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New Zealand **Venture Investment Fund**

2018 ANNUAL REPORT
NEW ZEALAND VENTURE INVESTMENT FUND

The epicentre of New Zealand ingenuity #backed 200+ companies

Case Study

Pursuit of pure sound

Auckland-based Wing Acoustics has developed the world's only rigid audio drivers, delivering, what it says, is the purest, zero-resonance sound across the widest operating ranges ever achieved.

Conventional cone loudspeakers are present in virtually every sound device and are saturated with distorting resonances which significantly pollute sound quality. Mike and Dave Palmer, founders of Wing Acoustics, engineer inventors and brothers, developed a system in which sound vibrations move like a pendulum in a device shaped like a wing, resulting in no vibration, and a cleaner sound. Wing Acoustics plans to license the technology either directly to audio manufacturers and brands or in joint development with audio manufacturers.

Highlights

$1.47m

Reporting an overall surplus for 2018 of $1.47m (2017 – $12.8m deficit)

ANNUAL ANGEL INVESTMENT HITS

$87m

$18 per capita compared to Australia's $13 per capita

5x

Overall, early-stage investment in 2018 is fivefold what it was in 2002

Successful implementation of the revised SCIF mandate

200th

SCIF achieved a significant milestone of investing into its 200th company

111

early-stage investments made in 2017

Chairman and CEO report

Murray Gribben — *Chairman*

Richard Dellabarca — *Chief Executive*

The past year has seen a number of interesting and important developments both at NZVIF and across the early-stage eco-system. When NZVIF was established in 2002, the annual level of early-stage investment (venture capital and angel) was around $17 million and there were very few companies emerging from the considerable investment the government makes in research at our universities and research institutes.

Now, the annual investment level is over five times that in the angel space alone at $87 million in the most recent financial year, with 111 investments made into early-stage companies during that period. As a further illustration of the eco-system's development, of NZVIF's 273 portfolio companies, over 40 percent have emerged from Crown Research Institutes and universities, or incubators and accelerators.

In terms of like for like comparison, New Zealand's level of angel investment equates to $18 per capita invested into the early-stage eco-system, which is favourable to Australia's $13 per capita. This significant progress in a short period of time should be celebrated. However, with the United Kingdom and United States at $45 and $107 per capita respectively, there is still further work, and opportunity, for New Zealand Inc to get to where we aspire to be. It is not only the growth in early-stage companies and funding of those that should be celebrated. If we step back, over the last decade ten "billion dollar-plus" companies have originated in some form or another out of New Zealand - namely A2 Milk, Xero, Pushpay, Diligent, Trademe, Telogis, Anaplan, FNZ, Allbirds and Rocketlab. Collectively this equates to, at the time of writing, in excess of $27 billion of shareholder value created from what were once start-ups.

For NZVIF, in relation to the angel space, its Seed Co-investment Fund (SCIF) programme saw a number of notable developments.

In August 2017, following consultation with shareholders, there was a revision to the mandate allowing more investment flexibility to reflect the

VC FUND INVESTMENT TO 30 JUNE 2018

$3.6 Million.

SCIF INVESTMENT TO 30 JUNE 2018

$7.4 Million.

changing requirements of the early-stage investment ecosystem. [Those six changes are detailed in the following Investment Report.] Critically from an investment perspective, the focus has narrowed to identifying and investing in New Zealand companies and entrepreneurs seeking to address global opportunities like Nyriad, Sunfed Meats, Wing Acoustics or Montoux, for example, rather than those focused on domestic only opportunities or lifestyle companies.

We would like to take this opportunity to thank all those investment partners, both existing and new, who have worked with us to implement this revised mandate. Their patience, counsel and support has been much appreciated as we have worked through this transition.

In addition, during the year SCIF achieved a significant milestone of investing into its 200th company as part of the $7.4 million invested into young companies. This investment was alongside angel partner investment of $17.45 million into those companies. [A breakdown of the programme's activity is provided in the following Investment Report.]

In contrast to the SCIF programme, the Venture Investment Fund (VIF) only invested a total of $3.6 million, which is a significant decrease from previous years' activities. But given there was only two active domestic Venture Capital (VC) funds in New Zealand, GD 1 Fund II and Punakaiki, actively making new investments, this level of activity was in line with expectations.

What this illustrates is that while the angel sector is buoyant in terms of participants and capital being applied to opportunities, there remains a significant structural failing in terms of New Zealand's venture capital sector.

Recent research by the Start-up Genome Project further demonstrates this structural failing. It noted that the conversion rate of angel funded start-ups which go on to raise Series A funding in the United States (US) was 40% - i.e. 40 out of 100 firms receiving angel funding go on to get Series A venture capital funding. The median conversion rate globally was 25%. New Zealand's conversion rate is only 10%, or around four time less than the US and 2.5 times less than the global average. Recent work by our colleagues at Ministry of Business, Innovation and Employment (MBIE) noted a Series A/B capital gap per year in excess of $250 million per year. Extrapolated over a traditional five-year investment cycle for a venture capital fund, this equates to a $1.25 billion capital gap.

In last year's annual report we noted our observations with regard to VC funds established to date and the associated structural issues that contributed to poor returns – these were historically sub-scale fund size which meant an inability to attract appropriate institutional capital, failure to adequately capitalise companies and/or fund their journey, inability to achieve appropriate portfolio diversification, generation of insufficient management fees for appropriate teams, and in many cases first time teams with no company building or early-stage investing experience.

This is only amplified by the increasing Series A/B round sizes which companies require to fund a global journey, coupled with the need for appropriately connected and skilled investors to support that company build against highly competitive and well capitalised competitors. It is no coincidence that nearly all those ten "billion dollar-plus" companies noted above each raised in excess of $100 million to achieve their global ambitions.

There is no doubt that there is sufficient institutional capital in New Zealand to support the next generation of potential New Zealand unicorns when you consider the significant capital pools of KiwiSaver, the New Zealand sovereign wealth funds (NZ Super, ACC and Annuitas), iwi, community trust, corporates and the brokerage houses. There is also no doubt offshore institutional capital will flow into support these companies, if they see domestic institutional capital investing.

To date, none of these domestic institutions participated in any of the private investment rounds of the ten "billion dollar-plus" companies which have emerged out of New Zealand. These were significant multi-billion dollar return opportunities which were missed by these domestic investors. The challenge for New Zealand is to connect this capital with the substantial investment returns available from the next generation of potential New Zealand billion dollar-plus companies.

