

# NZSIF



New Zealand  
Social Infrastructure  
Fund Limited

## Annual Report

For the year ended 31 March 2017



Hobsonville Point Secondary School



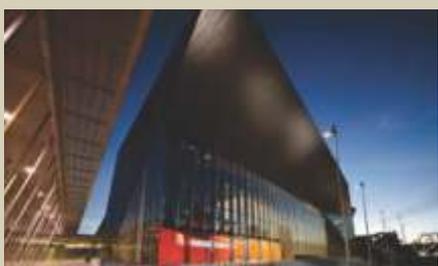
New Zealand Schools 2 – Rolleston College



University of Wollongong Student Accommodation



Auckland Prison



Melbourne Convention & Exhibition Centre



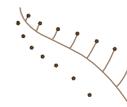
Bendigo Healthcare Group Accommodation



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## Report to shareholders

### July 2017

Dear Shareholder

I am pleased to present New Zealand Social Infrastructure Fund Limited's (NZSIF) annual report for the year ended 31 March 2017. The report includes our audited financial statements for that period.

Highlights of the financial year included:

- A follow-on investment in the Melbourne Convention & Exhibition Centre.*  
The PIP Fund confirmed in June 2016 that it had reached financial close on a follow-on investment in the Melbourne Convention & Exhibition Centre, specifically an expansion of the Exhibition Centre. NZSIF's share of the investment is \$3.8 million, which was paid between June and October 2016. The building phase commenced in December 2016 and while slightly behind schedule, time is expected to be made up over the remaining construction period.
- Progress with Auckland Prison PPP*  
Financial close for Auckland Prison was reached in September 2015. Next Step Partners (NSP) is the PIP Fund consortium for this project. Planned works completion was December 2017 but construction is currently behind schedule and completion is now more likely to occur in the first quarter of 2018.
- Progress with New Zealand Schools 2*  
Financial close for New Zealand Schools 2 was reached in April 2015. Future Schools Partners (FSP) is the PIP Fund consortium responsible for the project development. Ormiston Junior College, Haeata Community Campus (formerly Aranui) and Rolleston Secondary School are all now operational. Wakatipu High School is delayed but should still be delivered in time for the beginning of the 2018 school year.
- Progress with Wollongong stage 2*  
Stage 1 is now in operation and construction of Stage 2 is on-programme, and planned to finish December 2017, although on track for early completion in October.
- Skypath Project*  
The PIP Fund made a preliminary investment in the Auckland Skypath PPP project by way of a

development loan. This project's financial close came too late for the PIP Fund to commit to the investment, and so the PIP Fund sold the Skypath Development Loan to PIP Fund II. NZSIF received its pro-rata share of the sale proceeds (\$207,700) in December 2016.

- Distributions*  
A total of 3 cps was paid during the financial period to 31 March 2017, with 2 cps relating to the 2016 financial year cash flows.
- Calls*  
There were two calls during the financial period, 12 cps in June 2016 and a further 15 cps in March 2017. The final call of 16 cps is now likely to be in September 2017.

### Background

#### *Limited Partnership and Capital*

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

The final close for the PIP Fund was 31 December 2010. The PIP Fund has nine limited partners with capital commitments of \$176.5 million. NZSIF has a 23% interest in the PIP Fund and is the second largest investor, behind the New Zealand Superannuation Fund.

As at 31 March 2017 the limited partners had contributed 68.7% of their committed capital to the PIP Fund. Investment commitments for New Zealand Schools 2 and Auckland Prison take the PIP Fund's investments and commitments to approximately 99% across six investments.

## Investment Portfolio

### ***New Zealand Schools 2***

Financial close was reached in April 2015, and in May 2015 the PIP Fund consortium 'Future Schools Partners' signed a 25-year contract with Education Minister Hekia Parata for the design, construction, finance and maintenance of four schools throughout New Zealand. The schools are Ormiston Junior College in Auckland, Haeata Community Campus and Rolleston Secondary School in Canterbury, and Wakatipu High School in Queenstown. Ormiston, Haeata and Rolleston schools are all now operational. Wakatipu school is delayed although is still expected to be delivered on time for the school to commence for term 1 2018. There may also be a small follow-on investment opportunity providing extensions to the Wakatipu library, administration and sports facilities.

The PIP Fund's equity investment is \$22 million, with NZSIF's share \$5 million.



*Rolleston Secondary School*

### **Auckland Prison**

The Department of Corrections announced in September 2015 that financial close was reached with Next Step Partners (NSP), a PIP Fund consortium, to design, build, finance and maintain a new Auckland Prison facility, and maintain the existing facility.

Custodial operations are not included in the contract and both facilities will continue to be operated by Corrections.

The NSP consortium comprises the PIP Fund, Fletcher Construction (Building and Interiors), Cushman and Wakefield (formerly DTZ) and Westpac. Fletcher Construction is undertaking the design and

construction of the new facility, Cushman and Wakefield will be responsible for the Asset Management and Facilities Maintenance, and Westpac are the debt providers.

The PIP Fund's equity investment will be \$30 million, with NZSIF's share \$7 million.

### *The Project*

Auckland Prison is located near Albany, northwest of Auckland City and has a designated capacity for 681 male prisoners, ranging from minimum to maximum security classification. The existing Auckland East Facility within Auckland Prison is New Zealand's only maximum security facility and has a capacity of 261 male prisoners. It was built nearly 50 years ago and is one of Correction's older facilities. It requires redevelopment as it has been assessed as having reached the end of its operational life, with structural and operational deficiencies. This project will see the existing prison facility replaced with a secure, modern facility.

Construction started in December 2015. The development and construction period was to be 25 months, with completion expected in December 2017. Construction delays mean the likely completion date has been pushed into the first quarter 2018, but this is not expected to have any impact on NZSIF's returns. Operational commencement is forecast for mid-2018.



*Auckland Prison (construction progress)*

**University of Wollongong Student Accommodation Facility**  
(Wollongong, NSW, Australia)



The Wollongong investment was announced in December 2014.

The PIP Fund made an initial Stage 1 investment of A\$14.6 million for a 39 year concession to operate and maintain the existing student accommodation facilities (1,900 beds across nine sites, with 273 existing beds being decommissioned over three years). Stage 2 involves the design and build, management and maintenance of two new facilities (totalling 1,060 beds) to be built over the next three years.

Stage 1 of this two stage development has been completed. A completion certificate for Stage 1, known as "Bangalay", was issued in February 2017, with students moving into the new facilities in mid-February. Bangalay, is targeted towards graduate students (and their families in the larger apartments), and is comprised of 113 single-bed studio apartments, 57 double-bed studio apartments, 30 two-bedroom apartments and 8 three-bedroom apartments (comprising 254 beds in total). Occupancy at opening was a little lower than forecast but the facility manager and Wollongong University are undertaking a number of marketing initiatives to address this. While the University underwrites occupancy risk to 85%, the base case equity returns assume a 93% occupancy rate.

Stage 2 known as Kooloobong is progressing well with works tracking ahead of programme. This development was due for completion in December 2017. The project is now expected to complete early, by October 2017.

