

NZSIF



New Zealand
Social Infrastructure
Fund Limited

Interim Report

For the six months ended 30 September 2017



New Zealand Schools 2 – Rolleston College



University of Wollongong Student Accommodation



Hobsonville Point Secondary School



Bendigo Healthcare Accommodation

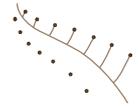


Auckland Prison



Melbourne Exhibition Centre Expansion

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Report to Shareholders

30 November 2017

Dear Shareholder

I am pleased to present New Zealand Social Infrastructure Fund Limited's (NZSIF) interim report for the half year to 30 September 2017. The report includes the financial statements for the interim period.

Highlights for the period included:

- *Progress with New Zealand Schools 2*
Ormiston Junior College, Haeata Community Campus (formerly Aranui) and Rolleston Secondary School are all now operational. Wakatipu High School may be delayed but is still expected to be delivered in time for the beginning of the 2018 school year. Operations at all the schools is being effectively undertaken by Programmed Facilities Management, with no major issues.
- *Progress with Wollongong stage 2*
Construction of Stage 2 was ahead of programme at the end of September, and is close to completion.
- *Ongoing progress with Auckland Prison PPP*
Construction work continues to progress, although the original planned works completion scheduled for December 2017 is now more likely to occur in March – April 2018.
- *Final Call Paid*
Shares are now fully paid to \$1 with the final call of 16 cps paid 21 September 2017 and this cash being held to meet the final calls of the PIP Fund.

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 30 September 2017 the limited partners had contributed 85% of their committed capital to the PIP Fund. Investment commitments for New Zealand Schools 2, Wollongong (stage 2) and Auckland Prison take the PIP Fund's investments and commitments to approximately 99% across six investments. The equity investment for the Melbourne Exhibition Centre expansion was paid up front in 2016.

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 the Education Minister 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.



Rolleston College Christchurch

The manager is in discussion with the Ministry of Education and the building sub-contractor on the late rectification of defects which were identified at the time the schools were handed over to the Ministry. There is the potential for abatements and deductions (if any) flowing from the non-completion of the defects would be passed to the builder.

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

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 a new Auckland Prison facility.

Custodial operations are not included in the contract and the facility 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 Asset Management and Facilities Maintenance, and Westpac are the debt providers.



Auckland Prison Construction Progress

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. Wet weather and industry wide resource constraints have continued to affect construction progress on site. Construction delays mean the likely completion date has been pushed out to March-April 2018, but this is not expected to have any impact on NZSIF's returns. Operational commencement is forecast for mid-2018.

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



University of Wollongong Student Accommodation- Stage 2

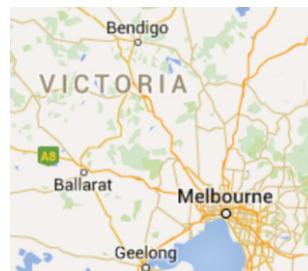
moving into the new facilities in mid-February. Bangalay, is targeted towards graduate students (and their families in the larger apartments), and is comprised of 113 single-bed studio apartments, 57 double-bed studio apartments, 30 two-bedroom apartments and 8 three-bedroom apartments (comprising 254 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, however the project is on target for achieving an early completion.

The PIP Fund is a 50/50 equity investor alongside another Morrison & Co managed fund. Programmed Facility Management is maintaining the facility.

NZSIF has contributed NZ\$4 million for its initial Stage 1 equity investment with a similar sized investment for Stage 2.

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;
- 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.



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 schools were designed as open learning environments and feedback continues to be positive.

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



Hobsonville Point Secondary School



Hobsonville Point Primary School

Melbourne Convention and Exhibition Centre

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

MCEC is a substantial development with net assets of A\$699 million (MCE Trust Annual Report June 2017) 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 performed to expectations during the interim period 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. No material operational issues arose in the period.

Expansion of the Exhibition Centre

The State of Victoria entered into a contract with a PIP Fund consortium to develop a 9,000m² expansion of the exhibition centre by early 2018. Financial close was reached in June 2016. This is an 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 not caused by the Consortium, these delays are not expected to impact returns to NZSIF.



