NZSIF

New Zealand
Social Infrastructure
Fund Limited

Annual Report

For the 15 month period ended 31 March 2011

Contents



Report to shareholders

20 July 2011

Dear Shareholder

I am pleased to present the New Zealand Social Infrastructure Fund's (NZSIF) annual report for the 15-month period ended 31 March 2011. The report includes audited financial statements for the 15-month period to 31 March 2011.

Background
NZSIF invests as a Limited Partner in the Public Infrastructure Partners Limited Partnership (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 final close for the PIP Fund was completed on 31 December 2010. The PIP Fund has nine limited partners with capital commitments totalling $176.5 million. With the introduction of further partners NZSIF's interest in the Fund was diluted to 22.95% from our original 28.8% stake (when there were commitments of $140.5 million). NZSIF is now the second largest investor behind the New Zealand Superannuation Fund.

Investment Progress
The PIP Fund has made just the one investment to date, in the Melbourne Convention and Exhibition Centre (MCEC). The MCEC investment is an established operational PPP asset, which mitigates the usual development risks associated with PPP greenfield projects (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.
- The concession runs for 25 years from Jan 2009 to 2034, with the State of Victoria as counter-party.

The total PIP Fund investment in MCEC was for NZ$39 million comprising 49.9% of the ordinary equity along with an investment in preferred equity. MCEC makes up 23% of PIP Fund committed capital as at 31 March 2011. The MCEC investment is significant with total assets of A$900m and long-term funding.

The NZSIF Board considers the PIP Fund's investment in MCEC to be an excellent first investment, as this is an operating asset and the underlying revenue streams are highly secure, being based on availability of the facility, not demand or patronage driven.

This first investment is a significant investment for NZSIF representing a commitment by NZSIF of NZ$9.2 million, being 22.4% of NZSIF committed capital.

Upcoming investment opportunities
The PIP Fund is designed for long-term infrastructure investing. Typically PPP investments entail a build project. The New Zealand market is only just adapting to the PPP procurement concept, with the first New Zealand PPP project being the Wiri prison, a project the PIP Fund has not participated in due to the “custodial” requirement of the project.

Melbourne Convention & Exhibition Centre

The PIP Fund's New Zealand investment activity will primarily be driven by Government infrastructure projects being rolled out over the next few years. The Hon. Bill English stated "*This Government has made it clear that they are open to greater use of private sector expertise where it makes sense. Building and maintaining two new schools through a PPP is likely to result in a range of benefits."*

On the 6 April 2011 the Government announced that it intends to commission two new schools in Hobsonville that will be designed, financed, built and maintained under a public-private partnership.

The Government sought formal expressions of interest from market participants for the new primary and secondary schools at Hobsonville Point, north west of Auckland. Subject to satisfactory bids, the schools will be the first built in New Zealand under a PPP.

The PIP Fund sees the Hobsonville PPP opportunity as an ideal PPP investment project and they are now in a formal, competitive process to provide the two new schools (a primary school for 690 pupils, and a secondary school for 1,500 pupils) to the Ministry of Education in Auckland.

On the 27 May 2011 the Government announced a shortlist of three consortiums, one including the PIP Fund, was selected to proceed to the next stage of the tendering process. If successful the project would commence in 1Q2012.

The PIP Fund has been in the final bid process for two Australian infrastructure investments but have been squeezed out of the funding process because they made up a small percentage of the funding package for a project that was being cut back. The PIP Fund continues to review other opportunities in New Zealand and Australia

Investment Valuation - PIP Fund

The PIP Fund employs a third party expert to value the Fund's assets once a year. The valuation is calculated as at balance date being 31 March and was completed this year for the MCEC investment.

The value ascribed by the independent expert to the PIP Fund's assets shows the NZSIF investment value would be NZ$9.5m. This compares to the original original NZSIF investment cost of NZ$9m. Applying the current PIP Fund valuation to NZSIF's investment in the Fund would increase the NZSIF NTA by approximately 0.3 cps to 29.4cps. The NZSIF directors consider this valuation a useful endorsement of the initial MCEC investment late last year.

The third party valuation indicates a modest rise in the value of the asset, exchange rate movements have increased this gain further. These exchange rate valuation gains are unrelated to the operational performance of MCEC and may reverse. This quarter the Australian dollar strengthened against the New Zealand dollar.

PIP Fund's Operational Performance

Melbourne Convention and Exhibition Centre (MCEC)

Since acquisition the MCEC investment performed well. There have been no property management or performance issues affecting the PIP Fund during the period and therefore no revenue deductions for the Fund.

MCEC was shut down over Christmas and scheduled maintenance was carried out in this period. As a consequence, the building was in good shape for the busy post Christmas season. The scheduled maintenance costs were slightly over budget but this did not significantly impact on quarterly returns.

There is an amount of mezzanine debt funding on the MCEC investment that once repaid means distributions should rise appreciably.