The PIP Fund is a 50/50 equity investor alongside another Morrison & Co managed fund (which bought its stake from the original investor, Balfour Beatty Investments, in June 2016). Programmed Facility Management is maintaining the facility, Hutchinson

Builders are providing development and construction services, and ANZ and NAB are providing the senior debt. NZSIF has contributed NZ\$4 million for its initial Stage 1 equity investment with a similar sized investment expected for Stage 2.



*University of Wollongong Student Accommodation*

**Bendigo Healthcare Group Accommodation Facility**  
(Bendigo, Victoria, Australia)



The Bendigo investment was completed in March 2014. This is a doctors and nurses residential facility based in Bendigo, Victoria, Australia. Bendigo comprises 96 one bedroom and 24 two bedroom residential apartment units for doctors and nurses working in the Bendigo Hospital.

Investment factors:

- The Bendigo Healthcare Group, the tenant, is a public health provider for the State of Victoria under the Health Services Act 1988;
- 30 year property lease with inflation linked cash flows;
- No occupancy risk; and
- A PIP Fund entity owns the land, and retains ownership of the land and buildings at the end of the lease.

The Bendigo Healthcare Group employs 3,000 staff and, has an annual budget of approximately A\$300 million. The Bendigo Hospital Project is building a new A\$630 million hospital and has completed Stage 1 of a two stage construction project. Stage 2 is expected to be completed mid 2018.

The total equity investment in the accommodation facility was A\$8.7 million, equivalent to NZ\$10.8 million. NZSIF's share of this investment was NZ\$2.3 million.

The PIP Manager continues to work through minor issues around water tightness of the car park podium with the builder.



*Bendigo Healthcare Group Accommodation Facility*

**Hobsonville Schools**

In January 2013 Learning Infrastructure Partners (LIP, a PIP Fund consortium) delivered New Zealand's first public private partnership (PPP) for the design, construction, finance and maintenance of Auckland's Hobsonville Point primary and secondary schools, for 25 years.

The primary school opened in January 2013 and the secondary school in mid-February 2014.

The PIP Fund invested equity of \$10 million, of which NZSIF's share was \$2.25 million.

The initial shareholding in LIP was PIP Fund 97.5% and Hawkins Construction 2.5%. Hawkins 2.5% equity interest was subsequently acquired by the PIP Fund on 30 June 2016.

The schools were designed as open learning environments and feedback has been positive.

During 2017 the ventilation system was upgraded, because there was too much airflow in certain areas and some areas felt "drafty". The new system is now functioning well.



*Hobsonville Point Primary School*



*Hobsonville Point Secondary School*

**Melbourne Convention and Exhibition Centre**

MCEC was the PIP Fund's first investment, with \$40 million invested in 2010. NZSIF's net investment cost was \$9 million. The MCEC investment represents 22% of the PIP Fund's committed capital.

MCEC is a substantial development with property, plant and equipment assets of A\$714 million (*MCE Trust Annual Report June 2016*) and long-term funding in place. MCEC is an established operational PPP asset, with the underlying revenue streams being based on

availability of the facility, and not demand or patronage driven.

The MCEC investment continues to perform to expectations producing strong cash flows, with no revenue deductions for equity investors. Generally, when faced with revenue deductions (for disruption in any of the facilities' services) these deductions are passed through to the operations management company, Brookfield Multiplex.

The State of Victoria has entered into a contract with a PIP Fund consortium to develop a 9,000m<sup>2</sup> expansion of the exhibition centre by early 2018. Financial close was reached in June 2016. This is a A\$15 million follow-on investment with NZSIF's investment being \$3.7 million. The build project is running behind schedule, but because this is attributable to delays caused by the State of Victoria, these delays are not expected to impact on the returns to NZSIF.

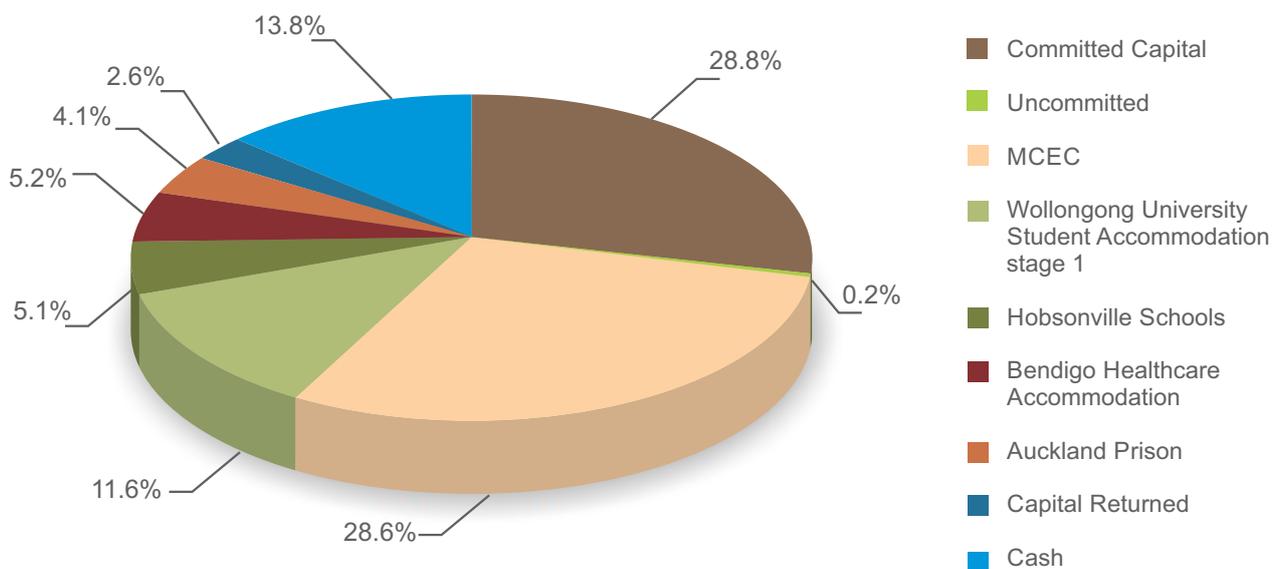


Melbourne Convention and Exhibition Centre

Key information on the MCEC:

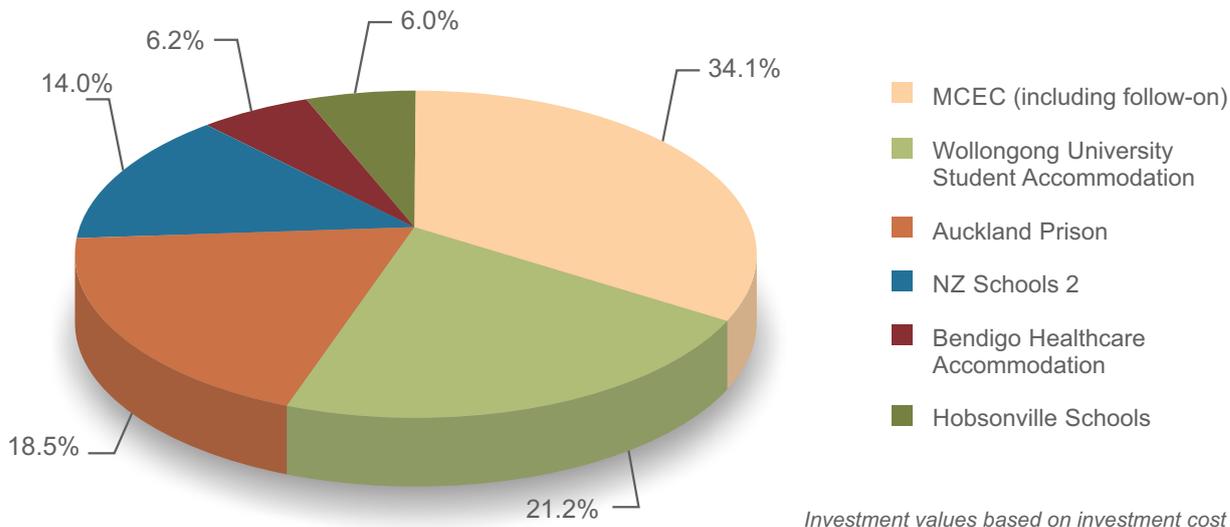
- Melbourne Convention Centre, a 5,000 seat hall, meeting and banquet rooms, six-star Green Star rated building;
- Melbourne Exhibition Centre, a pre-existing 30,000m<sup>2</sup> facility adjacent to the Melbourne Convention Centre;
- The concession runs for 25 years from January 2009 to 2034, with the State of Victoria as counter-party.

Chart 1 - NZSIF Investment Mix as at 31 March 2017



Investment values based on investment cost

**Chart 2 - NZSIF Future Investment Mix 31 March 2018**



**Investment Timeline**

With the follow-on investment in MCEC the PIP Fund will be 99% invested.

**Dividends**

NZSIF has paid total gross distributions of 16.0 cps (including a capital return of 2.8 cps) to 31 March 2017.

Dividends paid during 2017 financial period totalled 3.0 cps. Of the 3.0 cps, 2.0 cps related to 2016 cash flows and 1.0 cps to 2017 cash flows.

The PIP Fund expects the majority of investments to be fully contributing income by June-July 2018. This is when the first distributions from NZ Schools 2 and Wollongong are due, Auckland Prison is expected to commence operations and the MCEC expansion completed.

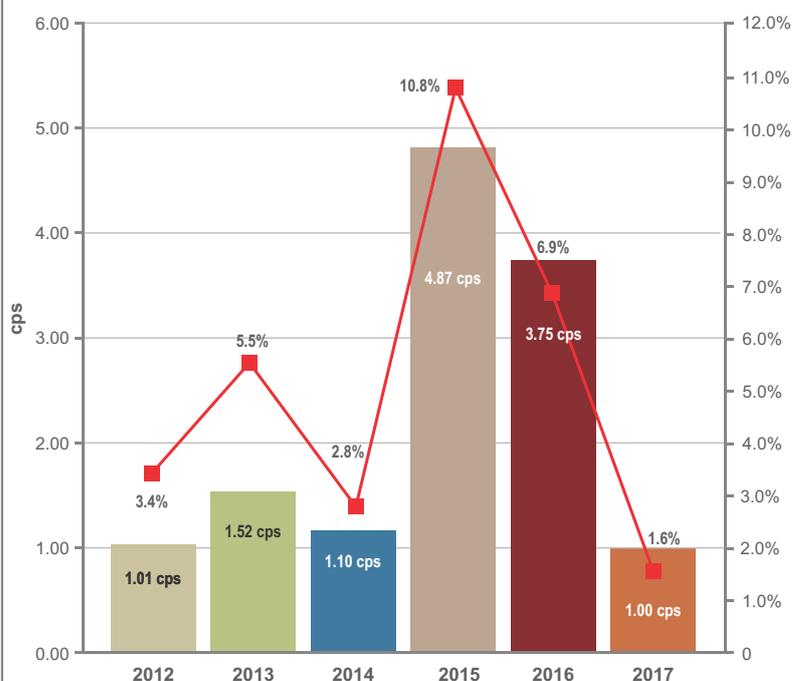
**NZSIF Capital Position and Calls**

NZSIF's net asset backing as at 31 March 2017 was \$1.01 per share (2016: 71.7 cps).

Following the 29 March 2017 call payment of 15 cps shareholders have contributed \$34.4 million (84 cps) in capital to NZSIF and received capital returns of \$1.15 million (2.8 cps), a net contribution of 81.2 cps.

The call payment was primarily to fund the construction progress payments for NZ Schools 2 (Wakatipu), Auckland Prison, and Wollongong, with an amount retained for working capital.

**Chart 3 - NZSIF Dividend Payments and Yields 2012-2017**



*Note: 2012 gross dividend yield on a 30.0 cps capital base; 2013 gross yield on a 27.5 cps average capital base; 2014 gross yield on a 39.2 cps average capital base; 2015 gross yield on a 45.0 cps average capital base; 2016 gross yield on a 54.2 cps average capital base; 2017 gross yield on a 63.8 cps average capital base.*

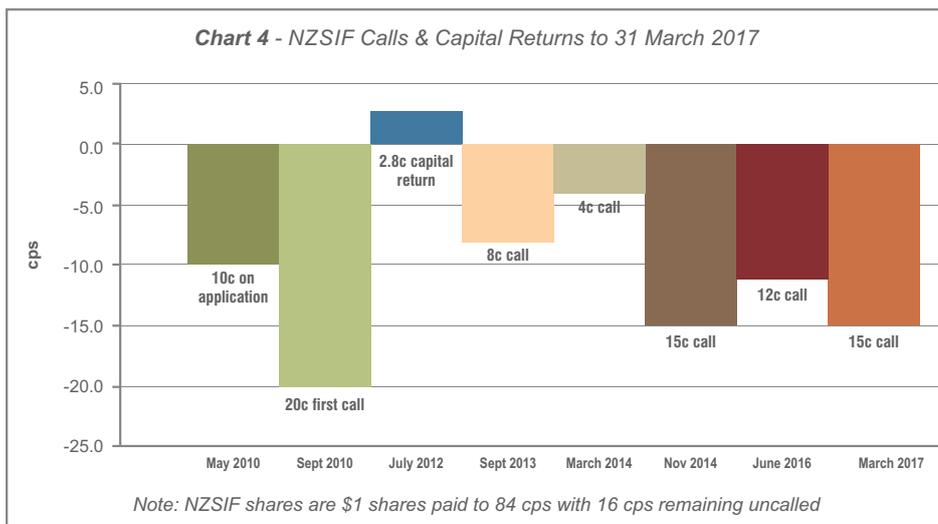
**Final call**

Based on the programmes for the projects still in construction we expect to make the final call of 16 cps in September 2017. We will issue a formal call notice providing you with the usual 20 business day notice period.

**PIP Fund Investment Valuation**

The valuation method used by the PIP Fund to value its project investments is the discounted cash flow method, which is appropriate for valuing PPP projects. The PIP Fund employs a third party expert to value the Fund's assets, at the end of each financial year (31 March). In the case of Bendigo a property valuer determined fair value. At interim accounting periods the PIP Fund assets are valued at fair value based on the valuation at the end of the previous 31 March financial year end, with adjustments for any income earned less any distributions received in the period, and any exchange rate movement on Australian investment assets.