Melbourne Exhibition Centre Expansion

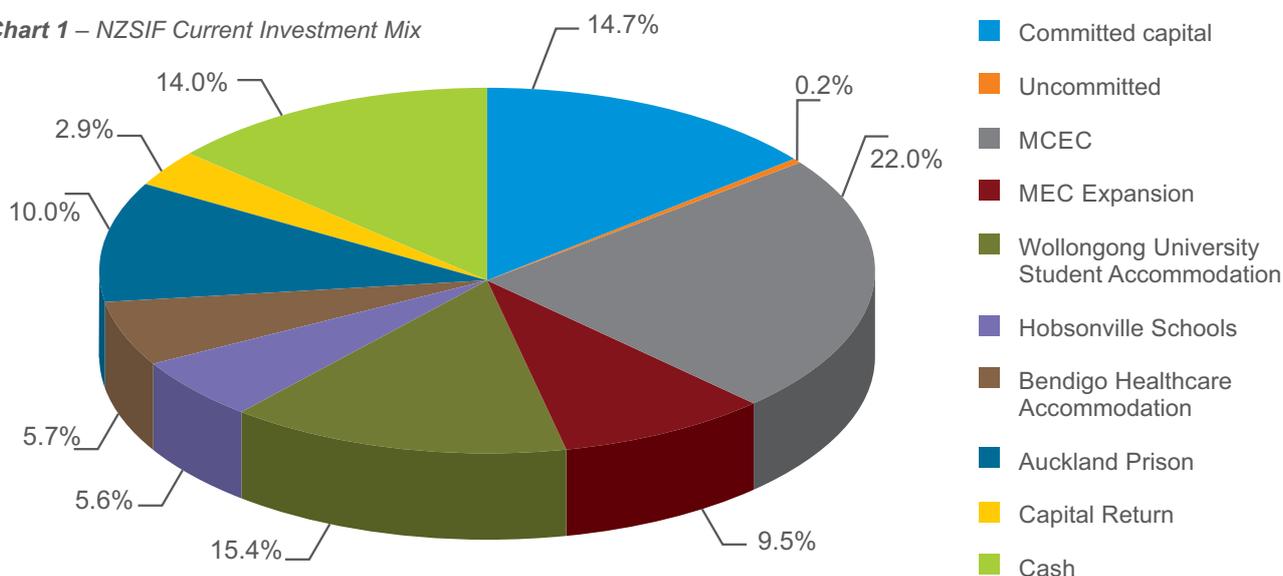
MCEC expansion facts:

- The MCEC Expansion is set to be completed in mid 2018.
- The expansion will add an extra 17,500m² of exhibition and adaptable event spaces.
- Upon completion, MCEC will have over 40,000m² of pillar-less exhibition space – Australia’s biggest convention and exhibition centre.

Key information on the MCEC:

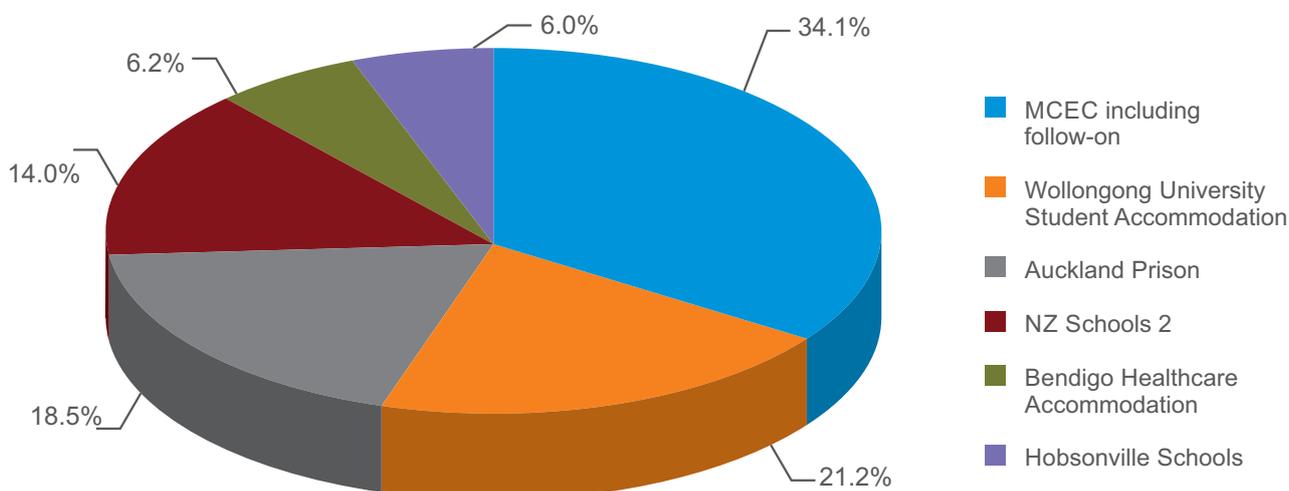
- Melbourne Convention Centre, a 5,000 seat hall, meeting and banquet rooms, six-star Green Star rated building.
- Melbourne Exhibition Centre, a pre-existing 30,000m² facility adjacent to the Melbourne Convention Centre.
- Melbourne Exhibition Centre expansion project 2016-17, a 9,000m² expansion of the exhibition centre.
- The concession runs for 25 years from January 2009 to 2034, with the State of Victoria as counter-party.