It is a challenge which has been addressed in Australia, where in excess of $1 billion of institutional capital - the equivalent to our KiwiSaver and sovereign wealth fund's - has flowed into the sector over the last three years as these institutions recognise the investment opportunity, as well as the national imperative around investing to create and support domestic champions taking on global opportunities.

An Australian super fund manager explained their approach: 'The super sector has become so large in Australia that we need to think about our impact beyond just returns for our members. This is also about investing in the country, because we need lots of strong technology companies in the future, and if we can help them stay here, that's a win for everyone.'

We remain of the view that New Zealand needs to build a fund (or funds) of appropriate scale – structured with the best chance of investment success and the scale to attract the big institutions the sector needs, and to create a team (or teams) acceptable to such investors and appropriately qualified to manage funds.

We see the next step for New Zealand's venture capital sector, and a critical need for NZ Inc, is to have funds of appropriate scale (which, quite frankly, is an average sized fund offshore), and which can back growth companies taking on global opportunities throughout their journey. This work will continue in the coming months with our public and private sector partners, both domestic and international, as we seek to solve this NZ Inc challenge.

NZVIF is a small organisation with eight full-time and three part-time staff who run multiple programmes – SCIF, VIF, and market development activities, as well as working to comply with the significant reporting obligations that all Crown owned entities operate within.

In terms of financial performance we are pleased to report a surplus this year of $1.47m. This was primarily achieved due to a net gain on investments of $2.7m (2017 – net loss of $10.9m), coupled with a reduction in administration expenses to $2.5m (2017 - $2.77m).

In what has been a very busy 12 months, we thank the NZVIF board and management team for their contribution to this year's performance and for their professionalism and commitment to achieving NZVIF's objectives. In particular we wish to acknowledge and thank Anne Blackburn and Roger Bridge who both retired as directors this year after 10 and 8 years respectively of invaluable leadership and service. In addition, we want to thank Piotr Dziadosz for the last year he spent with us as an intern and wish him well in his new role with McKinsey in Poland. His contribution to the team, both personally and professionally, will be missed. Finally we look forward to welcoming back Bridget Unsworth from her maternity leave in the second half of 2018.

Murray Gribben
Chairman

Richard Dellabarca
Chief Executive

Board of directors

The board of directors are appointed by the government to oversee the performance of the New Zealand Venture Investment Fund business.

Murray Gribben — *Chairman*

Murray Gribben's professional background is in corporate finance and investment management. He has broad knowledge of, and experience in, both the public and private investment markets. He has been involved in bringing businesses to the public markets, public to private acquisitions, large capital raising processes and investing in private equity, infrastructure and property assets. His earlier career was spent in investment banking and at the New Zealand Treasury.

He is currently chief executive of Crown Irrigation Investments Limited and was previously executive director at Willis Bond & Co, a property development and investment business. Prior to that Murray was Managing Director at AMP Capital Investors. Murray holds several governance positions.

Anna Blackburn — *Deputy Chairman**

Anne Blackburn is a banker by professional background, having had earlier careers in journalism and diplomacy. She worked in investment banks in New York and London for over a decade before returning to a senior management role with a New Zealand bank in the late 1990s. Anne is currently a director of a number of businesses in the infrastructure, built environment and financial services sectors. She also holds governance positions in not-for-profit organisations.
**Term ended 30 June 2018*

Roger Bridge — *Director**

Roger Bridge is a Christchurch businessman and company director with a background primarily in property investment and management, and also the formation and development of new business ventures. He is Chair of the Rata Foundation (formerly Canterbury Community Trust), Deputy Chair of Quotable Value and a Trustee of the Te Papa Foundation. He is a member of the New Zealand Institute of Directors. He also has an involvement in the community, serving on school boards, and with the Christchurch Arts Festival Trust.
**Term ended 30 June 2018*

Richard Hughes — *Director**

Richard Hughes has spent much of his career in the private equity industry in the United Kingdom, China, Australia and New Zealand, and has also held roles in emerging market venture capital funds in Africa, Central America, and Asia. He is a Chartered Accountant and graduated from Trinity College, Cambridge where he read Engineering.
**Reappointed as a Director on 1 July 2018 for a further two years*

David Flacks — *Director*

David Flacks is an Auckland based lawyer and company director with extensive capital markets and governance experience. He is Chair of AFT Pharmaceuticals, Harmoney Corporation and biotech start-up Upside Biotechnologies, and a director of the Vero group of companies and a number of not for profit organisations. Previously he was a partner of Bell Gully and senior executive at Carter Holt Harvey.
**Reappointed as a Director on 1 July 2018 for a further three years. Appointed Deputy Chairman.*

Case Studies

A breakthrough in computing density

NYRIAD

Nyriad is a Waikato-based supercomputing company which earlier this year successfully closed a $US8.5 million Series A round, bringing its total raised to date to $US11 million.

It was formed in 2014 by serial inventor Matthew Simmons and graphical processing guru Alex St John, who were both living in Cambridge. The company started with a few students learning parallel computer programming in St John's garage and has since grown to a team of over 50 engineers.

The software company specialises in advanced data storage solutions for big data and high performance computing; it was born out of consulting work on the Square Kilometre Array, the world's largest radio telescope development, where Nyriad's projects include developing technology to process the enormous volumes of data that will be generated by the Array.

The app of choice for tradies

TRADIFY

Tradify has developed an app that makes it easy for tradespeople – plumbers, builders, electricians, etc - to keep track of time and materials working on client jobs and integrates with accounting systems like Xero and MYOB. It also covers employee scheduling, dispatching, and quoting so users can keep whole teams organised. Formed in 2013 in Auckland, Tradify has thousands of customers in over 20 countries.

State of the art climbing robots are cutting edge

Invert Robotics began as a spin-out from the University of Canterbury's Engineering School and now works with six of the world's top eight global dairy companies.

The company produces mobile climbing robots with video feeds which can inspect industrial tanks without causing damage. The robots climb in hard-to-reach and dangerous places - like dairy tanks - and are suitable in areas like aviation inspection, the chemical industry, and with energy, oil and gas companies.

The company has attracted a range of private investment. Earlier this year, following an almost million-dollar crowdfunding campaign, it raised a further $6.4 million from a limited sophisticated private investor round.