NZSIF Investment Valuation

NZSIF policy is to carry investments at fair value with subsequent movements in fair value recognised through profit or loss. As there is no quoted market price for the PIP Fund, valuation techniques must be utilised to determine the fair value of the PIP Fund itself, which may require an aggregation of valuations of the PIP Fund's investments. The valuation techniques utilised can include 'the price of recent acquisition', 'market based earnings multiples' or 'discounted cash flows'. As at 31 March 2011 the technique used for the NZSIF investment valuation was the price of the recent acquisition adjusted for foreign exchange movements. This has resulted in a valuation of $9,432,631 for NZSIF's investment in the PIP Fund being recorded in the statement of financial position as at 31 March 2011, and the movement against the original cost of $9,221,999 shown as a fair value movement through profit or loss (an increase of $210,632). Table 1 on page 4 shows the comparison between the PIP Fund's investment value with NZSIF's pro-rata share as at 31 March 2011, NZSIF's value attributed based on the original cost price plus exchange rate movements to 31 December 2010; and to 31 March 2011.

Table 1 - Investment Value Comparison

Investment	NZSIF 31/12/10	NZSIF 31/03/11	NZSIF 31/03/11 *PIP Fund's valuation
PIP Fund	9,168,744	9,432,631	9,534,335
Cash	2,528,391	2,508,284	2,508,284
Working Capital	-	-568	-568
NZSIF Total	11,697,135	11,940,347	12,042,051
NZSIF NTA	28.5	29.1	29.4

*PIP Fund's asset valuation by an independent third party as at 31-3-11 $41,543,943

Forecast Distributions

MCEC investment returns began to flow to the PIP Fund in the first quarter of 2011 and MCEC will make quarterly distributions going forward. It is unlikely that any of the investment returns being received by the PIP Fund will be distributed to NZSIF investors in this early stage of the investment. Instead this cash flow is being used to pay the PIP Fund's operating costs, including management fees that accrue on the whole value of the Fund's committed capital.

The MCEC project has mezzanine debt provided by the Bank of Tokyo Mitsubishi associated with the investment. The JV Partner in the MCEC investment has undertaken to refinance this third party debt by June 2013 but the refinancing could occur earlier. The mezzanine debt will be repaid by an issue of more preferred equity. The issue of preferred equity will result in the repayment of the Bank of Tokyo Mitsubishi loan, the dilution of PIP Fund's holding of preferred equity (the PIP Fund currently holds all the preferred equity) and the redemption of some capital.

Whilst the debt is in place, yield to the PIP Fund is reduced in order to service the loan. At the time the loan is repaid (refinanced externally by the JV Partner) the PIP Fund will receive a one-off payment and the future yield to the PIP Fund will increase significantly. When this happens the PIP Fund is expected to be in a position to commence making regular distributions to the limited partners. NZSIF would then pass these distributions through to our shareholders.

Currently the positive aspect for NZSIF investors is that by paying the PIP Fund's operating costs from the MCEC investment yield, this reduces the need to drawdown further capital to fund expenses, and in doing so preserves capital for more investment. The investment thesis for NZSIF envisaged several years in which commitments were drawn-down to make investments and pay fees and other expenses, with income generated in latter years as the PPP projects become operational.

Investment Focus and Prospects

The PIP Fund expects the pace of infrastructure investment activity to increase over the next 12-24 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 other infrastructure investment opportunities. The PIP Fund will not be involved in prison projects with a prison custodial aspect.

Set out below are a number of examples of Government statements supporting the development of a New Zealand PPP model, and supporting NZSIF's investment thesis.

Government and Infrastructure PPP's

In 2010 the Hon. Bill English announced that – *"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."*

Budget 2011 - Infrastructure

Extracts from the Minister of Finance the Hon. Bill English Budget Speech 2011:

The 2011 Budget included a range of new capital spending, mostly focused on improving New Zealand's infrastructure.

The Government believes that efficient infrastructure will underpin improved productivity in a growing economy.

Other key parts of the Government's infrastructure programme are continuing. We continue to invest over $1 billion a year in state highway improvements, including the Seven Roads of National Significance and a number of other significant regional projects.

And the investments in the new prison at Wiri, and a number of new schools remain on target to deliver worthwhile savings to taxpayers via Public Private Partnerships.

These capital commitments are part of a larger programme of investment in public assets.

The net value of government-owned assets is expected to increase by $34.3 billion between 2010 and 2015.

This includes a range of high-priority areas, including social infrastructure such as schools, hospitals, housing and student loans, as well as the investment in roads, rail, broadband, electricity transmission and increased investment in financial assets. Some of this extra investment will occur within the State-owned enterprises and Crown entities. But about $21 billion will be invested in core social infrastructure and student loans.

The Government's objective is to maintain investment in core public assets without increasing debt. This highlights the need for the Government to prioritise where its capital is used.

National Infrastructure Plan

The Government's national infrastructure plan has recently been released.

The strategic opportunities included in the plan include: transport; telecommunications; energy; water and social.

The Government outlines a three-year action plan and one of the key aspects of the action plan is to “explore alternative sources of funding, and implement funding tools that can be used to manage the current portfolio more effectively.”

Some of the infrastructure challenges identified include:

- The volatile nature of infrastructure funding creates a lack of certainty and continuity for infrastructure providers. There is insufficient use of the tools available to generate revenue and manage demand;
- The performance of infrastructure assets is not transparent. It is not always clear who is accountable for decisions;
- Poor coordination between different infrastructure providers leads to suboptimal outcomes.

The Government comments that the private sector is seen as playing a critical role in the provision of infrastructure. The Government is encouraging greater involvement of the private sector, as investors in economic infrastructure and as partners of Government to deliver social infrastructure. In addition, the private sector provides skills and expertise in planning and design, construction and asset management.