Chart 1 – NZSIF Current Investment Mix



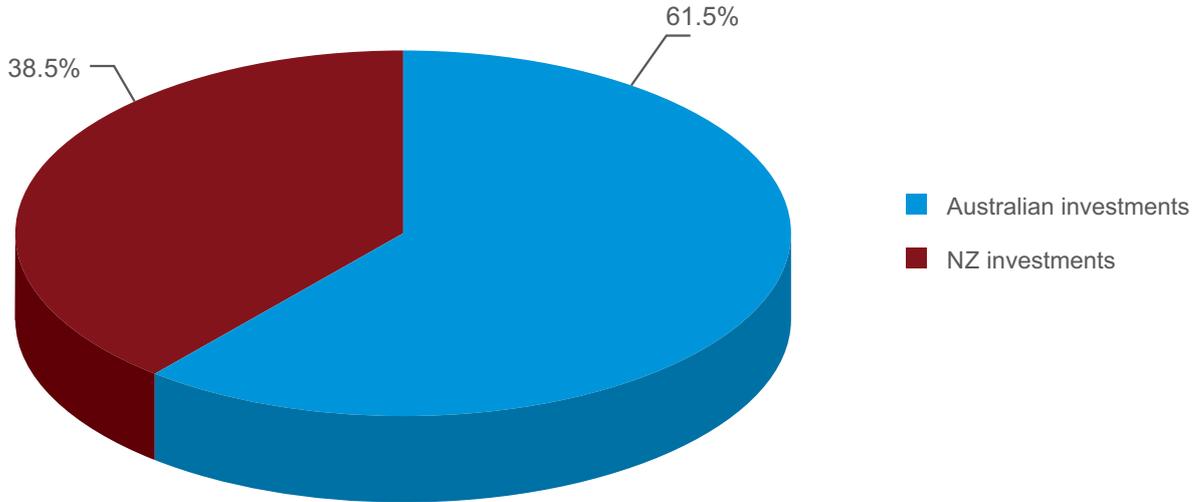
Investment values based on investment cost

Chart 2 – NZSIF 2018 Future Investment Mix



Investment values based on investment cost, or estimated future investment cost

Chart 3 – Australia v New Zealand Investment Mix



Investment Commitment

The PIP Fund will be 99% invested once all current construction projects are complete.

Dividends

NZSIF has paid total gross distributions of 16.0 cps (including a capital return of 2.8 cps) to 30 September 2017.

As highlighted in our annual report we do not expect to pay any further distributions until the March 2018 quarter, depending on the distribution paid by PIP at that time.