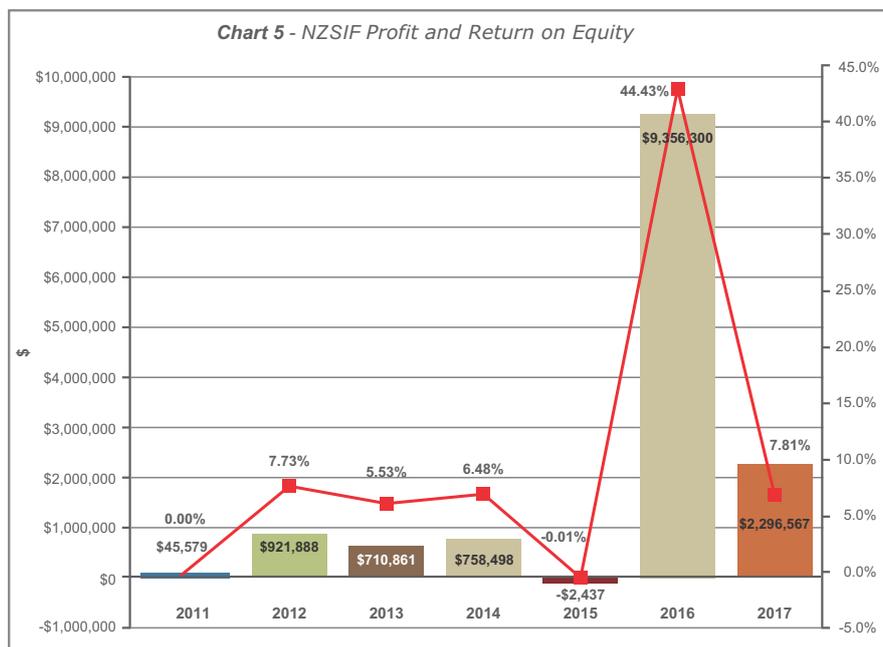
For projects under development the valuation method used is investment cost to date.



**NZSIF Investment Valuation & Returns**

NZSIF's policy is to carry investments at fair value with subsequent movements in fair value recognised through profit or loss.

NZSIF's investment in the PIP Fund at 31 March 2017 was valued at \$35.3 million (2016: \$28.5 million), which included a \$1.3 million increase in the fair value of its investment in the PIP Fund. The contributing factors comprised a fair value adjustment in PIP Fund investments of \$1.5 million and a negative foreign exchange movement of \$0.2 million.



## Annual Financial Statements

The audited annual financial statements covering the 12-month period to 31 March 2017 are provided in this annual report for your information.

NZSIF's reported earnings were \$2,296,567 (2016: \$9,356,300) benefiting from positive fair value movements of \$2,853,924 less PIP Fund distributions of \$1,297,342, and foreign exchange movement adjustments of \$241,816. This is reflected in the movement in fair value of investment in the PIP Fund in the statement of comprehensive income.

NZSIF received distributions from the PIP Fund of \$1,297,342 (2016: \$2,583,885). There was a small amount of interest income, \$11,731. Expenses were \$321,559 (2015: \$277,855). There was interest expense of \$5,804.

The value of the NZSIF investment in the PIP Fund totalled \$35,305,258 (2016: \$28,529,793). Liabilities totalled \$198,605 including payables of \$37,813 and overdraft of \$160,792.

We held cash of \$6,136,710 (received from the 29 March capital call).

### *Capital and Net Asset Backing*

Issued capital was \$32,869,239. Combined with retained earnings of \$8,656,516 total capital was \$41,525,755 which represents net asset backing of \$1.01 per share as at 31 March 2017.

## Outlook

### *Distributions*

In the 2018 financial year we do not expect to pay any further distributions until the final quarter when we expect to pay 1 - 1.5 cps. Although the PIP Fund has generated strong unrealized revaluation gains in 2016 and 2017, many projects are still in construction and not generating cash distributions, and the PIP Fund is required to pay a performance fee that has accrued to Morrison & Co. This means the PIP Fund is not expecting to pay distributions to the limited partner investors (including NZSIF) until the March 2018 quarter. The performance fee has been accrued in the accounts and the net asset value estimate reflects this obligation.

While we are disappointed with this temporary situation, we are confident it will remedy early in 2019 financial year, with higher distributions in the future, and that the underlying cause – strong unrealized revaluation gains, is ultimately a positive for investors.

NZSIF looks forward to recommending distributions in the first quarter of 2018 as income flows from investments increase to the PIP Fund, as a number of construction projects reach completion. Based on PIP's forecasts, we would expect NZSIF distributions of approximately 6 - 7 cps pre-tax per annum, once all projects are fully operational.

### *IPO Potential*

As signalled at last year's ASM a potential listing of PIP Fund was investigated by the PIP Manager this year. However, following advice received from investment banking and tax advisers it was determined that an IPO would at this time not realise sufficient value to make the costs incurred worthwhile and so work on this has ceased.

## NZSIF Annual Shareholders Meeting

Details for the Annual Shareholders Meeting are:

Date: Wednesday, 16 August 2017  
Time: 11.30 a.m.  
Place: Craigs Investment Partners Limited  
Level 36, Vero Centre  
48 Shortland Street, Auckland  
RSVP: Contact Peter Lalor on 07 927 7927 or email enquiries@nzsif.co.nz by 7 August 2017.

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

We will keep you up to date through media releases, via the NZSIF website [www.nzsif.co.nz](http://www.nzsif.co.nz) or by writing directly to you. All shareholder reports plus news updates are available to view on the website.

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 07 927 7927.

Thank you for your continuing support of NZSIF.

Yours sincerely  
NEW ZEALAND SOCIAL INFRASTRUCTURE  
FUND LIMITED



Kim Ellis  
Chairman

## Directors' report

For the 12 month period ended 31 March 2017

Directors holding office during the year and their remuneration.

	Director Fees \$	Date of appointment
K Ellis	46,000	26-Jan-10
I Fraser	30,000	26-Jan-10
M Caird*	nil	26-Jan-10
D McCallum*	nil	16-May-14

\*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 2017.*

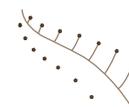
	NZSIF shares held	Change in holdings for the period
K Ellis	150,000	nil
I Fraser	100,000	nil
M Caird	100,000	nil
D McCallum	35,000	nil



Director  
26 June 2017



Director  
26 June 2017



## Statement of comprehensive income

For the year ended 31 March 2017

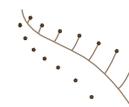
	<i>Note</i>	2017	2016
		\$	\$
Distribution income		1,297,342	2,583,885
Interest income		11,731	15,255
Movement in fair value of investment in PIP Fund	5	1,314,766	7,034,614
Total investment income		2,623,839	9,633,754
Administrative expenses		(321,559)	(277,855)
Interest expense		(5,804)	-
Profit before tax		2,296,476	9,355,899
Income tax benefit	4	91	401
Profit for the year		2,296,567	9,356,300
Other comprehensive income for the year		-	-
Total comprehensive income for the year		2,296,567	9,356,300