Investment report

The 2018 year saw a shift in investment strategy for the two investments funds managed by NZVIF.

In August 2017, following consultation with shareholders, the Seed Co-investment Fund investment mandate was revised to provide more investment flexibility to reflect the changing requirements of the early-stage investment ecosystem.

These changes include:

- Raising the investment cap per investee companies from $750,000 to $1.5 million.
- Removing the $250,000 limit per funding round.
- Allowing NZVIF to be a more active investor, such as determining whether to co-invest alongside its partners in individual investments.
- Broadening the investment partner network by enabling NZVIF to co-invest with qualified investors, who are not current angel network partners.
- Removal of the investment caps with individual partners.
- The ability to co-invest up to $8 million p.a. into early-stage investment opportunities with at least 25% of its annual investment amount reserved for new investment opportunities.

The investment profile of the Venture Capital Fund continues to mature as the fund strategy shifts from making new investments to realising returns from its existing investments.

Investment Activity

The Seed Fund invested $7.4 million into 53 companies over the 2017/18 year. NZVIF reviewed 183 investment opportunities during the year and invested into 28 new opportunities. Our existing co-investment angel partners remain an important source of investment opportunities with 60% of deal flow coming from these partners. The value in having access to pre-qualified deals is evident by the fact that 75% of our investments were in companies brought to us by an angel partner.

The Venture Capital Fund invested a total of $3.6 million over the 2017/18 year. This is a significant decrease from previous years activities as there was only one active venture capital fund; GD 1 Fund II actively making new investments and therefore this level of activity was in line with expectations.

Investment Realisations

NZVIF had its best year for cash realisations from the sale of investments, with $42 million being returned to NZVIF during 2017/18. The VC Fund contributed the majority of these realisations as a number of the funds are now in realisation mode, with cash returned from a number of investments including Phitek, Open Cloud, PowerbyProxi, Pukeko Pictures, SLI Systems, KonnectNet and GRC SinoGreen. In addition, NZVIF sold 80% of its interest in the PCP II Fund due to the exercise of the buyout clause by the other investors in the fund.

Investment Performance

In addition to its market development activities, and despite its historically passive mandate, the value of NZVIF investments increased by $1.85 million over the past year, driven by realised gains from sale of investments and increases in the value of portfolio companies which had successfully raised further investment rounds. The Crown’s investment in NZVIF has increased by 2.8% per annum over the past 5 years. Given the revised mandate for the Seed Fund, we would hope to see that return profile increase for the Crown over the medium term.

Investment performance and activity

Impact one — Increased levels of private capital available for investment into high growth companies

Measures		30 June 2017 Actual	30 June 2018 Actual	Full year SOI Forecast 2017/18
1.	Total amount invested by the market into New Zealand high growth companies (p.a.)	$111m	$142m	$143m
2.	NZVIF as % of total market investment	8.7%	7.3%	14%

Comment

1. The total amount invested by the market into NZ high growth companies as measured by the Start-up Young Company Finance Report and the New Zealand Private Equity and Venture Capital Association (NZVCA).
2. NZVIF invested $10.4 million in the 2017 calendar year, this represents 7% of the total market investment.

Impact two — Increased number of experienced and professional investors who are active in the industry

Measures		30 June 2017 Actual	30 June 2018 Actual	Full year SOI Forecast 2017/18
1.	Total number of NZVIF VC funds active in the market	6	1	7
2.	Total number of active NZVIF angel investment partners	13	10	13
3.	Number of venture capital investment professionals and active angel investors in the market	170-190	180-200	200-220

Comment

1. As at 30 June 2018 only the GD1 Fund II was actively investing in the NZ market.
2. The number of angel partners actively investing in the market is less than anticipated due to some existing partners becoming inactive.
3. The number of key personnel remains constant as new members join and others leave.

Impact three — A conducive early-stage investment environment

Measures		30 June 2017 Actual	30 June 2018 Actual	Full year SOI Forecast 2017/18
1.	Market development initiatives and reports supported by NZVIF	3	4	2

Comment

1. NZVIF has continued to be involved in supporting market development and met the number of initiatives forecast for the 2018 year. NZVIF supported a number of market education and Angel Association New Zealand (AANZ) events as detailed in the Statement of Service Performance.

Investment performance and activity cont.....

Impact four — Increased number of successful high growth companies

Measures		30 June 2017 Actual	30 June 2018 Actual	Full year SOI Forecast 2017/18
1.	Total number of companies invested in through NZVIF VC and SCIF Funds	239	273	270
2.	Exports as a % of total revenues generated from NZVIF portfolio companies	>79%	80%	>85%
3.	Number of companies emerging from CRIs and universities	53	57	58
4.	Number of companies with revenues >$10m p.a.	13	18	16
5.	Average revenue per employee	$200,000 - $240,000	$270,000	$230,000 - $270,000

Comment

1. There has been a continued growth in the number of companies invested into over the past three years with the 2018 figures exceeding forecast.
2. Exports continue to be a large source of total revenues generated but has been impacted by companies exiting the portfolio.
3. The number of companies emerging from CRIs and universities are in line with expectations. Investment deal flow from universities and CRIs is a positive sign of increasing research and development commercialisation.
4. Portfolio companies are making good progress as evidenced by the number of companies with revenues over $10m p.a. exceeding expectations.
5. The average revenue per employee has continued to increase over the past three years but has been impacted by companies exiting the portfolio.

Corporate governance statement

NZVIF was incorporated on 1 July 2002 under the New Zealand Companies Act 1993. A Crown Company, the company's principle activity is managing two early-stage investment programmes on behalf of the New Zealand Government. NZVIF is responsible for establishing partnerships with private sector investors and ensuring that appropriate monitoring and reporting arrangements are in place. The overall purpose of NZVIF is to accelerate the growth of the venture capital and early-stage investment industry in New Zealand, through the effective administration of investment programmes.

Management of the Company
The business and affairs of the company are managed by or under the direction or supervision of the Board of Directors.

Board of Directors
The Board, which comprises of non-executive directors, meets six times per year and as required for strategic planning purposes and to progress specific decisions. The Board is accountable to the shareholding Ministers in the manner set out in the NZVIF Constitution and the NZVIF Establishment Funding Agreement.