The plan comments on the future direction of funding - The Government recognises and encourages the use of alternative sources of funding tools to provide additional revenue and manage demand.

The Government comments on the involvement of the private sector in funding infrastructure assets is further reinforced by the National Infrastructure Plan which certainly show this Government's desire to utilise the PPP model where appropriate in infrastructure projects. The PIP Fund is in a prime position with consortium partners of standing to tender for these PPP projects when they are presented to the market.

Annual Financial Statements

The audited annual financial statements covering the 15-month period to 31 March 2011 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.

There was a small amount of interest income, $125,279 plus a positive movement in fair value of the PIP Fund investment of $210,632. After expenses and tax there was a profit for the period of $45,579.

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. Issued capital after deducting initial capital raising expenses is $11,878,696.

To date we have met calls to the PIP Fund of $9.2 million (equivalent to 22.5 cents per NZSIF share).

The current value of the NZSIF investment in the PIP Fund is $9,432,631. Liabilities represent just 0.5% of the total NZSIF assets. NZSIF's current net asset backing per share based on our equity at 31 March 2011 is 29.1 cps. The last sale price for NZSIF shares was 30 cents.

NZSIF Annual Shareholders Meeting

In summary the Manager of the PIP Fund and NZSIF Directors are pleased with the quality of the MCEC investment. This should prove to be a value accretive long-term investment generating a strong ongoing cash flow.

With the current Government clearly supportive towards private investing in public infrastructure we expect to see increased investment opportunities over the short to medium term. The Hobsonville School PPP being a good example of the Government's positive stance on PPP's.

The details for our Annual Shareholders Meeting are:

Date: Monday, 22 August 2011
Time: 11.30 a.m.
Place: Craigs Investment Partners Limited, Level 32, Vero Centre, 48 Shortland Street, Auckland.
RSVP: Contact Peter Lalor on 07 5774 727 or enquiries@nzsif.co.nz by 12 August 2011.

We extend an invitation to you to attend this meeting and look forward to seeing you there.

Thank you for your ongoing support of NZSIF and I trust that you are satisfied with PIP Fund's initial investment and that you are looking forward to increased investment activity as further PPP opportunities become available.

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 may issue a call notice and information on the new investment to you. We will continue to provide formal interim and annual shareholder reports, although we may in future consider electronic delivery via our website. These reports plus quarterly updates for investors are always available to view on our website www.nzsif.co.nz.

If you have any queries regarding your investment in NZSIF, please discuss with your Investment Adviser or you may call Peter Lalor at NZSIF Management on 07 5774 727.

Yours sincerely
NEW ZEALAND SOCIAL INFRASTRUCTURE FUND LIMITED

Kim Ellis
Chairman

Directors' report

For the 15 month period ended 31 March 2011

Directors holding office during the year and their remuneration

	Director Fees $	Date of appointment
*K Ellis	52,875	26-Jan-10
*I Fraser	37,500	26-Jan-10
**N Craig	nil	26-Jan-10
**M Caird	nil	26-Jan-10

* Director fees for the 15-month period to 31 March 2011 and including pre-launch services.

** Craigs Investment Partners Limited directors waived their NZSIF directors' fees for the entire financial period.

Entries recorded in the interests register

The entries shown in the table below were recorded in the interest register of the Company during the year.

Directors' shareholdings (including relevant interests) and dealings in NZSIF for the period to 31 March 2011.

	Original Shares subscribed for	Change in holdings for the period
K Ellis	50,000	nil
N Craig	100,000	nil
M Caird	100,000	nil

Director
7 July 2011

Director
7 July 2011

Statement of comprehensive income

For the 15 months ended 31 March 2011

	Note	2011 $
Interest income	*8*	125,279
Movement in fair value of PIP Fund	*7*	210,632
Total investment income		335,911
Administrative expenses	*5*	(267,386)
Operating profit		68,525
Finance expenses – interest	*8*	(22,946)
Profit before tax		45,579
Income tax expense	*6*	-
Profit for the period		45,579
Other comprehensive income for the period		-
Total comprehensive income for the period		45,579

Statement of changes in equity

For the 15 months ended 31 March 2011

	Share capital	Retained earnings	Total equity
Balance at 26 January 2010	-	-	-
Total comprehensive income for the period	-	45,579	45,579
Issue of share capital	12,300,000	-	12,300,000
Share transaction costs	(421,304)	-	(421,304)
Balance at 31 March 2011	11,878,696	45,579	11,924,275

Statement of financial position

As at 31 March 2011

	Note	**2011**
		$
Assets		
Investment in PIP fund	*7*	9,432,631
Total non current assets		9,432,631
Receivables and prepayments	*10*	30,284
Taxation receivable		14,727
Cash and cash equivalents	*11*	2,508,284
Total current assets		2,553,295
Total assets		11,985,926
Equity		
Issued capital	*12*	11,878,696
Retained earnings		45,579
Total equity attributable to equity holders		11,924,275
Liabilities		
Trade and other payables		61,651
Total current liabilities		61,651
Total liabilities		61,651
Total equity and liabilities		11,985,926