## Statement of changes in equity

For the year ended 31 March 2017

	Share capital	Retained earnings	Total equity
Balance at 31 March 2016	21,799,239	7,589,949	29,389,188
Profit for the year	-	2,296,567	2,296,567
Other comprehensive income	-	-	-
<b>Total comprehensive income for the year</b>	-	2,296,567	2,296,567
Capital issued	11,070,000	-	11,070,000
Dividends paid/payable	-	(1,230,000)	(1,230,000)
Balance at 31 March 2017	32,869,239	8,656,516	41,525,755

	Share capital	Retained earnings	Total equity
Balance at 31 March 2015	21,799,239	(741,351)	21,057,888
Profit for the year	-	9,356,300	9,356,300
Other comprehensive income	-	-	-
<b>Total comprehensive income for the year</b>	-	9,356,300	9,356,300
Capital issued	-	-	-
Dividends paid/payable	-	(1,025,000)	(1,025,000)
Balance at 31 March 2016	21,799,239	7,589,949	29,389,188



## Statement of financial position

As at 31 March 2017

	<i>Note</i>	2017 \$	2016 \$
<b>Assets</b>			
Property, plant and equipment	10	517	1,035
Investment in PIP fund	5	35,305,258	28,529,793
<b>Total non current assets</b>		<u>35,305,775</u>	<u>28,530,828</u>
Cash and cash equivalents	9	6,136,710	852,940
Receivables and prepayments	7	277,823	28,670
Taxation receivable	4	4,052	13,577
<b>Total current assets</b>		<u>6,418,585</u>	<u>895,187</u>
<b>Total assets</b>		<u>41,724,360</u>	<u>29,426,015</u>
<b>Equity</b>			
Share capital	11	32,869,239	21,799,239
Retained earnings		8,656,516	7,589,949
<b>Total equity attributable to equity holders</b>		<u>41,525,755</u>	<u>29,389,188</u>
<b>Liabilities</b>			
Trade and other payables	8	37,813	36,827
Bank overdraft	9	160,792	-
<b>Total current liabilities</b>		<u>198,605</u>	<u>36,827</u>
<b>Total liabilities</b>		<u>198,605</u>	<u>36,827</u>
<b>Total equity and liabilities</b>		<u>41,724,360</u>	<u>29,426,015</u>

For and on behalf of the Board

Director  
26 June 2017

Director  
26 June 2017



## Statement of cash flows

For the year ended 31 March 2017

	<i>Note</i>	2017 \$	2016 \$
<b>Cash flows from operating activities</b>			
Distributions received		1,297,342	2,583,885
Interest received		11,731	15,255
Interest paid		(5,804)	-
Income tax refunds		12,900	-
Income taxes paid		(3,285)	(4,271)
Cash paid to suppliers		(316,457)	(279,728)
<b>Net cash from operating activities</b>	12	<u>996,427</u>	<u>2,315,141</u>
<b>Cash flows from financing activities</b>			
Call monies received		10,817,250	-
Dividends paid		(1,230,000)	(1,694,571)
<b>Net cash from financing activities</b>		<u>9,587,250</u>	<u>(1,694,571)</u>
<b>Cash flows from investing activities</b>			
Acquisition of Property, Plant & Equipment		-	(1,307)
Investment in PIP fund	5	(5,460,699)	(1,428,651)
<b>Net cash from investing activities</b>		<u>(5,460,699)</u>	<u>(1,429,958)</u>
Net movement in cash and cash equivalents		5,122,978	(809,388)
Opening cash and cash equivalents		852,940	1,662,328
<b>Closing cash and cash equivalents</b>	9	<u>5,975,918</u>	<u>852,940</u>



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## Notes to the financial statements

### 1. General Information

#### (a) Reporting entity

New Zealand Social Infrastructure Fund Limited (the “Company”) is a company incorporated and domiciled in New Zealand and is registered under the *Companies Act 1993*. The Company is an FMC Reporting Entity in terms of the *Financial Markets Conduct Act 2013*. The financial statements have been prepared in accordance with the requirements of that Act and the *Financial Reporting Act 2013*.

The financial statements of the Company are for the year ended 31 March 2017.

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 26 June 2017.

#### (b) 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. They also comply with International Financial Reporting Standards (“IFRS”).

#### (c) Basis of measurement

The financial statements are prepared on the historical cost basis except that the investment in the PIP Fund is stated at fair value (See Note 2(a)).

#### (d) 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.

#### (e) 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 key area involving the use of estimates and judgements is the investment in the PIP Fund (see Note 5).

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.



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## Notes to the financial statements

### 2. Significant accounting policies

The accounting policies set out below have been applied consistently through all periods 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 (“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. Any resultant change in fair value is recognised in profit or loss.

#### **(b) Distribution income**

Distribution income is recognised in profit or loss on the date the Company’s right to receive payments is established.

#### **(c) Finance income and expense**

Interest income is recognised as it accrues, using the effective interest rate method.

All finance expenses are recognised in the profit or loss using the effective interest method.

#### **(d) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of 3 months or less and bank overdrafts.

#### **(e) Property, Plant and Equipment**

Items of property, plant and equipment are measured at cost less accumulated depreciation. Subsequent costs are recognised in the carrying amount of the item if it is probable that the future economic benefits will flow to the Company and its costs can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation is recognised in profit or loss on a diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. The applied rates for the current period are as follows:

- Computer and office equipment 50.0%



## Notes to the financial statements

### 2. Significant accounting policies *(continued)*

#### **(f) 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 (i)), 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.

#### **(g) 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.

#### **(h) 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.

#### **(i) 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.

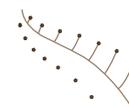
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in respect of 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.

#### **(j) Goods and services tax ("GST")**

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



## Notes to the financial statements

### 2. Significant accounting policies (continued)

#### (k) New standards and pronouncements relevant to the Company

The following new standard has been issued but is not effective for the period ended 31 March 2017, and has not been early adopted. This standard is not expected to have any significant impact on the financial statements for the Company:

- NZ IFRS 9 – ‘Financial Instruments: Classification and Measurement’ – effective 1 January 2018.  
This standard simplifies how an entity should classify and measure financial assets.

There are a number of other standards and interpretations which are not yet effective and management consider they will have no impact on the Company.

### 3. Auditor’s remuneration

	<i>Note</i>	<b>2017</b>	<b>2016</b>
Auditor’s remuneration to KPMG comprises:			
Review of interim financial statements		9,237	14,283
Audit of year end financial statements – current year		17,825	17,825
Audit of year end financial statements – previous year		20,501	595
Total audit costs		47,563	32,703

### 4. Income tax expense/(benefit)

	<b>2017</b>	<b>2016</b>
Income tax expense/(benefit) in statement of comprehensive income	(91)	(401)

#### Reconciliation of effective tax rate

	<i>Note</i>	<b>2017</b>	<b>2016</b>
Profit before tax		2,296,476	9,355,899
Income tax expense at 28% tax rate		643,013	2,619,652
Tax exempt income		(731,390)	(2,693,180)
Share of income/(loss) from underlying partnerships		(422,583)	208,722
Share of tax credits from underlying partnerships		(91)	(401)
Tax losses not recognised	6	510,960	-
Utilisation of unrecognised tax losses	6	-	(135,194)
Total income tax expense/(benefit)		(91)	(401)

#### Taxation receivable

	<b>2017</b>	<b>2016</b>
RWT receivable	4,052	13,577
	4,052	13,577



## Notes to the financial statements

### 5. Investment in PIP Fund

The Company currently has one investment, which is in the Public Infrastructure Partners LP (“PIP Fund”).