The Board establishes strategic policy, guides and monitors the business and affairs of the company on behalf of shareholders, and is committed to a high standard of corporate governance. Responsibility for the operation and administration of the company is delegated to the Chief Executive who is accountable to the Board. The Board places emphasis on implementation of venture capital best practice, sound administrative systems and procedures, and regulatory compliance.

Directors
Directors are appointed by the shareholding Ministers following Cabinet approval. Anne Blackburn and Roger Bridge term ended on 30 June 2018. Richard Hughes was reappointed as a Director on 1 July 2018 for a further two years and David Flacks was reappointed as a Director on 1 July 2018 for a further three years. David Flacks was appointed as Deputy Chairman.

Governance Review
A governance review is undertaken at least annually, to ensure effectiveness of governance structures.

Statement of responsibility for the year ended 30 June 2018

In terms of the Crown Entities Act 2004, the Board and management of NZVIF is responsible for the preparation of the annual financial statements and statement of service performance, and the judgements used in them.

The Board and management of NZVIF accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

In the opinion of the management and Board of NZVIF the annual financial statements and statement of service performance for the year ended 30 June 2018 fairly reflect the financial position and operations as at 30 June 2018 of the NZVIF Group.

Murray Gribben
Chairman, 23 October 2018

David Flacks
Deputy Chairman, 23 October 2018

Richard Dellabarca
Chief Executive, 23 October 2018

Independent Auditor's Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of New Zealand Venture Investment Fund Limited Group's financial statements and performance information for the year ended 30 June 2018.

The Auditor-General is the auditor of New Zealand Venture Investment Fund Limited Group (the Group). The Auditor-General has appointed me, David Walker, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information, including the performance information for appropriations, of the Group on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 21 to 43, that comprise the statement of financial position as at 30 June 2018, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information of the Group on pages 10 to 12 and 17 to 20.

In our opinion:

- the financial statements of the Group on pages 21 to 43:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2018; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards Reduced Disclosure Regime; and
- the performance information on pages 10 to 12 and 17 to 20:
  - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2018, including:
    - for each class of reportable outputs:
      - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
      - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
    - what has been achieved with the appropriations; and
    - the actual expenses or capital expenditure incurred compared with the appropriated forecast expenses or capital expenditure; and
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 23 October 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to the uncertainties in the carrying value of unlisted venture capital investments. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Uncertainties in the carrying value of unlisted venture capital investments

Without modifying our opinion, we draw your attention to notes 14, 15 and 21(c) of the financial statements that explain how the fair value of venture capital investments has been determined and the uncertainties in measuring that fair value. Although the fair value of unlisted venture capital investments is based on the best information available, there is a high degree of uncertainty about that value due to the early-stage nature of the investments and the absence of quoted market prices. This uncertainty could have a material effect on the Group's statement of comprehensive revenue and expense and statement of financial position.

We consider the disclosures about the above uncertainties to be adequate.

Basis of our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the Group for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Group, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Group's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 10 and 44 to 48, but does not include the financial statements and the performance information, and our auditor's report thereon. Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with or interests in the Group.

David Walker
Audit New Zealand
On behalf of the Auditor-General
Auckland, New Zealand

Statement of service performance for the year ended 30 June 2018

NZVIF has two separate investment appropriations:

1. The Venture Investment Fund (VIF) which has a $125.5 million capital appropriation. The purpose of the VIF capital appropriation is to invest with privately managed venture capital funds to catalyse the New Zealand venture capital market; and
2. The Seed Co-investment Fund (SCIF) which has a $46.8 capital million appropriation. The purpose of the SCIF capital appropriation is to invest in seed and start-up technology companies alongside qualified angel investors to assist more young technology companies to market.

In addition to the capital appropriations, NZVIF can reinvest proceeds received from exits into new investments.

	Total capital appropriation	Capital appropriation 2017/18	Actual drawn from Crown 2017/18	Reason for variance
VIF - This category is intended to achieve the provision of funds to be co-invested with the private sector to address the capital market gap by providing new risk capital to emerging high growth New Zealand companies.	$125.5m	$10.453m	$10.453m	In line with expectation. During 2017/18 NZVIF drew $10.45 million of capital from the Crown. VIF has now fully drawn its capital appropriation
SCIF - This appropriation is intended to achieve an increase in companies undertaking market development and business capability development activities, and the co-funding of feasibility studies of investment cases required for growth in new markets that delivers benefits for the companies and the New Zealand economy.	$46.768m	$0	$0	In line with expectation. SCIF has fully drawn all allocated capital appropriation.

NZVIF's agreement with the Minister for Economic Development contains one output 'Investment Fund Management – Governance and Operation'. NZVIF received $2.33m in Crown funding to undertake operations in relation to investments and undertook four Outputs as detailed:

OUTPUT ONE: ATTRACT CAPITAL - CATALYSE NEW SOURCES OF INVESTMENT CAPITAL

- We will implement mandate changes and develop new investment products that will attract additional investment to existing and new funds and partnerships.

Quantity Measures	Actual 14/15	Actual 15/16	Actual 16/17	Actual 17/18	Forecast 17/18	Comment
NZVIF mandate changes implemented	0	1	4	6	6	**Target met.** The SCIF mandate was agreed before year end but was formally approved in July 2017, the key changes are: • Raising the investment cap in companies to $1.5 million • Removed the $250,000 funding round limit. • Removed the $440,000 average investment limit across the portfolio • Removed the cap on how much can be invested alongside each angel group. • Allowing it to be a more active investor, such as determining whether to invest alongside its angel network partner in follow-on investments. • Enabling NZVIF to co-invest with qualified investors, who are not current angel network partners.
Investment products developed - Angel and VC	0	0	0	0	1	**Target not met.** Work on developing a new investment product for the SCIF programme continues.

Quality Measure

Venture Capital funds and angel partnerships successful in attracting capital from new sources.

NZVIF has demonstrated that it has been successful in attracting capital from new sources through:

- The revised mandate has allowed NZVIF to partner with non-angel network investors, NZVIF has made 10 investments with qualified investors who are not existing angel partners. These companies have collectively raised $15.2 million in funding.

OUTPUT TWO: ESTABLISH PARTNERSHIPS – SELECT, CONTRACT AND DEVELOP INVESTMENT GRADE FUND MANAGERS AND INVESTMENT PARTNERS

- We will perform a robust selection methodology and due diligence process, implement best practice investment documentation, play an active role in investor governance and select credible lead investors to represent us.