For and on behalf of the Board

Director
7 July 2011

Director
7 July 2011

Statement of cash flows

For the 15 months ended 31 March 2011

	Note	2011 $
Cash flows from operating activities		
Interest received		124,344
Interest paid		(22,946)
Income taxes paid		(14,727)
Cash paid to suppliers		(235,084)
Net cash from operating activities	*13*	(148,413)
Cash flows from financing activities		
Proceeds from share calls		12,300,000
Lead manager fee	*15*	(410,000)
Transaction costs		(11,304)
Net cash from financing activities		11,878,696
Cash flows from investing activities		
Investment in PIP fund	*7*	(9,221,999)
Net cash from investing activities		(9,221,999)
Net movement in cash and cash equivalents		2,508,284
Cash and cash equivalents at 26 January 2010		-
Cash and cash equivalents at 31 March 2011	*11*	2,508,284

Notes to the financial statements

1. Reporting entity

New Zealand Social Infrastructure Fund Limited (the "Company") is a company incorporated and domiciled in New Zealand. New Zealand Social Infrastructure Fund Limited is registered under the *Companies Act 1993* and is an issuer and a reporting entity for the purposes of the *Financial Reporting Act 1993*. The financial statements of the Company are for the fifteen months ended 31 March 2011.

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

The financial statements were approved by the Directors on 7 July 2011.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards ("IFRS"). The financial statements also comply with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

(b) Basis of measurement

The financial statements 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 reporting date, being 31 March 2011 (15 month period).

(c) Functional and presentation currency

The financial statements are presented in New Zealand dollars, which is the Company's functional currency, and rounded to the nearest dollar.

(d) Use of estimates and judgements

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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the financial statements *(continued)*

2. Basis of preparation *(continued)*

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 4 – Determination of fair values
- Note 14 – Financial risk management

3. Significant accounting policies

The accounting policies set out below have been applied consistently through the period presented in these financial statements.

(a) 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 investments in social infrastructure assets through public private partnerships (PPP's).

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 profit or loss.

(b) Finance income and expense

Finance income comprises interest received on capital contributions, required to equalise the partners capital contributions and interest income. Interest income is recognised as it accrues, using the effective interest rate method.

Finance expense comprises interest expense on capital contributions, required to equalise the partners capital contributions. All finance expenses are recognised in the profit or loss using the effective interest method.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits and short term deposits with a maturity of less than 3 months.

(d) Impairment

The carrying amounts of the Company's assets, other than investments in the PIP Fund (see accounting policy (a)), and deferred tax assets (see accounting policy (g)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated based on the present value of estimated future cash flows, discounted at the original effective interest rate.

Impairment losses are recognised in profit or loss. An impairment loss is reversed in profit or loss if there has been a change in the estimates used to determine the recoverable amount.

Notes to the financial statements *(continued)*

3. Significant accounting policies *(continued)*

(e) Share capital

Share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option.

(f) Other financial assets and liabilities

Other financial assets and liabilities, including receivables and payables are carried at their amortised cost using the effective interest rate method. Their carrying value closely approximates their fair value.

(g) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(h) Goods and services tax (GST)

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

(i) New standards and pronouncements relevant to the Company

New standard not yet adopted

A new standard, which is not yet effective for the year ended 31 March 2011, has not been applied in preparing these financial statements. The standard of relevance to the Company is:

NZ IFRS 9 - Financial Instruments (2010) - effective for periods beginning on or after 1 January 2013. NZ IFRS 9 is the standard issued as part of a wider project to replace NZ IAS 39. NZ IFRS 9 (2009) retained but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. NZ IFRS 9 (2010) retained the requirements with respect to the classification and measurement of financial liabilities with the exception of fair value option and certain derivatives linked to unquoted equity instruments. Additionally, NZ IFRS 9 (2010) also retained the recognition requirements of NZ IAS 39. Application of transitional provisions depends on an entity's adoption date of NZ IFRS 9 (2009) and NZ IFRS 9 (2010).

The Company has not yet determined the potential effect of the standard.

Notes to the financial statements *(continued)*

4. Determination of fair values

The General Partner arranges valuations of investments as at the end of the reporting period by an independent valuation expert approved by the Advisory Committee and using valuation methodologies approved by the Advisory Committee. A newly purchased asset or an asset in the construction phase may be held at cost (Limited Partnership Agreement for the Public Infrastructure Partners LP (LPA) clause 11.1). However, if the manager believes that an event has given rise to a change in the value of an asset the manager may appoint an expert to revalue that asset (LPA clause 11.4) at that time (see Note 7 for further discussion on determination of fair values).

5. Administrative expenses

	Note	2011
Management fees	*15*	107,090
Directors' fees		90,375
Insurance		27,014
Auditor's remuneration (see below)		17,394
Legal fees		16,705
Other administrative expenses		8,808
		267,386
Auditor's remuneration to KPMG comprises:		
Review of interim financial statements		5,894
Audit of year end financial statements		11,500
		17,394

6. Income tax expense

	2011
Income tax expense in statement of comprehensive income	-

Reconciliation of effective tax rate	*Note*	2011
Profit before tax		45,579
Income tax expense at 30% tax rate		13,674
Non-deductible expenses		11,349
Tax exempt income		(63,190)
Tax (loss) not recognised in the statement of comprehensive income	*9*	(38,167)
Total income tax expense in statement of comprehensive income		-