The Company’s fair valuation of its share of the PIP Fund as at 31 March 2017 is \$35,305,258 (2016: \$28,529,793) which is recorded in the statement of financial position. The movement against the previous valuation is shown as a fair value movement through profit or loss increase of \$1,314,766 (2016: increase of \$7,034,614).

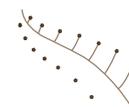
The following table is a reconciliation of the opening balance to the closing balance for fair value measurement of the Investment in the PIP Fund:

Investments	2017	2016
Opening balance	28,529,793	20,066,528
Total gains/(losses) recognised in profit or loss:		
- Fair value adjustments*	1,556,582	5,767,352
- Foreign exchange movement	(241,816)	1,267,262
	<u>1,314,766</u>	<u>7,034,614</u>
Capital distributions received	-	-
Purchase of investments	<u>5,460,699</u>	<u>1,428,651</u>
Closing balance	<u>35,305,258</u>	<u>28,529,793</u>
* The fair value adjustment is made up of		
- Fair value adjustments in PIP Fund investments	2,853,924	8,351,237
- Distributions received from PIP Fund	(1,297,342)	(2,538,885)
Total fair value adjustment	<u>1,556,582</u>	<u>5,767,352</u>

The ‘purchase of investments’ relates to seven capital calls made by the PIP Fund totalling \$5,460,699.

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

Investments	2017	2016
Total gains included in profit or loss for the year	1,314,766	7,034,614
Total gains for the year included in profit or loss for assets held at the end of the reporting period	1,314,766	7,034,614



## Notes to the financial statements

### 5. Investment in PIP Fund (continued)

#### Key estimates and judgements

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, the Company has adopted as fair value its proportional share of the net assets attributable to partners of the PIP Fund from the PIP Fund audited financial statements as at 31 March 2017 together with adjustments to reflect the Company's estimate of fair value of the investments. The PIP Fund itself has made seven investments as at 31 March 2017. Valuation techniques have been utilised by the PIP Fund in its audited financial statements to determine the fair value of the PIP Fund project investments. The valuation techniques utilised can include 'the price of recent acquisition', 'market based earnings multiples' or 'discounted cash flows'. The General Partner of the PIP Fund arranges valuations of the project investments as at the end of the reporting period by an independent valuation expert.

As at 31 March 2017 the valuation method used by the PIP Fund to value Melbourne Convention & Exhibition Centre including the expansion, Hobsonville Schools projects, Wollongong University Accommodation, New Zealand Schools 2 and Auckland Prisons was the discounted cash flow method, which is appropriate for valuing a series of future cash flows to equity. Bendigo Accommodation Facility was valued using a combination of both the discounted cash flow method and a capitalisation approach. The other assets of the PIP Fund are primarily cash and cash equivalents. Their carrying value is considered to be fair value and the Company has taken up its share of the carrying value of these other assets.

The PIP Fund is subject to a performance fee which is payable to the manager if certain conditions are met. The PIP Fund has accrued for the amount payable for performance up to 31 March 2017 and NZSIF's share of the estimated amount payable is \$780,382 (2016: \$1,521,649).

### 6. Unrecognised deferred tax assets and liabilities

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

	<i>Note</i>	<b>2017</b>	<b>2016</b>
Opening balance		305,646	502,122
Utilisation of unrecognised tax losses	4	-	(135,194)
Prior period adjustment for unrecognised tax losses		-	(61,282)
Tax loss not recognised	4	510,960	-
Closing balance		816,606	305,646

Tax losses in New Zealand 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 when and to what extent future taxable profit will be available against which the Company can utilise the benefit. The gross amount of tax losses not recognised at 31 March 2017 is \$2,916,449 (2016: \$1,091,593).



## Notes to the financial statements

### 7. Receivables and prepayments

	<b>Notes</b>	<b>2017</b>	<b>2016</b>
Related party receivables	14(b)	-	3,597
Call monies receivable		252,750	-
Prepayments		25,073	25,073
		<u>277,823</u>	<u>28,670</u>

### 8. Trade and other payables

	<b>Notes</b>	<b>2017</b>	<b>2016</b>
Accruals		17,825	17,827
Directors fees payable	14(c)	19,000	19,000
Related party payables	14(b)	988	-
		<u>37,813</u>	<u>36,827</u>

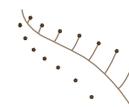
### 9. Cash and cash equivalents

	<b>Note</b>	<b>2017</b>	<b>2016</b>
Call deposits:			
Westpac Short Term Loan Facility		-	134
ANZ Bank New Zealand Limited		87	187
ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited	14(b)	6,136,623	852,619
Cash and cash equivalents in current assets		<u>6,136,710</u>	<u>852,940</u>
Bank overdrafts:			
Westpac Short Term Loan Facility		(160,792)	-
Cash and cash equivalents in current liabilities		<u>(160,792)</u>	<u>-</u>
Cash and cash equivalents in the statement of cash flows		<u>5,975,918</u>	<u>852,940</u>

The weighted average interest rate on call deposits was 2.35% (2016: 3.18%) and on bank overdraft was 6.45% (2016: N/A).

### 10. Property, Plant and Equipment

	<b>2017</b>	<b>2016</b>
Cost	1,307	1,307
Accumulated depreciation	(790)	(272)
Carrying value	<u>517</u>	<u>1,035</u>
Current year depreciation	518	272



## Notes to the financial statements

### 11. Share capital

	Number of preference shares 2017	Number of ordinary shares 2017
On issue at 31 March 2016	3,985,054,296	41,000,000
Issued during the year	-	-
On issue at 31 March 2017	<u>3,985,054,296</u>	<u>41,000,000</u>

	Number of preference shares 2016	Number of ordinary shares 2016
On issue at 31 March 2015	3,985,054,296	41,000,000
Issued during the year	-	-
On issue at 31 March 2016	<u>3,985,054,296</u>	<u>41,000,000</u>

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). During the year calls were made for \$0.27 per share. As at 31 March 2017 the ordinary shares are partly paid to \$0.84 per share. The remaining \$0.16 per share is still to be called (\$6,560,000). During the year three dividends were declared to shareholders totalling \$1,230,000 (2016: \$1,025,000) or 3.0 cents per share (2016: 2.5 cents).

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.

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

	2017	2016
Profit for the year	2,296,567	9,356,300
Depreciation	518	272
Movement in fair value of PIP Fund Investment	<u>(1,314,766)</u>	<u>(7,034,614)</u>
	982,319	2,321,958
<b>Movement in Working Capital</b>		
Change in receivables and prepayments	3,597	(2,117)
Change in income tax receivable/payable	9,525	(4,674)
Change in trade payables and accruals	986	(26)
	<u>14,108</u>	<u>(6,817)</u>
Net cash flow from operating activities	<u>996,427</u>	<u>2,315,141</u>



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## Notes to the financial statements

### 13. 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

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.