Quantity Measures	Actual 14/15	Actual 15/16	Actual 16/17	Actual 17/18	Forecast 17/18	Comment
Number of due diligence completed – Angel and VC	2	6	3	0	4	**Target not met.** Following the changes to the SCIF mandate, NZVIF is no longer required to establish new angel partnerships to co-invest. NZVIF is not forecasting the investing into any new funds, until the completion of the strategic review of the Venture Capital Fund. Accordingly, NZVIF has not undertaken any due diligence process on potential angel or VC partners.
New venture capital funds contracted	1	1	1	0	1	**Target not met.** NZVIF is not forecasting investing into any new funds, until the completion of the strategic review of the Venture Capital Fund.
New angel partnerships established	1	1	3	0	2	**Target not met.** The SCIF partnership model has changed following the mandate change in July 2017. NZVIF no longer required to establish new angel partnerships to co-invest into companies.

Quality Measure

The NZVIF partnership model has changed following the revision of the SCIF mandate and the strategic review of the Venture Capital Fund therefore the above mentioned metrics were no longer applicable, however they were not amended mid-term to reflect review outcomes. NZVIF has developed a new set of Output measures for the 2018/2019 year to reflect the new investment model.

OUTPUT THREE: WORK WITH INDUSTRY STAKEHOLDERS - TO DEVELOP THE MARKET AND IMPROVE INVESTMENT CONDITIONS

- We will support industry professional development programmes and one-off initiatives that will assist in building industry standards and professionalism.
- We will advise Government on policy changes to improve the investment environment.

Quantity Measures	Actual 14/15	Actual 15/16	Actual 16/17	Actual 17/18	Forecast 17/18	Comment
Industry development initiatives undertaken in conjunction with New Zealand Private Equity and Venture Capital Association (NZVCA) and Angel Association New Zealand (AANZ).	2	8	4	5	2	**Target met.** NZVIF provided support to the industry by: • Sponsoring and supporting the AANZ, including presenting at the annual conference. • Sponsoring and supporting the Hi-tech Awards. • Supporting the launch of the NZ Agritech Association. • Supporting the industry Start-up publication • Assisting the development of the Callaghan Capital Education Programme.
Advice provided to Government to assist market development.	1	1	1	3	1	**Target met.** NZVIF has provided multiple pieces of advice to the Government on the early-stage capital markets and the funding gap for companies seeking to raise Series A/B capital.

Quality Measure

Best practice initiatives accepted and adopted by the industry; dissemination of angel investing best practice to NZVIF investment partnerships.

NZVIF has achieved this measure as demonstrated by delivering initiatives that were supported by the industry including:

- Assisting with the development of the content and co-ordination of the Annual AANZ conference with the NZVIF CEO presenting at the conference.
- Collation and presentation of the Start-up publications reporting on annual angel investment activity across New Zealand, in conjunction with Pricewaterhouse Coopers and AANZ.
- NZVIF has provided tools and resource to assist with the development of the Callaghan Capital Education Programme which delivers information for young companies on how to raise capital via a series of workshops.
- NZVIF has presented at several workshops and events around the country, in connection with the AANZ, Agritech NZ, Callaghan and NZTE.

Providing advice to Government on early-stage capital markets.

NZVIF has achieved this measure by providing feedback to the Government on specific policy initiatives that impact the early-stage capital markets including:

- Providing empirical evidence of the "capital gap" for NZ early-stage companies that are seeking to raise Series A capital to expand offshore.
- Providing advice on how the Green Fund could support investment into early-stage cleantech companies.
- Providing advice on how the Regional Investment Fund could support investment into early-stage companies.

OUTPUT FOUR: MAKE AND MANAGE INVESTMENTS - CO-INVEST INTO ELIGIBLE INDUSTRIES AND STAGES

- We will make portfolio investments in line with our mandate.
- We will manage investments to optimise portfolio returns.

Quantity Measures	Actual 14/15	Actual 15/16	Actual 16/17	Actual 17/18	Forecast 17/18	Comment
Number of new companies receiving investment	20	26	28	29	29	**Target met.** NZVIF made investments into 29 (Seed: 25, VC: 4) new companies.
Total number of investments in companies	78	73	60	59	50	**Target met.** NZVIF has made investments into 59 (Seed: 49, VC: 10) different (new and existing) companies during the year.

Quality Measures

Over 90% of the NZVIF investment portfolio (by number) in seed, start-up and early expansion stage investments.

NZVIF has achieved this measure as demonstrated by:

- More than 90% of investments in the NZVIF portfolio are in seed, start-up and early expansion stage.

100% of investment transactions will meet NZVIF eligibility criteria.

NZVIF has achieved this measure as demonstrated by:

- All investments are consistent with NZVIF mandate requirements.

EXTENSION OF STATEMENT OF INTENT

- In April 2018, The Shareholding Minister agreed to provide NZVIF with a six month extension to develop a new Statement of Intent for the years 2018-2023.

Financials

Statement of comprehensive revenue and expense

For the year ended 30 June 2018

	Note	2018 Actual	Group 2018 Budget	2017 Actual
Revenue	2	2,950,184	2,463,747	3,128,939
Operating activites				
Administration expenses	3	(2,503,372)	(2,427,438)	(2,777,828)
Realised gain/(loss) on sale of fixed assets	3	(41,781)	-	(1,332)
Net operating activities		(2,545,153)	(2,427,438)	(2,779,160)
Investing activities				
Extraordinary expenses		(317,146)	-	-
Fund management fees and costs paid to VC fund managers	3	(1,243,851)	(1,480,224)	(2,262,825)
Net gain/(loss) in the value of investments	3	2,699,891	(100,000)	(10,880,079)
Net gain/(loss) on foreign currency	3	(73,726)	13,003	(11,162)
Net investing activities		1,065,168	(1,567,221)	(13,154,066)
Net operating and investing activities	3	(1,479,985)	(3,994,659)	(15,933,226)
Surplus/(deficit) before taxation		1,470,199	(1,530,912)	(12,804,286)
Income tax expense		-	-	-
Total comprehensive revenue/(expense)	5	$1,470,199	($1,530,912)	($12,804,286)

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity

For the year ended 30 June 2018

	Note	2018 Actual	Group 2018 Budget	2017 Actual
Equity/(Shareholders' deficit) at the beginning of the year		151,786,207	165,529,399	159,701,493
Surplus/(deficit) before taxation		1,470,199	(1,530,912)	(12,804,286)
Increase in share capital	8	10,453,000	-	4,889,000
Equity/(Shareholders' deficit) at the end of the year	8	$163,709,406	$163,998,487	$151,786,207

The accompanying notes form an integral part of these financial statements.