Notes to the financial statements *(continued)*

6. Income tax expense *(continued)*

Imputation credits

	2011
Balance at beginning of period	-
RWT deducted	14,727
Income tax paid	-
Income tax refunded	-
Balance at end of period	14,727

7. Investment – PIP Fund

The Company has one investment, which is in the Public Infrastructure Partners LP (PIP Fund). The PIP Fund itself has made one investment since its inception. Company policy is to carry investments at fair value with subsequent movements in fair value recognised through profit or loss. As there is no quoted market price for the PIP Fund, valuation techniques must be utilised to determine the fair value of the PIP Fund itself, which may require an aggregation of valuations of the PIP Fund's investments. The valuation techniques utilised can include 'the price of recent acquisition', 'market based earnings multiples' or 'discounted cash flows'. As at 31 March 2011 the technique used was the price of recent acquisition adjusted for foreign exchange movements. This has resulted in a valuation of NZ$9,432,631 being recorded in the statement of financial position as at 31 March 2011, and the movement against the original cost of $9,221,999 shown as a fair value movement through profit or loss (increase of $210,632).

Sensitivity analysis

An increase of 5% in the NZD/AUD exchange rate applied to the investment carried at fair value decreases the value of the investment by $435,173, while a decrease of 5% in the NZD/AUD exchange rate increases the value by $480,981.

8. Finance expenses - interest

Interest of $22,946 was paid to the PIP Fund in June 2010, in accordance with the partnership agreement, on the rebalancing of capital on the initial closing date of the PIP Fund of 30 October 2009.

Interest of $61,357 was received from the PIP Fund in December 2010 on a further rebalance of capital on the final close of the PIP Fund, and is included in Interest income of $125,279.

Notes to the financial statements *(continued)*

9. Deferred tax assets and liabilities

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Note	2011
Opening balance		-
Tax (loss) not recognised in the statement of comprehensive income	6	(38,167)
Closing balance 31 March 2011		(38,167)

Tax losses do not expire, subject to shareholder continuity rules being met. Deferred tax assets have not been recognised in respect of these items because it is uncertain that future taxable profit will be available against which the Company can utilise the benefit.

10. Receivables and prepayments

	2011
Receivables	935
Prepayments	29,349
	30,284

11. Cash and cash equivalents

	Note	2011
Call deposits:		
ANZ National Bank Limited		17,511
ANZ National Bank Limited via CIP Cash Management Nominees Limited	15	290,773
Short term deposits		2,200,000
Cash and cash equivalents in the statement of cash flows		2,508,284

Call deposits are held with ANZ National Bank Limited via CIP Cash Management Nominees Limited (see Note 15), and also directly with ANZ National Bank Limited. The weighted average interest rate on call deposits is 2.94%.

Short-term deposits are held directly with ANZ National Bank Limited. The weighted average interest rate on short-term deposits is 3.68%.

Notes to the financial statements *(continued)*

12. Share capital

	Number of preference shares 31 March 2011	Number of ordinary shares 31 March 2011
On issue at 26 January 2010	-	-
Issued during year	4,100,000,000	41,000,000
On issue at 31 March 2011	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 (a stapled security). The ordinary shares were partly paid to $0.10 per share on subscription.

On 19 August 2010 a call of $0.20 per share was made which was payable on 16 September 2010.

In all, $0.30 per share is now paid-up with $0.70 per share still to be called. This represents $12,300,000 in paid up capital. There remains $28,700,000 of uncalled capital.

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.

13. Reconciliation of profit after taxation to the net cash flow from operating activities

	2011
Profit for the period	45,579
Movement in fair value of PIP Fund Investment	(210,632)
	(165,053)
Movement in Working Capital	
Change in receivables and prepayments	(30,284)
Change in income tax receivable	(14,727)
Change in trade payables and accruals	61,651
Net cash flow from/(to) operating activities	(148,413)

Notes to the financial statements *(continued)*

14. Financial risk management

Introduction and overview

The Company has exposure to the following risks from its use of financial instruments:

- equity price risk
- credit risk
- interest rate risk
- liquidity risk
- foreign exchange risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Equity valuation risk

Through the LPA, the Company has policies in place to mitigate equity price risk, particularly in the investments made by the PIP Fund. This includes detailed analysis by the PIP Fund of all prospective Public Private Partnership (PPP) investments. These types of minority investment holdings are, by their nature, less liquid and subject to greater price risk than listed securities.

Credit risk

Exposure to credit risk arises in the normal course of the Company's business from its loans and receivables and bank balances. The Company does not require collateral in respect of financial assets. At reporting date there were significant concentrations of credit risk.

The Company invests its surplus funds in call and short-term deposits with ANZ National Bank Limited via CIP Cash Management Nominees Limited and also directly with ANZ National Bank Limited. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position (see Note 11).

Interest rate risk

Exposure to interest rate risk arises in the normal course of the Company's business from bank accounts and short-term deposits. The Company earns interest on bank accounts and short-term deposits. Management invest excess funds in short-term deposits to maximise interest revenue whilst ensuring funds are available if required.

Effective interest rates and repricing

The only interest bearing financial assets in the Company are bank balances and short-term deposits (refer Note 11). At the end of the reporting period the effective interest rate for bank balances is 2.88% and short-term deposits is 3.77%.

Bank balances reprice daily and short-term deposits reprice within 3 months.