The risk disclosures have been prepared on the basis of the Company's direct investment in the PIP Fund and not on a look through basis for investments held by the PIP Fund. Consequently the disclosure of risk in the notes does not fully represent the true risk profile of the Company.

#### Equity price risk

Through the Limited Partnership Agreement, 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.

The Company's exposure to price risk is affected by the PIP Fund's exposure to foreign exchange and valuation of its underlying investments.

#### 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 no significant concentrations of credit risk.

The Company invests its surplus funds in call and short-term deposits with ANZ Bank New Zealand Limited via a related party, CIP Cash Management Nominees Limited, and also directly with ANZ Bank New Zealand Limited and Westpac Banking Corporation. The credit rating of both ANZ Bank New Zealand Limited and Westpac Banking Corporation is AA-. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the statement of financial position (see Note 9).



## Notes to the financial statements

### 13. Financial risk management (continued)

#### 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 (refer Note 9). At the end of the reporting period the effective interest rate for bank balances was 2.20% (2016: 2.60%) and for overdrafts 7.60% (2016: N/A). Bank balances reprice daily.

#### Interest rate risk – repricing analysis

	Note	Total	Non interest bearing	6 months or less
<b>2017</b>				
Cash and cash equivalents	9	6,136,710	-	6,136,710
Bank overdraft	9	(160,792)	-	(160,792)
Total		5,975,918	-	5,975,918

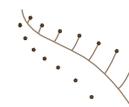
	Note	Total	Non interest bearing	6 months or less
<b>2016</b>				
Cash and cash equivalents	9	852,940	134	852,806
Total		852,940	134	852,806

#### 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 2017 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 \$5,782 (2016: \$3,650) over a one-year period.

#### 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. The liquidity risk associated with future calls made by the PIP Fund will be mitigated by the ability of the entity to call the remaining \$0.16 per share still to be called (See note 11). The Company has an overdraft facility of \$500,000 in place to better manage liquidity risk.



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## Notes to the financial statements

### 13. Financial risk management *(continued)*

#### Capital management

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

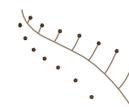
The Company's policy is to maintain its capital structure as stated in the Prospectus and repay capital as investments are realised. As disclosed in Note 11, \$0.84 per share has been paid on the \$1.00 share capital. The remaining \$0.16 will be called as required in accordance with the terms of the 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, or otherwise with the prior approval of the Board.

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.

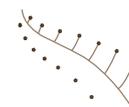


## Notes to the financial statements

### 13. Financial risk management (continued)

#### Classification and fair values

	<i>Note</i>	Designated at fair value through profit or loss	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
<b>2017</b>						
<b>Assets</b>						
Investment in PIP Fund	5	35,305,258	-	-	35,305,258	35,305,258
Cash and cash equivalents	9	-	6,136,710	-	6,136,710	6,136,710
Receivables	7	-	252,750	-	252,750	252,750
<b>Total assets</b>		<b>35,305,258</b>	<b>6,389,460</b>	<b>-</b>	<b>41,694,718</b>	<b>41,694,718</b>
<b>Liabilities</b>						
Bank overdraft	9	-	160,792	-	160,792	160,792
Trade and other payables	8	-	-	19,988	19,988	19,988
<b>Total liabilities</b>		<b>-</b>	<b>160,792</b>	<b>19,988</b>	<b>180,780</b>	<b>180,780</b>
	<i>Note</i>	Designated at fair value through profit or loss	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
<b>2016</b>						
<b>Assets</b>						
Investment in PIP Fund	5	28,529,793	-	-	28,529,793	28,529,793
Cash and cash equivalents	9	-	852,940	-	852,940	852,940
Receivables	7	-	3,597	-	3,597	3,597
<b>Total assets</b>		<b>28,529,793</b>	<b>856,537</b>	<b>-</b>	<b>29,386,330</b>	<b>29,386,330</b>
<b>Liabilities</b>						
Trade and other payables	8	-	-	19,000	19,000	19,000
<b>Total liabilities</b>		<b>-</b>	<b>-</b>	<b>19,000</b>	<b>19,000</b>	<b>19,000</b>



## Notes to the financial statements

### 13. Financial risk management (continued)

#### 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 2017	Level 1	Level 2	Level 3	Total
Investment in PIP Fund	-	-	35,305,258	35,305,258
31 March 2016	Level 1	Level 2	Level 3	Total
Investment in PIP Fund	-	-	28,529,793	28,529,793

### 14. Related parties

#### (a) 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.

During the year the following directors of the Company were also directors of Craigs Investment Partners Limited:

- Michael John Caird

#### (b) 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 \$135,180 (2016: \$111,228).
- Craigs Investment Partners Limited paid certain expenses and received certain receipts of New Zealand Social Infrastructure Fund Limited. As at 31 March 2017, \$988 remained owing to Craigs Investment Partners Limited (2016: \$3,597 owing from Craigs Investment Partners Limited).
- An on-call bank account is held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, which is a 100% subsidiary of Craigs Investment Partners Limited. CIP Cash Management Nominees Limited acts as an agent. The credit rating of ANZ Bank New Zealand Limited is AA- according to Standard & Poor's. At 31 March 2017 the balance held was \$6,136,623 (2016: \$852,619) (see Note 9).



## Notes to the financial statements

### 14. Related parties (continued)

#### (c) Transactions with key management personnel

	2017	2016
Directors' fees (total remuneration)	76,000	76,000

The balance of directors' fees and other amounts owing at 31 March 2017 was \$19,000 (2016: \$19,000).

#### Director's interests

The following directors or their associated entities held shares in New Zealand Social Infrastructure Fund Limited at 31 March 2017:

- Kimmitt Rowland Ellis                      150,000 shares
- Ian Fraser                                        100,000 shares
- Michael John Caird                            100,000 shares
- David Ross McCallum                        35,000 shares

### 15. Commitments

The Company has commitments of \$12,664,198 to the PIP fund for further investments as at 31 March 2017, which will be met from cash reserves and further calls of capital. The PIP Fund investment period ran to 29 October 2015 and only follow-on investments are now permitted.

### 16. 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**

## Opinion

In our opinion, the accompanying financial statements of New Zealand Social Infrastructure Fund Limited (the company) on pages 11 to 27:

- i. present fairly in all material respects the company's financial position as at 31 March 2017 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting

Standards. We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2017;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report.

Subject to certain restrictions, 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. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the company.



## Other Information

The Directors, on behalf of the company, are responsible for the other information included in the entity's Annual Report. Other information may include the Chairman's report, Directors' report, disclosures relating to corporate governance and statutory information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors.



## Use of this Independent Auditor's Report

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this report, or any of the opinions we have formed.



## Responsibilities of the Directors for the financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



## Auditor's Responsibilities for the Audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Independent Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at: [https://www.xrb.govt.nz/Site/Auditing\\_Assurance\\_Standards/Current\\_Standards/Page6.aspx](https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx).