Statement of financial position

As at 30 June 2018

	Note	2018 Actual	Group 2018 Budget	2017 Actual
Equity	8			
Share capital		172,219,801	144,264,842	161,766,801
Retained earnings/(Accumulated deficit)		(8,510,395)	19,733,645	(9,980,594)
Total equity		$163,709,406	$163,998,487	$151,786,207
Represented by:				
Current assets				
Cash and cash equivalents	9	62,498,556	39,009,675	21,708,744
Trade and other receivables	10	162,507	35,138	120,196
		62,661,063	39,044,813	21,828,940
Non-current assets				
Property, plant and equipment	11	35,931	81,309	74,805
Intangible assets	12	16,141	60,000	28,416
Investments through NZVIF Venture Capital Fund	14	37,572,928	58,256,180	68,445,936
Investments through NZVIF Seed Co-investment Fund	15	63,874,321	66,747,664	61,723,714
		101,499,321	125,145,153	130,272,871
Total assets		164,160,384	164,189,966	152,101,811
Current liabilities				
Trade and other payables	17	177,144	110,119	196,630
Employee entitlements	19	273,834	81,360	118,974
Total liabilities		450,978	191,479	315,604
Net assets		$163,709,406	$163,998,487	$151,786,207

For and on behalf of the Board who authorised the accounts for issue on:

MURRAY GRIBBEN
CHAIR — 23 OCTOBER 2018

DAVID FLACKS
DEPUTY CHAIR — 23 OCTOBER 2018

The accompanying notes form an integral part of these financial statements.

Statement of cash flows

For the year ended 30 June 2018

	2018 Actual	Group 2018 Budget	2017 Actual
Cash flows from operating activities Cash was provided from:			
Revenue from the Crown	2,330,000	2,330,000	2,800,000
Interest	568,546	133,747	255,800
Other income	13,500	-	18,000
Income tax refunded	-	-	6,368
	2,912,046	2,463,747	3,080,168
Cash was applied to:			
Payments to suppliers	(2,410,084)	(2,489,789)	(3,384,388)
Payments to employees	(1,463,034)	(1,369,764)	(1,521,847)
Net goods and services tax	(23,502)	-	(9,602)
	(3,896,620)	(3,859,553)	(4,915,838)
Net cash flows from operating activities	(984,574)	(1,395,806)	(1,835,670)
Cash flows from investing activities Cash was provided from:			
Sale of property, plant and equipment and intangible assets	3,182	-	-
Sale of investments through NZVIF Venture Capital Funds	42,289,707	27,000,000	19,299,821
Sale of investments through NZVIF Seed Co-investment Funds	199,841	-	3,253,276
Revaluation of foreign currency	(73,726)	-	(11,162)
	42,419,004	27,000,000	22,541,935
Cash was applied to:			
Purchase of property, plant and equipment and intangible assets	(30,363)	(68,000)	(16,266)
Purchase of investments through NZVIF Venture Capital Funds	(3,672,281)	(2,840,000)	(4,538,902)
Purchase of investments through NZVIF Seed Co-investment Fund	(7,394,975)	-	(5,056,523)
	(11,097,619)	(2,908,000)	(9,611,691)
Net cash flows from investing activities	31,321,386	24,092,000	12,930,245
Cash flows from financing activities Cash was provided from:			
Increase in share capital	10,453,000	-	4,889,000
Net cash flows from financing activities	10,453,000	-	4,889,000
Net increase/(decrease) in cash and cash equivalents	40,789,812	22,696,194	15,983,574
Cash and cash equivalents at the beginning of the year	21,708,744	16,313,481	5,725,170
Cash and cash equivalents at the end of the year	$62,498,556	$39,009,675	$21,708,744

The accompanying notes form an integral part of these financial statements.

Reconciliation of net surplus/(deficit) to net cash from operating activities

For the year ended 30 June 2018

	Group 2018 Actual	Group 2017 Actual
Total comprehensive income/(expenses) for the year	1,470,199	(12,804,286)
Add/(less) non-cash items:		
Depreciation and amortisation	36,548	58,126
Loss on sale of property, plant and equipment	41,781	1,332
Total non-cash items	78,329	59,458
Add/(less) movements in working capital items:		
Receivables and prepayments	(4,170)	32,871
Other current assets	-	6,368
Payables and accruals	158,874	43,372
Other current liabilities	(23,502)	(9,554)
Subvention receivable	(38,138)	(55,139)
Net movement in working capital items	93,064	17,918
Add/(less) items classified as investing activity:		
Net gain in value of investments and currency	(2,626,166)	10,891,241
Net cash flows from operating activities	($984,574)	($1,835,670)

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

For the year ended 30 June 2018

1. Summary of significant accounting policies

Reporting entity

NZVIF Limited (NZVIF) is a Crown entity as defined by the Crown Entities Act 2004 and is domiciled and operates in New Zealand. The relevant legislation governing NZVIF's operations includes the Crown Entities Act 2004. NZVIF's ultimate parent is the New Zealand Crown.

NZVIF and its subsidiary are companies incorporated in New Zealand under the Companies Act 1993.

The Parent company - NZVIF - and its subsidiary are referred to throughout these financial statements as NZVIF.

The primary objective of NZVIF is the development of a vibrant early-stage capital market, both formal (venture capital) and informal (angel). NZVIF has designated itself as a Public Benefit Entity (PBE) for financial reporting purposes.

The registered office for NZVIF is Level 1, 12 Madden Street, Wynyard Quarter, Auckland .

The financial statements of the group are for the year ended 30 June 2018, and were approved by the Board on 23 October 2018. The entity's owners do not have the power to amend these financial statements once issued.

Basis of preparation

Statement of compliance
The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the Crown Entities Act 2004 and other applicable Financial Reporting Standards as appropriate for public benefit entities.

The financial statements have been prepared in accordance with the requirements of the PBE accounting standards and in accordance with Tier 2 PBE accounting standards.