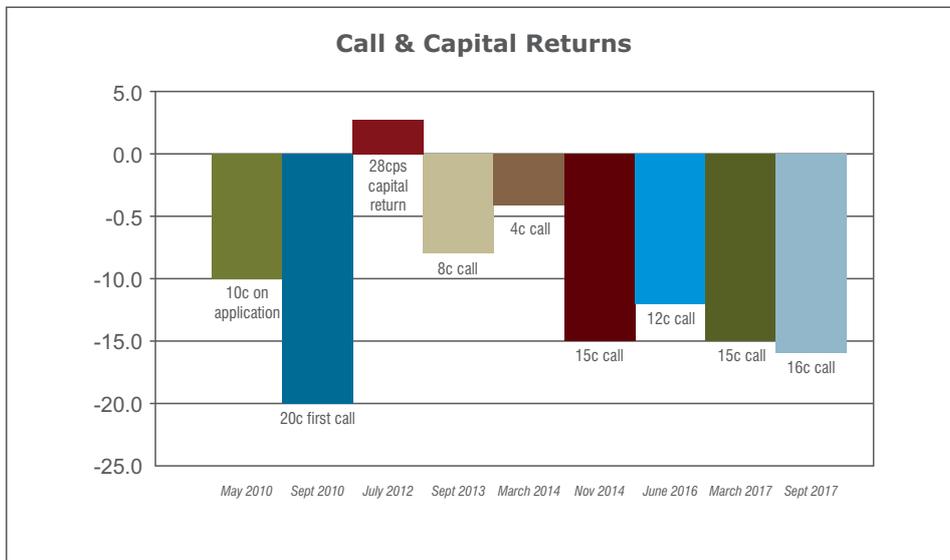
NZSIF Capital Position and Calls

At 30 September Shareholders had contributed \$41m (\$1.00 per share) in capital to NZSIF and received capital returns of \$1.15 million (2.8 cps), a net contribution of 97.2 cps.

The final call of 16 cps in September 2017 is primarily for the equity contribution to the projects under construction: Wollongong (stage 2), NZ Schools 2 and Auckland Prison.

NZSIF's net asset backing as at 30 September 2017 was \$1.18 per share.

Chart 4 – NZSIF Calls & Capital Returns



Note: NZSIF shares are fully paid to \$1

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 engages a third party expert to value the Fund's assets at the end of each financial year (31 March). 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 for the first 11 months 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. This includes investments in the PIP Fund and special purpose vehicle bid loans within the PIP Fund.

NZSIF's investment in the PIP Fund at 30 September 2017 was valued at \$42.5 million (March 2017: \$35.3 million), which included a \$0.5 million net increase in the fair value of its investment in the PIP Fund.

Financial Statements

The unaudited interim financial statements covering the half year period to 30 September 2017 are provided in this annual report for your information.

NZSIF's reported profit was \$414,943 (Sept 2016: loss of (\$1,027,421)). This was the result of a positive movement in the net assets of the PIP Fund, offset by a negative movement in FX rates. The positive movement of \$520,616 in fair value of investment in the PIP Fund is shown in the statement of comprehensive income.

No distributions were received from the PIP Fund (Sept 2016: \$498,016). There was a small amount of interest income, \$52,402. Expenses were \$158,075 (Sept 2016: \$171,621).

The value of the NZSIF investment in the PIP Fund was \$42,485,676 (Sept 2016: \$31,965,763). Liabilities totalled \$31,230.

Capital and Net Asset Backing

Issued capital was \$39,429,239. Combined with retained earnings of \$9,071,459 total capital was \$48,500,698, which represents net asset backing of \$1.18 per share as at 30 September 2017.

Outlook

Distributions

Although the PIP Fund has generated strong unrealized revaluation gains in 2016 and 2017, many construction projects are still being completed, and as such are not yet generating cash flow to the PIP Fund. 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 is completed. This means the PIP Fund is not expecting to pay distributions to the limited partner investors (including NZSIF) until the March 2018 quarter.

NZSIF looks forward to recommencing distributions at the end of the March 2018 quarter as income flows from investments increase to the PIP Fund. Based on PIP's forecasts, we would expect NZSIF distributions of approximately 6-7 cps per annum pre-tax, once all projects are fully operational.

We will keep you up to date through media releases, via the NZSIF website 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

Interim Financial Statements

Statement of comprehensive income

For the six months ended 30 September 2017

| | Note | Unaudited 6 months Sep 2017 \$ | Audited 12 months Mar 2017 \$ | Unaudited 6 months Sep 2016 \$ |
|---|------|---|--|---|
| Dividend income | | - | 1,297,342 | 498,016 |
| Interest income | | 52,402 | 11,731 | 9,647 |
| Movement in fair value of PIP Fund | 3 | 520,616 | 1,314,766 | (1,363,463) |
| Total investment income | | 573,018 | 2,623,839 | (855,800) |
| Administrative expenses | | (157,975) | (321,559) | (171,621) |
| Interest expense | | (100) | (5,804) | - |
| Profit/(loss) before tax | | 414,943 | 2,296,476 | (1,027,421) |
| Income tax credit/(expense) | 4 | - | 91 | - |
| Profit/(loss) for the period | | 414,943 | 2,296,567 | (1,027,421) |
| Other comprehensive income/(loss) for the period | | - | - | - |
| Total comprehensive income/(loss) for the period | | 414,943 | 2,296,567 | (1,027,421) |