This description forms part of our Independent Auditor's Report.

**KPMG**

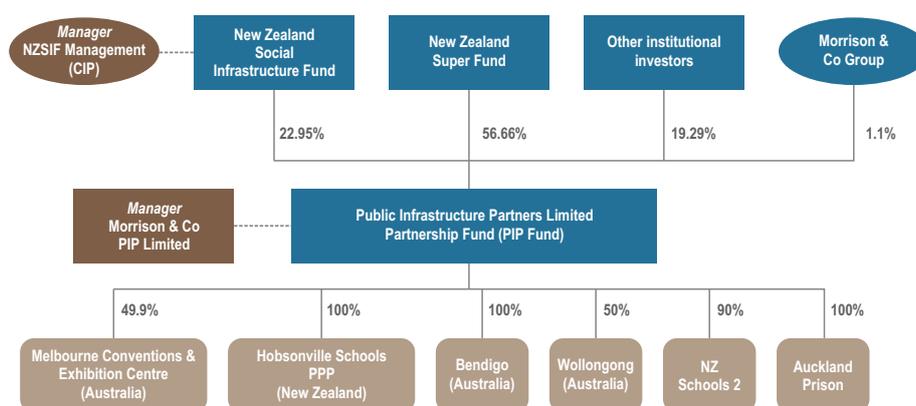
26 June 2017  
Tauranga

## Corporate governance & structure

### Structure

NZSIF was established to provide the New Zealand public with an opportunity to invest in the PIP Fund and thereby gain an exposure to New Zealand and Australian Social Infrastructure PPP Assets.

NZSIF is a limited partner in the PIP Fund, as shown below:



Each share held by investors of NZSIF is a stapled security and consists of 1 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, we then make 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 investments. 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. Directors can be appointed by shareholder ordinary resolution or by the Board to fill a vacancy. Any NZSIF director can be removed by ordinary shareholder resolution. Craigs Investment Partners Limited while it continues to hold all of the issued shares in the Manager, is entitled to appoint up to one-half of the directors of the Company.

Directors are provided with regular reporting. Directors receive detailed reports ahead of each quarterly board meeting. The investment manager presents to the Board each quarter.

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

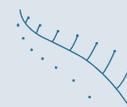
### Investment Management

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 NZSIF Management will have control over the investment management decisions associated with the PIP Fund.

### Administration

NZSIF has engaged NZSIF Management Limited as the Administration Manager, to provide day-to-day administrative and 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 Limited.



## NZSIF Board

The Board comprises four directors, including two independent directors, one of whom is Chairman, and two from Craigs Investment Partners. The Board is responsible for monitoring NZSIF's investment in the PIP Fund, the reporting obligations of NZSIF, and monitoring the Administration Manager's performance.



### Chairman and Independent Director

#### **Kimmitt Rowland Ellis**

*BCA (Hons), BE (Hons)*

Kim is a widely experienced Chief Executive best known for his 13 years at the helm of Waste Management NZ Ltd, culminating in the company's sale in 2006. 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 New Zealand Social Infrastructure Fund Ltd and Metlifecare Ltd, and a Director of FSF Management Company, Freightways, Port of Tauranga and Ballance Agri-Nutrients.

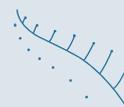


### Independent Director

#### **Ian Alexander Nicholson Fraser**

*BE (Hons), Dist FIPENZ.*

Ian is a Distinguished Fellow of the Institution of Professional Engineers. He is a former Executive Director of Beca Group Ltd, and a former Managing Director of Beca Carter Hollings and Ferner Limited. He has a broad engineering background across the industrial, electricity, civil infrastructure and institutional and commercial building sectors. Ian is the current Chair of the Governance Board for Resilience to Natures Challenges Research Programme, and a Director of New Zealand Social Infrastructure Fund Ltd. Ian was previously a Director and Deputy Chair of Transpower NZ Ltd, a former Director of Stevenson Group Ltd, and a former Director and Deputy Chair of Mighty River Power Ltd, 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.



**Director**  
**Michael John Caird**  
*BCom, LLB*

Mike has been a Director of Craigs Investment Partners since 2001. Mike's career in financial markets includes 4 years as Head of Debt Capital Markets for Craigs Investment Partners, 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. Mike is a director of the AMN Limited private group of companies involved in glass services, Just Plants Ltd, Signal Corporation Ltd, two Pohutukawa Private Equity funds, Kowhai Private Equity No.1 LP, QuayStreet Asset Management Ltd and Wilson Holding Company Pty Ltd.



**Director**  
**David McCallum**  
*MCA (Hons), CFA*

David is a Director, Investment Banking for Deutsche Craigs. Prior to this he was for four years a Director, Debt Capital Markets and Hybrids at Craigs Investment Partners. Previous work experience includes 12 years at ABN AMRO in the investment banking team, and four years at the Bank of New Zealand in their investment management group. During his time at ABN AMRO David was involved in acquiring the Auckland District Health Board car-parking concession (an early PPP), and acted as a director of the acquirer, Hospital Car Parking Limited, subsequent to the purchase. David is also a CFA Charterholder and is past president of the CFA Society New Zealand.



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## Committees

### NZSIF 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 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 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 directors' fees.

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

### PIP Fund Advisory Committee

The Advisory Committee of the PIP Fund comprises limited partner representatives, up to a maximum of five members. New Zealand Social Infrastructure Fund Limited has one representative, currently Kim Ellis. The Advisory Committee meets quarterly with the General Partner and Investment Manager. The Advisory Committee manages conflicts of interest between the Investment Manager and the PIP Fund; approves the independent valuer; considers and approves investment opportunities outside of the PIP Fund's core investment criteria; and is responsible for removal of the Investment Manager.



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## Directory

### BOARD OF DIRECTORS OF NZSIF

Kimmitt Rowland Ellis (Chair)  
Ian Alexander Nicholson Fraser  
Michael John Caird\*/\*\*  
David Ross McCallum\*\*

\* *Mike Caird is a director of Craigs Investment Partners Ltd (CIP).*

\*\* *Both Mike Caird and David McCallum are shareholders in CIP (via CIP Holdings Ltd). CIP wholly owns the manager of the New Zealand Social Infrastructure Fund Ltd, NZSIF Management Ltd.*

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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) 927 7927  
Email: [enquiries@nzsif.co.nz](mailto:enquiries@nzsif.co.nz)  
Website: [www.nzsif.co.nz](http://www.nzsif.co.nz)

### AUDITORS

#### KPMG

247 Cameron Road  
PO Box 110  
Tauranga 3140

Phone: (07) 578 5179

### INVESTMENT MANAGER

#### Morrison & Co PIP Limited

5 Market Lane  
PO Box 1395  
Wellington 6140

### ADMINISTRATION MANAGER

#### NZSIF Management Limited

Craigs Investment Partners House  
158 Cameron Road  
PO Box 13155  
Tauranga 3141

Phone: (07) 927 7927  
Email: [enquiries@nzsif.co.nz](mailto: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  
Email: [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

### SOLICITORS

#### Chapman Tripp

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

Phone: (09) 357 9000