Notes to the financial statements *(continued)*

14. Financial risk management *(continued)*

Liquidity risk

Liquidity risk represents the Company's ability to meet its contractual obligations. The Company evaluates its liquidity requirements on an ongoing basis, and maintains sufficient cash to meet all obligations. Investments in unlisted equity securities are, by their nature, less liquid.

Foreign exchange risk

The Company is exposed to foreign currency risk as a result of investments made by the PIP Fund in currencies other than the functional currency (NZD). It is therefore exposed to currency risk, as the value of the assets denominated in other currencies will fluctuate due to changes in exchange rates. The PIP Fund does not hedge its foreign currency assets (see Note 7).

Interest rate risk – repricing analysis

	Note	Total	Non interest bearing	6 months or less
2011				
Cash and cash equivalents	*11*	2,508,284	-	2,508,284
Total		2,508,284	-	2,508,284

Sensitivity analysis

In managing interest rate risk the Company aims to reduce the impact of short-term fluctuations on the Company's earnings. Changes in interest rates will have an impact on profit. At 31 March 2011 it is estimated that a general increase of 1.00% in interest rates on its cash and cash equivalents would increase the Company's profit before income tax by approximately $25,083 over a one-year period.

Capital management

The Company's capital includes share capital and retained earnings.

The Company's policy is to maintain its capital structure in terms of the prospectus and repay capital as investments are realised. As disclosed in Note 12, $0.30 per share has been paid on the $1.00 share capital. The remaining $0.70 will be called as required in accordance with the terms of the original prospectus.

The Company has the power to borrow, if a call has been approved by the Board, to the extent of the aggregate amount of that call and for a term not exceeding 90 days after the date on which the call is due.

The Company is not subject to any externally imposed capital requirements.

The Company's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

There have been no material changes in the Company's management of capital during the period.

Notes to the financial statements *(continued)*

14. Financial risk management *(continued)*

Classification and fair values

	Note	Designated at fair value	Loans and receivables cost	Other amortised	Total carrying amount	Fair value
2011						
Assets						
Investment in PIP Fund	7	9,432,631	-	-	9,432,631	9,432,631
Cash and cash equivalents		-	2,508,284	-	2,508,284	2,508,284
Receivables and prepayments		-	30,284	-	30,284	30,284
Total assets		9,432,631	2,538,568	-	11,971,199	11,971,199
Liabilities						
Trade and other payables		-	-	61,651	61,651	61,651
Total liabilities		-	-	61,651	61,651	61,651

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 March 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment in PIP Fund	-	-	9,432,631	9,432,631

The following table shows reconciliation from the beginning balance to the ending balance for fair value measurements in Level 3 of the fair value hierarchy:

Investments	**2011**
Opening balance	-
Total gains/(losses):	
In profit or loss	210,632
Investments	9,221,999
Closing balance	9,432,631

Notes to the financial statements *(continued)*

14. Financial risk management *(continued)*

Total gains or losses included in profit or loss for the year in the above table are presented in the statement of comprehensive income as follows:

Investments	2011
Total gains/(losses) included in profit or loss for the year	210,632
Total gains/(losses) for the year included in profit or loss for assets held at the end of the reporting period	210,632

15. Related parties

Identity of related parties

The Company has a related party relationship with Craigs Investment Partners Limited, which owns 100% of NZSIF Management Limited, the Manager of New Zealand Social Infrastructure Fund Limited, and CIP Cash Management Nominees Limited.

The following directors of the Company are also directors of Craigs Investment Partners Limited:

- Neil John Craig
- Michael John Caird

The following director of the Company is also a director of CIP Cash Management Nominees Limited:

- Neil John Craig

Transactions with related parties

During the period, New Zealand Social Infrastructure Fund Limited entered into the following transactions with related parties:

- Management fees paid to NZSIF Management Limited totalled $107,090.
- A lead manager fee of $410,000 was paid to Craigs Investment Partners Limited for their role in the initial public offer.
- Craigs Investment Partners Limited paid certain expenses of New Zealand Social Infrastructure Fund Limited. As at 31 March 2011, no balance remained owing to Craigs Investment Partners Limited.
- An on-call bank account is held with ANZ National Bank Limited via CIP Cash Management Nominees Limited, which is a 100% subsidiary of Craigs Investment Partners Limited. At 31 March 2011 the balance held was $290,773 (see Note 11).

The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

Notes to the financial statements *(continued)*

15. Related parties *(continued)*

Transactions with key management personnel

	2011
Directors fees (total remuneration)	90,375

The balance of directors' fees owing to key management personnel at 31 March 2011 was $19,000.

Director's interests

The following directors or their associated entities held shares in New Zealand Social Infrastructure Fund Limited at 31 March 2011:

- Kimmitt Rowland Ellis 50,000 shares
- Neil John Craig 100,000 shares
- Michael John Caird 100,000 shares

16. Commitments

The Company has further commitments of $31,278,001 to the PIP fund as at 31 March 2011, which will be met from cash reserves and further calls of capital.

17. Subsequent events

There were no material subsequent events for the Company.

Independent Auditor's Report

To the Shareholders of New Zealand Social Infrastructure Fund Limited

Report on the Financial Statements

We have audited the accompanying financial statements of New Zealand Social Infrastructure Fund Limited ("the company") on pages 8 to 22. The financial statements comprise the statement of financial position as at 31 March 2011, the statements of comprehensive income, changes in equity and cash flows for the 15 month period then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationship with, or interests in, the company.