Statement of changes in equity

For the six months ended 30 September 2017

| | Share capital | Retained earnings/ (losses) | Total equity |
|---|---------------|-----------------------------------|--------------|
| Balance at 1 April 2017 | 32,869,239 | 8,656,516 | 41,525,755 |
| Total comprehensive income for the period | - | 414,943 | 414,943 |
| Capital called | 6,560,000 | - | 6,560,000 |
| Balance at 30 September 2017 | 39,429,239 | 9,071,459 | 48,500,698 |

For the year ended 31 March 2017

| | Share capital | Retained earnings/ (losses) | Total equity |
|---|---------------|-----------------------------------|--------------|
| Balance at 1 April 2016 | 21,799,239 | 7,589,949 | 29,389,188 |
| Total comprehensive income for the period | - | 2,296,567 | 2,296,567 |
| Capital called | 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 |

For the six months ended 30 September 2016

| | Share capital | Retained earnings/ (losses) | Total equity |
|---|---------------|-----------------------------------|--------------|
| Balance at 1 April 2016 | 21,799,239 | 7,589,949 | 29,389,188 |
| Total comprehensive income for the period | - | (1,027,421) | (1,027,421) |
| Capital called | 4,920,000 | - | 4,920,000 |
| Dividends paid | - | (820,000) | (820,000) |
| Balance at 30 September 2016 | 26,719,239 | 5,742,528 | 32,461,767 |

Statement of financial position

As at 30 September 2017

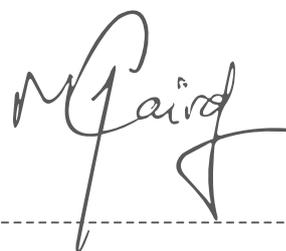
| | Note | Unaudited 6 months Sep 2017 \$ | Audited 12 months Mar 2017 \$ | Unaudited 6 months Sep 2016 \$ |
|--|------|---|--|---|
| Assets | | | | |
| Property, plant and equipment | | 388 | 517 | 776 |
| Investment in PIP Fund | 3 | 42,485,676 | 35,305,258 | 31,965,763 |
| Total non current assets | | 42,486,064 | 35,305,775 | 31,966,539 |
| Cash and cash equivalents | 7 | 5,599,327 | 6,136,710 | 503,970 |
| Receivables and prepayments | 6 | 427,812 | 277,823 | 11,812 |
| Taxation receivable | | 18,725 | 4,052 | 7,374 |
| Total current assets | | 6,045,864 | 6,418,585 | 523,156 |
| Total assets | | 48,531,928 | 41,724,360 | 32,489,695 |
| Equity | | | | |
| Share capital | | 39,429,239 | 32,869,239 | 26,719,239 |
| Retained earnings/(losses) | | 9,071,459 | 8,656,516 | 5,742,528 |
| Total equity attributable to equity holders | | 48,500,698 | 41,525,755 | 32,461,767 |
| Liabilities | | | | |
| Trade and other payables | | 31,230 | 37,813 | 27,928 |
| Bank overdraft | | - | 160,792 | - |
| Total current liabilities | | 31,230 | 198,605 | 27,928 |
| Total liabilities | | 31,230 | 198,605 | 27,928 |
| Total equity and liabilities | | 48,531,928 | 41,724,360 | 32,489,695 |