Measurement base
These financial statements have been prepared on an historical cost basis, except where modified by the measurement of financial assets at fair value.

Presentation currency
These financial statements are presented in New Zealand dollars ($).

Changes in accounting policies

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted.
Standards, amendments and interpretations issued but not yet effective that have not been early adopted, and which are relevant to NZVIF include:

PBE IFRS 9 is effective for periods beginning on or after 1 January 2021 with early adoption permitted. NZVIF will initially apply the standard for the year ending June 2019. The main changes introduced by PBE IFRS 9 are to financial assets and include:

- new classification and measurement requirements which classify financial assets based on the business model for managing them and their cash flow characteristics;
- a new expected loss impairment model which considers either to 12 month expected losses, or lifetime expected losses if a significant increase in credit risk has been identified; and
- broader scope for the application of hedge accounting with effectiveness testing replaced with a broader principle of the economic relationship between the hedging items and instruments.

The impact of PBE IFRS 9 on NZVIF's financial statements will not be material.

Significant accounting policies

Significant accounting policies are included in the notes to which they relate. Significant accounting policies that do not relate to a specific note are outlined below.

The following specific accounting policies, which materially affect the measurement of comprehensive income, financial position and cash flows, have been applied consistently to all periods presented in these financial statements.

(a) Budget figures
The budget figures are those approved by the Board in the Statement of Performance Expectations prior to the beginning of the financial year and have been prepared in accordance with generally accepted accounting principles and are consistent with the accounting policies adopted by the Board for the preparation of the financial statements.

The budget figures for equity investments through NZVIF Venture Investment Fund (VIF) and Seed co-investment Fund (SCIF) are included in the parent's budget for the year ended 30 June 2018 and are based on the mid point of the forecast range contained in the NZVIF Statement of Performance Expectations 2017/2018.

(b) Basis of consolidation

As at 30 June 2018, NZVIF holds one investment subsidiary - NZVIF Investments Limited. This investment subsidiary is an entity in which the company has the capacity to determine the financing and operating policies and from which it has an entitlement to significant ownership benefits.

The consolidated financial statements (group financial statements) include the parent company and its investment subsidiary accounted for using the purchase method. All significant intercompany transactions are eliminated on consolidation.

(c) Goods and services tax

The financial statements have been prepared on a GST exclusive basis except for receivables and payables.

(d) Taxation

Income tax expense comprises both current tax and deferred tax, and is calculated using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax is charged or credited to the Statement of Comprehensive Revenue and Expense, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks both domestic and international, other short-term, highly liquid investments, with original maturities of nine months or less.

(f) Impairment of non-financial assets

Assets with a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

(g) Leased assets

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are recognised in the Statement of Comprehensive Revenue and Expense in equal instalments over the term of the lease.

(h) Foreign currencies

Transactions denominated in a foreign currency are converted at the functional currency exchange rate at the date of the transaction.

Transactions in foreign currency that are not settled in the accounting period, resulting in monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on their translation are recognised in the Statement of Comprehensive Revenue and Expense.

(i) Statement of Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

- Cash is considered to be cash and cash equivalents net of bank overdrafts.
- Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment and investments. Investments can include securities not falling within the definition of cash.
- Financing activities are those activities that result in changes in the size and composition of the capital structure of NZVIF. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- Operating activities include all transactions and other events that are not investing or financing activities.

(j) Critical accounting estimates and assumptions

In preparing these financial statements NZVIF has made estimates and assumptions concerning the future. Assumptions on investments are disclosed in Note 16 - Related Parties and Note 21 - Market Price Risk. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(k) Segment information

A business segment is a group of assets or operations engaged in providing products or services that are subject to risks and rewards that are different from those of other business segments. A geographic segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of a segment operating in other economic environments. NZVIF operates predominantly in the venture capital investment industry. All operations of the Company are carried out in New Zealand.

2. Revenue

Revenue is recognised as follows:

Revenue from the Crown - non-exchange revenue
Revenue is recognised to the extent that the economic benefits will flow to NZVIF and the revenue can be reliably measured. Revenue shown in the Statement of Comprehensive Revenue and Expense comprises the amounts received and receivable by NZVIF for services supplied to the Crown.

Interest revenue - exchange revenue
Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial assets.

Dividend revenue - exchange revenue
Dividend income is recognised when the right to receive payment is established.

Other revenue - exchange revenue
Other income includes fund income and is recognised when the right to receive payment is established.

	Group 2018	Group 2017
Non-exchange revenue		
Revenue from the Crown	2,330,000	2,800,000
Total non-exchange revenue	$2,330,000	$2,800,000
Exchange revenue		
Interest	568,546	255,800
Other	51,638	73,139
Total exchange revenue	$620,184	$328,939
Total revenue	$2,950,184	$3,128,939

NZVIF has been provided with funding from the Crown for services supplied to the Crown. Apart from the general restrictions, set out in its funding agreement, there are no unfulfilled conditions or contingencies attached to Government funding (2017: Nil).

3. Operating and investing activities

	Group 2018	Group 2017
Amortisation (Note 12)	(17,150)	(38,628)
Audit fees - fees to Audit New Zealand for audit of financial statements	(94,931)	(92,710)
Depreciation (Note 11)	(19,398)	(19,497)
Directors' fees (Note 24)	(141,144)	(164,030)
Employee costs (Note 18)	(1,463,034)	(1,521,847)
Extraordinary expenses (Note 4)	(317,146)	-
Fund management fees	(1,243,851)	(2,262,825)
Loss on currency	(73,726)	(11,162)
Loss on sale of fixed assets	(41,781)	(1,332)
Net gain/(loss) in the value of investments	2,699,891	(10,880,079)
Operating lease costs	(111,571)	(101,469)
Other administrative expenses	(656,144)	(839,645)
Net operating and investing activities	$(1,479,985)	$(15,933,225)

4. Extraordinary expenses

	Group 2018	Group 2017
Strategic review	290,121	-
Other extraordinary expenses	27,025	-
	$317,146	$ -

5. Income tax expense

	Group 2018	Group 2017
Net surplus/(deficit) before taxation	1,470,199	(12,804,286)
Prima facie income tax at 28%	411,656	(3,585,200)
Add/(less)		
Temporary and permanent differences	(757,565)	3,056,893
Tax loss not recognised	345,909	528,307
Income tax expense	$ -	$ -

6. Current tax

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years.

