with any single investment.

As new partner capital is introduced part of their capital contribution plus interest is refunded to existing partners so there is an even capital allocation from the same point in time.

Investment Progress

The PIP Fund has announced one investment to date being the investment in the Melbourne Convention and Exhibition Centre (MCEC). The investment was for NZ\$39 million comprising 49.9% of the ordinary equity along with an investment in preferred equity. The

agreement to purchase MCEC was entered into in August 2010 and is anticipated to settle before the end of the year when the final sign-off from the State of Victoria is provided. This sign-off and settlement process has taken somewhat longer than originally anticipated.

The MCEC investment is an established operational PPP asset, which mitigates the usual development risks (e.g. construction cost overruns). Key information on the MCEC:

- Melbourne Convention Centre
 - A 5,000 seat hall, meeting and banquet rooms, six-star Green Star rated building
- Melbourne Exhibition Centre
 - A pre-existing 30,000m² facility adjacent to the Melbourne Convention Centre
 - Concession runs for 25 years from January 2009 to 2034, with the State of Victoria as counterparty.

The NZSIF Board considers the MCEC investment an excellent first investment for NZSIF as the underlying revenue streams are highly secure being based on availability of the facility, not demand or patronage driven; and the asset is constructed and operating.

MCEC investment returns are expected to start flowing to the PIP Fund in the first quarter of 2011. The positive side of the settlement delay is that the PIP Fund continues to earn interest on the investment up until settlement, which will flow through in distributions from the PIP Fund to the partners. After settlement, NZSIF contemplates regular distributions from MCEC to PIP, and depending on PIP's distributions to NZSIF, we anticipate making regular distributions. The only reason we would not make distributions is if this revenue was held within the PIP Fund at the distribution date to pay for fund operating costs. Paying early distributions to you or defraying budgeted operating costs should enhance overall fund returns.

Melbourne Convention & Exhibition Centre 1



Investment Focus and Prospects

The Government announced its intention to use PPPs for the Wiri prison, for new schools, and for broadband initiatives, and for developing a wider range of public infrastructure by requiring that PPPs be considered for all public projects exceeding \$25 million (Hon. Bill English Minister of Finance - 2010).

The PIP Fund expects the pace of infrastructure investment activity to increase over the next 12 months as the various Crown entities adopt the PPP model.

The PIP Fund's investment focus will be on social infrastructure investments that add value to communities, ideally educational and health facilities but the PIP Fund is certainly open to considering the wider sphere of infrastructure investment possibilities. Although prison facilities are within the scope of the PIP Fund, providing custodial services for prison operations is not an area in which the PIP Fund would be involved. The Wiri Prison is not considered to be a suitable PPP investment for the PIP Fund because the Crown was seeking both the provision of a prison facility and custodial services.

Interim Financial Statements

The unaudited interim financial statements covering the 9-month period to 30 September 2010 are provided for your information.

These reflect some initial establishment costs and operating costs of which the main items are the manager's fee and independent directors' remuneration.

We have met calls to the PIP Fund of \$11.42 million (equivalent to 27.8 cents per NZSIF share) of which \$10.98 million (approximately 26.7cps) was for the MCEC investment.

Melbourne Convention & Exhibition Centre 2



NZSIF has 41 million \$1 shares* on issue paid to 30 cents per share (*each share comprises one ordinary voting share and 100 non-voting redeemable preference shares).

10 cps was paid at the time of initial subscription and the first call of 20 cps was made in August 2010. The net asset backing of NZSIF at 30 September 2010 was 28.6 cps based on the shareholders' equity position in the interim accounts and comprising mainly cash.

The Managers of the PIP Fund and Directors of NZSIF are pleased with the investment progress to date, and the interesting flow of opportunities and the positive change in government policy towards private investing in public infrastructure in New Zealand. This will lead to increased investment opportunities in New Zealand.

We will keep you informed as investments are made by the PIP Fund through media releases, via the NZSIF website www.nzsif.co.nz or by writing directly to you. Any new investments made by the PIP Fund will entail a call being made on NZSIF to fund the investment. In turn we will issue a call notice and information on the new investment to you. We will also provide formal interim and annual reports.

If you have any queries regarding your investment in NZSIF, please discuss with your Investment Advisor or you may call Peter Lalor at NZSIF Management.