Opinion

In our opinion the financial statements of on pages 8 to 22:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company as at 31 March 2011 and of its financial performance and cash flows for the 15 month period then ended.

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by New Zealand Social Infrastructure Fund Limited as far as appears from our examination of those records.

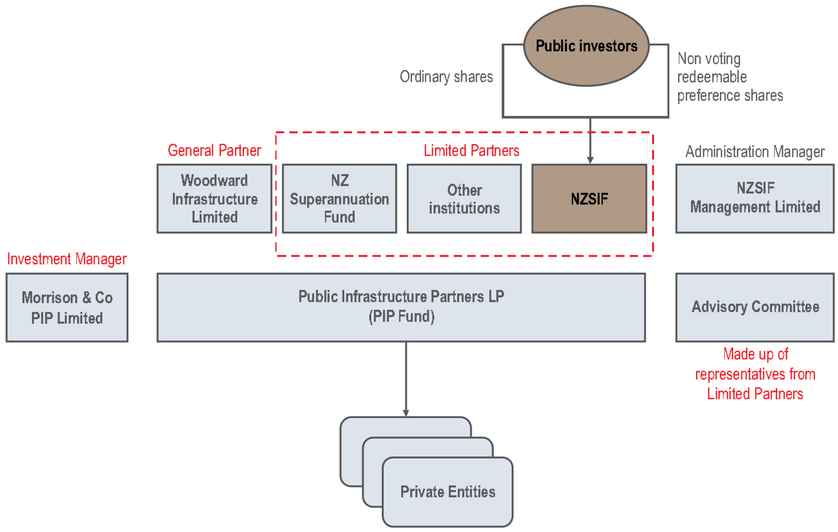
KPMG

7 July 2011
Tauranga

Corporate Governance & Structure

Structure

NZSIF was established to provide the New Zealand public with an opportunity to invest in the PIP Fund, and therefore gain an exposure to New Zealand and Australian Social Infrastructure Assets through PPPs. NZSIF is a limited partner in the PIP Fund, as shown below:



Each share held by investors of NZSIF consists of one ordinary voting share (nil issue price) and 100 non-voting redeemable preference shares of one cent each. NZSIF has 41 million shares on issue at an issue price of $1.00 per share. Ordinary shares held by investors in NZSIF confer normal voting rights. The redeemable preference shares confer no voting rights. As a Limited Partner, NZSIF is required to make capital contributions to the PIP Fund, as called by the General Partner. When such capital calls are made on NZSIF, NZSIF then makes capital calls on NZSIF shareholders up to the fully paid value of the shares.

NZSIF will receive a pro-rata share of the income and capital returns from investments made by the PIP Fund.

- Where Investments by the PIP Fund are structured through a limited partnership, NZSIF will receive distributions comprising gross income and also returns of capital from the underlying investment. Tax will be paid by NZSIF and income distributed to investors through imputed dividends (where imputation credits are available) and capital will be returned via redemption of the redeemable preference shares.
- Where Investments by the PIP Fund are structured through a company, NZSIF will receive distributions in the form of dividends and returns of capital from the underlying Social Infrastructure Assets. Dividends will be paid to holders of shares (with imputation credits, where available) and capital will be returned via redemption of the redeemable preference shares.

Governance

NZSIF will retain a separate Board to ensure best practice corporate governance and that the interests of shareholders are represented. NZSIF directors can be appointed or removed by ordinary shareholder resolution.

The Board will report on the performance of NZSIF's investment in the PIP Fund to shareholders semi-annually. In addition, the Board will review the capital adequacy of NZSIF, be responsible for shareholder reporting and set timely shareholder meetings for NZSIF.

Investment Management

The investment management services for the PIP Fund are undertaken by the Investment Manager, Morrison & Co PIP Limited. Accordingly, other than rights provided to Limited Partners through representation on the Advisory Committee, neither NZSIF nor the Administration Manager will have control over the investment management decisions associated with the PIP Fund and therefore the committed capital of NZSIF.

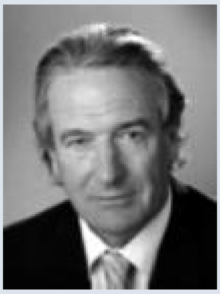
Administration

NZSIF has engaged the Administration Manager, NZSIF Management Limited to provide day-to-day administrative management services, such as investment of unallocated or surplus cash, investor relations, the preparation of interim and annual reports and other shareholder services that may be required from time to time.

The Administration Manager is a wholly owned subsidiary of Craigs Investment Partners.

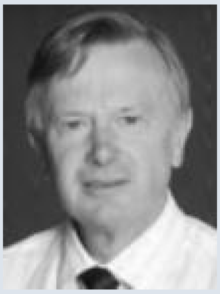
NZSIF Board

The Board comprises four directors: two independents, one of whom is Chairman, and two from Craigs Investment Partners. The Board is responsible for monitoring the investment of funds by NZSIF, the reporting obligations of NZSIF and monitoring the Administration Manager's performance. In addition, one or more of the directors of NZSIF may be appointed to the Advisory Committee, which manages conflicts of interest between the Investment Manager and the PIP Fund, investment opportunities outside of the PIP Fund's core investment criteria (such as investments in Australia) and removal of the Investment Manager. Kim Ellis was NZSIF's representative on the PIP Fund Advisory Committee during the reporting period.