For and on behalf of the Board



Director

15 November 2017



Director

15 November 2017

Statement of cash flows

For the six months ended 30 September 2017

| | Note | Unaudited 6 months Sep 2017 \$ | Audited 12 months Mar 2017 \$ | Unaudited 6 months Sep 2016 \$ |
|---|------|---|--|---|
| Cash flows from operating activities | | | | |
| Distributions received | | - | 1,297,342 | 498,016 |
| Interest received | | 52,402 | 11,731 | 9,647 |
| Interest paid | | (100) | (5,804) | - |
| Income taxes refunded | | - | 12,900 | 8,904 |
| Income taxes paid | | (14,673) | (3,285) | (2,701) |
| Cash paid to suppliers | | (151,168) | (316,457) | (163,403) |
| Net cash from operating activities | 8 | <u>(113,539)</u> | <u>996,427</u> | <u>350,463</u> |
| Cash flows from financing activities | | | | |
| Proceeds from called capital | | 6,396,750 | 10,817,250 | 4,920,000 |
| Dividends paid | | - | (1,230,000) | (820,000) |
| Net cash from financing activities | | <u>6,396,750</u> | <u>9,587,250</u> | <u>4,100,000</u> |
| Cash flows from investing activities | | | | |
| Acquisition of Property, Plant & Equipment | | - | - | - |
| Investment in PIP Fund | 3 | (6,659,802) | (5,460,699) | (4,799,433) |
| Net cash from investing activities | | <u>(6,659,802)</u> | <u>(5,460,699)</u> | <u>(4,799,433)</u> |
| Net movement in cash and cash equivalents | | (376,591) | 5,122,978 | (348,970) |
| Cash and cash equivalents at beginning of period | | 5,975,918 | 852,940 | 852,940 |
| Cash and cash equivalents at end of period | 7 | <u>5,599,327</u> | <u>5,975,918</u> | <u>503,970</u> |



Notes to the financial statements

1. General information

(a) Reporting entity

New Zealand Social Infrastructure Fund Limited (the “Company”, or “NZSIF”) is a company incorporated and domiciled in New Zealand. NZSIF is registered under the Companies Act 1993 and is an FMC Reporting Entity in terms of the Financial Markets Conduct Act 2013.

The interim financial statements of the Company have been prepared for the six months ended 30 September 2017, in accordance with the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

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 interim financial statements were approved by the Directors on 15 November 2017.

(b) Statement of compliance

The interim financial statements have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), specifically NZ IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Company as at and for the year ended 31 March 2017.

(c) Basis of measurement

The interim financial statements are prepared on the historical cost basis except that certain financial instruments are stated at their fair value (see note 2(a)).

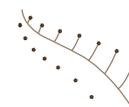
(d) Functional and presentation currency

The interim 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 interim 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. At 30 September 2017 the only estimates are in relation to the valuation of the investment in PIP Fund (see note 3).



Notes to the financial statements

2. Significant accounting policies

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its annual financial statements as at and for the year ended 31 March 2017. No valuations by an independent valuation expert are used for interim reporting periods (see Note 3: Key estimates and judgements).

(a) Investment in the PIP Fund

NZSIF 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.

3. Investment in PIP Fund

The Company currently has one investment, which is in the PIP Fund.

The fair valuation of the PIP Fund as at 30 September 2017 is \$42,485,676 (31 March 2017: \$35,305,258, 30 September 2016: \$31,965,763) 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, being an increase of \$520,616 (31 March 2017: increase of \$1,314,766, 30 September 2016: decrease of \$1,363,463).

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

| | Unaudited Sep 2017 | Audited Mar 2017 | Unaudited Sep 2016 |
|------------------------------------|-------------------------------|-----------------------------|-------------------------------|
| Opening balance | 35,305,258 | 28,529,793 | 28,529,793 |
| Investments in the PIP Fund | 6,659,802 | 5,460,699 | 4,799,433 |
| Movement in fair value of PIP Fund | 520,616 | 1,314,766 | (1,363,463) |
| Closing balance | <u>42,485,676</u> | <u>35,305,258</u> | <u>31,965,763</u> |

The movement in fair value of the PIP Fund is made up of:

| | | | |
|------------------------------------|----------------|------------------|--------------------|
| Movement in FX rates | (318,226) | (241,816) | (1,552,578) |
| Movement in net assets of PIP Fund | 838,842 | 1,556,582 | 189,115 |
| Movement in fair value of PIP Fund | <u>520,616</u> | <u>1,314,766</u> | <u>(1,363,463)</u> |



Notes to the financial statements

3. Investment in PIP Fund (continued)

'Investments in the PIP Fund' relates to five capital calls in the current period. These calls were to fund working capital requirements and investments in Auckland Prison, University of Wollongong Student Accommodation Facility and New Zealand Schools 2.