Yours sincerely
**NEW ZEALAND SOCIAL INFRASTRUCTURE
FUND LIMITED**

A handwritten signature in black ink, appearing to be 'Kim Ellis', written over a white background.

Kim Ellis
Chairman



Interim statement of comprehensive income

For the nine month period ended 30 September 2010

	<i>Note</i>	2010 \$
Interest income		39,660
Administrative expenses	2a	(119,939)
Movement in fair value of PIP Fund investment		(38,950)
Operating loss		<u>(119,229)</u>
Finance expenses - interest	2b	(22,946)
Loss before tax		<u>(142,175)</u>
Income tax expense		-
Loss for the period		<u>(142,175)</u>
Other comprehensive income for the period		-
Total comprehensive income for the period		<u>(142,175)</u>

Interim statement of changes in equity

For the nine month period ended 30 September 2010

2010	Share capital	Retained earnings	Total equity
Balance at 26 January 2010	-	-	-
Total comprehensive income for the period		(142,175)	(142,175)
Issue of share capital	12,300,000	-	12,300,000
Share transaction costs	(421,304)	-	(421,304)
Balance at 30 September 2010	<u>11,878,696</u>	<u>(142,175)</u>	<u>11,736,521</u>



Interim statement of financial position

As at 30 September 2010

	<i>Note</i>	2010 \$
Assets		
Investment in PIP fund	3	11,383,385
Total non current assets		<u>11,383,385</u>
Receivables and prepayments	4	18,766
Taxation receivable		12,493
Cash and cash equivalents	5	346,807
Total current assets		<u>378,066</u>
Total assets		<u>11,761,451</u>
Equity		
Issued capital	6	11,878,696
Retained losses		<u>(142,175)</u>
Total equity attributable to equity holders		11,736,521
Liabilities		
Trade and other payables		<u>24,930</u>
Total current liabilities		<u>24,930</u>
Total liabilities		<u>24,930</u>
Total equity and liabilities		<u>11,761,451</u>

For and on behalf of the Board

Director
Date

29 November 2010

Director
Date

29 November 2010



Interim statement of cash flows

For the nine month period ended 30 September 2010

	<i>Note</i>	2010 \$
Cash flows from operating activities		
Interest received		39,660
Interest paid		(22,946)
Income taxes paid		(12,493)
Cash paid to suppliers		(109,775)
Net cash from operating activities	7	<u>(105,554)</u>
Cash flows from financing activities		
Proceeds from share calls		12,296,000
Lead manager fee	8	(410,000)
Transaction costs		(11,304)
Net cash from financing activities		<u>11,874,696</u>
Cash flows from investing activities		
Investment in PIP fund		(11,422,335)
Net cash from investing activities		<u>(11,422,335)</u>
Net movement in cash and cash equivalents		346,807
Cash and cash equivalents at 26 January 2010		-
Cash and cash equivalents at 30 September 2010	5	<u>346,807</u>



Notes to the interim financial statements

1. Significant accounting policies

New Zealand Social Infrastructure Fund Limited (the “Company”) is a limited liability company incorporated and domiciled in New Zealand. The interim financial statements of the Company are for the nine months ended 30 September 2010.

The Company is primarily involved in investing into public-private partnerships as a limited partner of the Public Infrastructure Partners LP (the “PIP Fund”).

The interim financial statements were approved by the Directors on 29 November 2010.

(a) Statement of compliance

The interim financial statements have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) NZ IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements.

(b) Basis of preparation

New Zealand Social Infrastructure Fund Limited is registered under the Companies Act 1993 and is an issuer and reporting entity for the purposes of the Financial Reporting Act 1993. The financial statements have been prepared in accordance with the Financial Reporting Act 1993. The Company is a profit-oriented entity.

The financial statements are presented in New Zealand dollars, which is the Company’s functional currency. They are prepared on the historical cost basis except that certain financial instruments are stated at their fair value.

There are no comparatives to these financial statements as the Company was incorporated on 26 January 2010. These financial statements cover the period from incorporation until the Company’s interim reporting date, being 30 September 2010 (9 month period).

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

(c) Investment in the PIP Fund

The PIP Fund is a limited liability partnership, established under the Limited Partnerships Act 2008. The primary purpose of the PIP fund is to make, hold and dispose of investments in social infrastructure assets through public private partnerships (PPPs).