Kimmitt Rowland Ellis (Chairman)
BCA (Hons), BE (Hons)

Kim is a widely experienced Chief Executive best known for his 13 years at the helm of one of New Zealand's most successful listed companies, Waste Management NZ Limited, culminating in the company's sale in 2006 for a valuation in excess of $1 billion New Zealand dollars. During his tenure, Waste Management produced compound annual earnings growth in excess of 20%, completed in excess of 40 acquisitions and built a successful business in Australia. His earlier CEO appointments, dating back to 1978, covered a number of market sectors including health, manufacturing, distribution, transport, property, agriculture and fashion. Kim is currently Chairman of private equity held MetroGlasstech Limited and Envirowaste Services Limited and listed Seeka Kiwifruit Limited, as well as director of publicly listed Freightways Limited and Salvus Strategic Investments Limited and of privately held Tasman Tanning Limited. He is also a member of the Trust Board of St Cuthbert's College.



Ian Alexander Nicholson Fraser
BE (Hons), Dist FIPENZ.

Ian is a Distinguished Fellow of the Institution of Professional Engineers. He was an Executive Director of Beca Group Limited, or the company in its previous forms, for over 20 years, and Managing Director of Beca Carter Hollings and Ferner Limited for three years. He has a broad engineering background across the industrial, electricity, civil infrastructure and institutional and commercial building sectors. Ian is currently a director and deputy chairman of Transpower NZ Limited, a director of Stevenson Group Limited and a former director and deputy chairman of Mighty River Power Limited. He is also a former Trustee Board member of Wellington and Wellesley Colleges and a former Board member and President of the Association of Consulting Engineers of New Zealand.

Neil John Craig
BAgCom

Neil is the founding principal and Executive Chairman of Craigs Investment Partners, a company he has been instrumental in building from a small regionally-based share broking business in Whakatane to its current position as a leading New Zealand Primary Market Participant and investment advisory firm. Neil has a broad experience in stock exchange listings, capital raisings and corporate activity for a wide range of companies.

Neil is currently a director of Pohutukawa Private Equity Limited and Pohutukawa Private Equity II Limited, as well as Comvita Limited (Chairman) and a number of privately held companies.

Michael John Caird
BCom, LLB

Mike joined Craigs Investment Partners in March 2009 as Head of Debt Capital Markets, and had been a director of Craigs Investment Partners since 2001. Mike's career in financial markets includes 11 years with ABN AMRO, during which he was Head of Acquisition and Leveraged Finance for Australia and New Zealand and Head of Global Markets New Zealand, Brierley Investments Limited for 10 years and Ernst & Young for four years. Mike has previously been a director of Hospital Car Parking Limited, McConnell Property Limited, Mangawhai Development Holdings Limited, AsiaPower Limited and Aetna Health (New Zealand) Limited. During his time at ABN AMRO, Mike was involved in acquiring the Auckland District Health Board car-parking concession and the Mangawhai township wastewater design, build, finance, and operating concession, two early PPP style projects in New Zealand.

Committee

The Board has one committee, an Audit Committee, comprising all board members. The Audit Committee meets as required. The Audit Committee has full powers to require the Manager to provide any information or documents relating to the Fund, which it requires to enable it to meet the obligations of an Audit Committee. The Directors of New Zealand Social Infrastructure Fund Limited and NZSIF Management Limited Management Limited must respond to any recommendations made to their Boards from the Audit Committee.

There is no remuneration committee because NZSIF and the Manager have no employees. The Chairman and Directors of NZSIF receive director's fees from NZSIF. The Manager is entitled to remuneration in respect of management of the funds. Information about the remuneration received by the Manager for this reporting period can be found in the financial statements set out in this report. The Manager does not pay director fees.

To the extent applicable and possible, the Board endeavours to adopt the governance, structures and principles of a listed company.

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.

OFFICES OF NZSIF
New Zealand Social Infrastructure Fund Limited
Craigs Investment Partners House
158 Cameron Road
PO Box 13155
Tauranga 3141

Phone: (07) 577 4727
Fax: (07) 928 6443
Email: enquiries@nzsif.co.nz
Website: www.nzsif.co.nz

AUDITORS
KPMG
35 Grey Street
PO Box 110
Tauranga 3140

Phone: (07) 578 5179
Fax: (07) 578 2555

INVESTMENT MANAGER
Morrison & Co PIP Limited
97 The Terrace
PO Box 1395
Wellington 6140

ADMINISTRATION MANAGER
NZSIF Management Limited
Craigs Investment Partners House
158 Cameron Road
PO Box 13155
Tauranga 3141

Phone: (07) 577 4727
Fax: (07) 928 6443
Email: enquiries@nzsif.co.nz

SHARE REGISTRAR
Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
159 Hurstmere Road
Takapuna
North Shore City 0622

Phone: (09) 488 8777
Fax: (09) 488 8787
Email: enquiry@computershare.co.nz

SOLICITORS
Chapman Tripp
Level 35, 23-29 Albert Street
PO Box 2206
Auckland 1140

Phone: (09) 357 9000
Fax: (09) 357 9099