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

| Investments | Unaudited Sep 2017 | Audited Mar 2017 | Unaudited Sep 2016 |
|---|-----------------------|---------------------|-----------------------|
| Total gains/(losses) included in profit or loss for the period | 520,616 | 1,314,766 | (1,363,463) |
| Total gains/(losses) for the year included in profit or loss for assets held at the end of the reporting period | 520,616 | 1,314,766 | (1,363,463) |

Key estimates and judgements

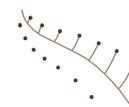
Company policy is to carry investments at fair value with subsequent movements in fair value recognised through profit or loss. The General Partner of the PIP Fund arranges annual valuations of the operating project investments at each 31 March balance date, by an independent valuation expert, using valuation methodologies approved by the Advisory Committee of the PIP Fund. As there is no quoted market price for the PIP Fund, the Company, for the purposes of its 30 September half year financial statements, estimated the fair value of its investments in the PIP Fund after considering its proportional share of the net assets attributable to partners of the PIP Fund from the PIP Fund unaudited financial statements as at 30 September 2017 and whether there have been any significant changes to forecast future cash flows and any foreign exchange movements that would impact on the valuations of operating project investments. The PIP Fund itself has made six investments as at 30 September 2017.

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).

| 30 September 2017 | Level 1 | Level 2 | Level 3 | Total |
|------------------------|---------|---------|------------|------------|
| Investment in PIP Fund | - | - | 42,485,676 | 42,485,676 |
| 31 March 2017 | Level 1 | Level 2 | Level 3 | Total |
| Investment in PIP Fund | - | - | 35,305,258 | 35,305,258 |
| 30 September 2016 | Level 1 | Level 2 | Level 3 | Total |
| Investment in PIP Fund | - | - | 31,965,763 | 31,965,763 |



Notes to the financial statements

4. Income tax

No income tax expense has been included in the interim financial statements due to the Company having surplus unrecognised tax losses. The estimated gross amount of tax losses not recognised at 30 September 2017 is \$3,022,122 (31 March 2017: \$2,916,449, 30 September 2016: \$1,253,567).

5. Issued capital

Each \$1.00 share originally comprised one ordinary voting share with a nil issue price, and 100 non-voting redeemable preference shares in NZSIF at \$0.01 each (a stapled security). There has been one final call of \$0.16 during the period which resulted in an increase in contributed capital of \$6,560,000. In all the total \$1.00 per share is now called. In 2012 some of the preference shares were redeemed and so now there are 97 redeemable preference shares stapled to each ordinary share.

6. Receivables and prepayments

| | Unaudited Sep 2017 | Audited Mar 2017 | Unaudited Sep 2016 |
|--------------|-----------------------|---------------------|-----------------------|
| Receivables* | 416,000 | 252,750 | - |
| Prepayments | 11,812 | 25,073 | 11,812 |
| | <u>427,812</u> | <u>277,823</u> | <u>11,812</u> |

* Call monies of \$416,000 were outstanding at 30 September 2017 (31 March 2017, \$252,750). These were all received in full during October 2017.

7. Cash and cash equivalents

| | Note | Unaudited Sep 2017 | Audited Mar 2017 | Unaudited Sep 2016 |
|--|------|-----------------------|---------------------|-----------------------|
| Call deposits: | | | | |
| ANZ Bank New Zealand Limited | | 178 | 87 | 87 |
| ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited | 10 | 5,599,128 | 6,136,623 | 503,835 |
| Westpac New Zealand Limited | | 21 | - | 48 |
| Cash and cash equivalents in the statement of cash flows | | <u>5,599,327</u> | <u>6,136,710</u> | <u>503,970</u> |

Call deposits are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited (see Note 10), and also directly with ANZ Bank New Zealand Limited and Westpac New Zealand Limited. The average interest rate on call deposits is 2.20% (March 2017: 2.35%, September 2016: 2.56%).

The Company has a \$500,000 overdraft facility with Westpac New Zealand Limited. The interest rate payable on any overdraft balance is 7.85% at 30 September 2017. The facility was not used during the period. The account was undrawn as at 30 September 2017.