New Zealand Social Infrastructure Fund Limited invests in the PIP Fund as a limited partner.

The Company’s investment in the PIP Fund is classified at fair value through profit or loss and presented as a non-current asset in the statement of financial position. The investment is stated at fair value, with any resultant change in fair value recognised in the statement of comprehensive income.

(d) Goods and services tax (GST)

All amounts are shown inclusive of GST, as the Company is not registered for GST.



Notes to the interim financial statements

2a Administrative expenses

	2010
Management fees	48,152
Directors' fees	52,375
Other administrative expenses	19,412
	<u>119,939</u>

The following items of expenditure are included in other administrative expenses:

Auditor's remuneration to KPMG comprises:

Review of interim financial statements	5,000
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2b. Finance expenses - interest

Interest of \$22,946 was paid to the PIP Fund, in accordance with the partnership agreement, to ensure an even capital allocation between the partners of the PIP Fund in line with the initial closing date of the PIP Fund being 30 October 2009.

3. Non-current investments

	2010
Investment in PIP Fund (see note 9)	<u>11,383,385</u>

4. Receivables and prepayments

	<i>Note</i>	2010
Receivables – share capital	6	4,000
Prepayments		14,766
		<u>18,766</u>

5. Cash and cash equivalents

	2010
Call deposits	346,807
Cash and cash equivalents in the statement of cash flows	<u>346,807</u>

Call deposits are held with Craigs Investment Partners Cash Management Trust Limited (a related party, see Note 8), and The National Bank. The interest rates range from 1.00% to 3.00%.



Notes to the interim financial statements

6. Share capital

	Number of preference shares 30 September 2010	Number of ordinary shares 30 September 2010
On issue at 26 January 2010	-	-
Issued during year	4,100,000,000	41,000,000
On issue at 30 September 2010	4,100,000,000	41,000,000

Each \$1.00 Share comprises one ordinary voting share with a nil issue price, and 100 non-voting redeemable preference shares in New Zealand Social Infrastructure Fund at \$0.01 each. The Shares were partly paid to \$0.10 on subscription, equating to \$4,100,000.

On 19 August 2010 a call of \$0.20 per share was made which was payable on 16 September. A total of \$8,196,000 was received by the due date with \$4,000 outstanding at 30 September 2010 and subsequently paid (see Note 4).

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

7. Reconciliation of loss after taxation to the net cash flow from operating activities

	2010
Loss for the period	(142,175)
Movement in fair value of PIP Fund Investment	38,950
	<u>(103,225)</u>
Movement in Working Capital	
Change in receivables and prepayments	(14,766)
Change in income tax receivable	(12,493)
Change in trade payables and accruals	24,930
Net cash flow from/(to) operating activities	<u>(105,554)</u>



Auditors review report



To the shareholders of New Zealand Social Infrastructure Fund Limited

We have reviewed the attached interim financial statements in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. The financial statements provide information about the past financial performance of New Zealand Social Infrastructure Fund Limited and its financial position as at 30 September 2010.

Directors' responsibilities

The Directors of New Zealand Social Infrastructure Fund Limited are responsible for the preparation of interim financial statements which give a true and fair view of the financial position of the company as at 30 September 2010 and the results of its operations and cash flows for the 9 month period ended on that date.

Reviewer's responsibilities

It is our responsibility to express an independent opinion on the interim financial statements presented by the Directors and report our opinion to you.

Basis of opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to the financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company, there are however certain restrictions on dealings which partners and employees of our firm have with the company. These matters have not impaired our independence as auditors of the company. The firm has no other relationship with, or interest in, the company.

Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the attached interim financial statements do not give a true and fair view of the financial position of New Zealand Social Infrastructure Fund Limited as at 30 September 2010, the results of its operations and cash flows for the 9 month period ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting*.

Our review was completed on 29 November 2010 and our opinion is expressed as at that date.

KPMG

Tauranga



Corporate Directory

BOARD OF DIRECTORS OF NZSIF

Kimmitt Rowland Ellis (Chairman)
Ian Alexander Nicholson Fraser
Neil John Craig
Michael John Caird

The Board can be contacted at NZSIF's registered office address set out below.

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