Notes to the financial statements

8. Reconciliation of profit/(loss) after taxation to the net cash flow from operating activities

| | Unaudited Sep 2017 | Audited Mar 2017 | Unaudited Sep 2016 |
|--|-------------------------------|-----------------------------|-------------------------------|
| Profit/(loss) for the period | 414,943 | 2,296,567 | (1,027,421) |
| Depreciation | 129 | 518 | 259 |
| Movement in fair value of PIP Fund | (520,616) | (1,314,766) | 1,363,463 |
| | <u>(105,544)</u> | <u>982,319</u> | <u>336,301</u> |
| Movement in Working Capital | | | |
| Change in receivables and prepayments | 13,261 | 3,597 | 16,858 |
| Change in income tax receivable | (14,673) | 9,525 | 6,203 |
| Change in trade and other payables | (6,583) | 986 | (8,899) |
| Net cash flow from/(to) operating activities | <u>(113,539)</u> | <u>996,427</u> | <u>350,463</u> |

9. Commitments

As at 30 September 2017, the Company has further commitments of \$6,004,396 to the PIP Fund. Any expected calls will be met with existing cash held.

10. 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 NZSIF.

The following director of the Company is also a director of Craigs Investment Partners Limited:

- Michael John Caird

The following director of the Company is also an employee of Craigs Investment Partners Limited:

- David Ross McCallum



Notes to the financial statements

10. Related parties (continued)

Transactions with related parties

During the period, the Company entered into the following transactions with related parties:

- Management fees paid to NZSIF Management Limited totalled \$69,123 (31 March 2017: \$135,180; 30 September 2016: \$67,590).
- Craigs Investment Partners Limited paid certain expenses on behalf of the Company.
- 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. At 30 September 2017 the balance held was \$5,599,128 (31 March 2017: \$6,136,623, 30 September 2016: \$503,835) (see Note 7). For deposits placed via CIP Cash Management Nominees Limited, the Company receives interest rates higher than it would otherwise obtain by going direct to banks. CIP Cash Management Nominees Limited receives a commission of up to 30 basis points on such deposits.

Transactions with key management personnel

| | Unaudited 6 months Sep 2017 | Audited 12 months Mar 2017 | Unaudited 6 months Sep 2016 |
|--------------------------------------|-----------------------------------|----------------------------------|-----------------------------------|
| Directors' fees (total remuneration) | 38,000 | 76,000 | 38,000 |

The balance of directors' fees owing to key management personnel at 30 September 2017 was \$19,000 (31 March 2017: \$19,000, 30 September 2016: \$19,000).

Directors' interests

The following directors or their associated entities held shares in the Company at 30 September 2017:

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

11. Subsequent events

The PIP Fund has made the following calls all due after balance date:

- Call made 15 September 2017, subsequently paid on 20 October 2017 for \$1,050,058
- A further Call made 20 October 2017 for \$3,070,950 is due for payment on 24 November 2017.



Independent Review Report

To the shareholders of New Zealand Social Infrastructure Fund Limited
Report on the interim financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements on pages 9 to 17 do not:

- i. present fairly in all material respects the company's financial position as at 30 September 2017 and its financial performance and cash flows for the 6 month period ended on that date; and
- ii. comply with NZ IAS 34 Interim Financial Reporting. We have completed a review of

the accompanying interim financial statements which comprise:

- the statement of financial position as at 30 September 2017;
- the statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for conclusion

A review of interim financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of New Zealand Social Infrastructure Funds Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

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



Use of this Independent Review Report

This report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent Review 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 review work, this report, or any of the opinions we have formed.



Responsibilities of the Directors for the interim financial statements

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

- the preparation and fair presentation of the interim financial statements in accordance with NZ IAS 34 Interim Financial Reporting;
- implementing necessary internal control to enable the preparation of interim 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 review of the interim financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these interim financial statements.

This description forms part of our Independent Review Report.

Tauranga

15 November 2017



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.*

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
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Website: www.nzsif.co.nz

AUDITORS

KPMG

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Phone: (07) 578 5179

INVESTMENT MANAGER

Morrison & Co PIP Limited

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PO Box 1395
Wellington 6140

ADMINISTRATION MANAGER

NZSIF Management Limited

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