7. Deferred tax

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Unrecognised deferred tax assets and liabilities
Deferred tax assets have not been recognised in respect of the following items:

	Group 2018	Group 2017
Deductible temporary differences	181,403	187,099
Tax losses	23,083,862	21,891,569
Total	$23,265,265	$22,078,668

The deductible temporary differences and tax losses do not expire under current legislation, subject to Shareholder continuity provisions. A deferred tax asset has not been recognised in respect of these items as it is not probable that taxable profit will be available in the immediate future against which the losses can be applied.

8. Equity

	Group 2018	Group 2017
Share capital		
Balance at the beginning of the year	161,766,801	156,877,801
Issued capital	10,453,000	4,889,000
Ordinary share capital at end of year	172,219,801	161,766,801
Retained earnings/(Accumulated deficit)		
Balance at the beginning of the year	(9,980,594)	2,823,693
Revenue	2,950,184	3,128,939
Total operating revenue/(expense)	(2,545,153)	(2,779,160)
Net investing activities	1,065,168	(13,154,066)
Balance at end of year	(8,510,395)	(9,980,594)
Total equity	$163,709,406	$151,786,207

The company has a total of 172,219,801 (2017 : 161,766,801) fully paid ordinary shares on issue. All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up. During the year the Parent company received funds from the Crown, by way of equity subscriptions, to facilitate the Crown's objective of accelerating the development of the New Zealand venture capital industry.

The Share Capital of NZVIF increased in the following months:	2018	2017
July	-	-
August	-	-
September	-	1,655,000
October	-	-
November	-	-
December	-	-
January	10,453,000	-
February	-	3,234,000
March	-	-
April	-	-
May	-	-
June	-	-
Total	$10,453,000	$4,889,000

9. Cash and cash equivalents

	Group 2018	Group 2017
Operating cash and cash equivalents		
Cash at bank on call	317,886	304,042
Investing NZVIF Venture Capital Fund and Seed Co-investment Fund cash and cash equivalents		
Cash at bank on call	2,830,679	9,404,455
Term deposits	59,000,000	12,000,000
Other cash equivalents	349,991	247
Total	$62,498,556	$21,708,744

10. Trade and other receivables

Accounts receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Accounts receivables have not been defined as exchange and non-exchange due to their value.

Prepayments consist of management fees invoiced or paid, for the first quarter of the next year, and director's liability insurance paid in advance. Prepaid directors' liability insurance is expensed on a straight-line basis over the term of the insurance policy.

	Group 2018	Group 2017
Prepayments	50,867	64,870
Trade and other receivables	111,640	55,326
Total	$162,507	$120,196

Fair value
The carrying value of receivables approximates their fair value.

Impairment
Receivables and prepayments have been reviewed for impairment and none is required.

11. Property, plant and equipment

Owned assets
Items of property, plant and equipment are measured at cost less aggregate depreciation and impairment losses. Where material parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Additions
The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Group and the cost of the item can be measured reliably. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

Disposals
Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Comprehensive Revenue and Expense.

Subsequent costs
Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the company and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Comprehensive Revenue and Expense as an expense as incurred.

Depreciation
Depreciation is charged using the diminishing value method at the following rates:

Computer equipment	**33% - 60%**
Office equipment	**11.4% - 60%**
Leasehold improvements	**9.6% - 48%**

Movements for each class of property, plant and equipment are as follows:

	Computer Equipment	Office Equipment	Leasehold Improvements	Total
Cost				
Balance at 1 July 2016	80,157	44,324	152,628	277,108
Additions	10,404	2,833	-	13,237
Disposals	(61,197)	(10,925)	(2,110)	(74,232)
Balance at 30 June 2017	29,364	36,232	150,518	216,113
Balance at 1 July 2017	29,364	36,232	150,518	216,113
Additions	19,475	6,013	-	25,488
Disposals	(11,338)	(28,872)	(112,829)	(153,039)
Balance at 30 June 2018	37,501	13,373	37,689	88,562

11. Property, plant and equipment cont.....

	Computer Equipment	Office Equipment	Leasehold Improvements	Total
Accumulated depreciation and impairment losses				
Balance at 1 July 2016	74,825	30,166	89,112	194,103
Depreciation expense	4,517	6,216	8,764	19,497
Elimination on disposal	(60,460)	(9,853)	(1,979)	(72,292)
Balance at 30 June 2017	18,882	26,530	95,897	141,308
Balance at 1 July 2017	18,882	26,530	95,897	141,308
Depreciation expense	11,388	4,319	3,691	19,398
Elimination on disposal	(8,491)	(23,616)	(75,969)	(108,076)
Balance at 30 June 2018	21,779	7,233	23,619	52,630
Carrying amounts				
At 1 July 2016	5,332	14,157	63,516	83,005
At 30 June and 1 July 2017	10,482	9,702	54,621	74,805
Balance at 30 June 2018	$15,722	$6,140	$14,070	$35,931

12. Intangible assets

Software acquisition
Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software are recognised as an expense when incurred. Costs associated with the development and maintenance of the Company's website are recognised as an expense when incurred.

Software development
NZVIF capitalises the direct costs associated with the development of network and business software for internal use where project success is regarded as probable. Capitalised costs include external direct costs of materials and services consumed, payroll and direct payroll-related costs for employees (including contractors) directly associated with the project and interest costs incurred while developing the software. Software developed for internal use is depreciated over its useful life.

Amortisation
Computer software is amortised at a diminishing value rate of 60%. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the Statement of Comprehensive Revenue and Expense. Where estimated useful lives or recoverable values have diminished due to technological change or market conditions, amortisation is accelerated or the carrying value is impaired. Trademarks are depreciated at the rate of 10% or over the useful life of 10 years.

12. Intangible assets cont.....

	Group 2018	Group 2017
Acquired computer software		
Balance at 1 July 2017	246,047	242,411
Additions	4,875	3,636
Disposals	-	-
Balance at 30 June 2018	250,922	246,047
Less accumulated amortisation and impairment losses		
Balance at 1 July 2017	217,631	179,003
Amortisation expense	17,150	38,628
Elimination on disposal	-	-
Balance at 30 June 2018	234,781	217,631
Carrying amounts at year end	16,141	28,416
Trademark		
Balance at 1 July 2017	8,779	8,779
Additions	-	-
Balance at 30 June 2018	8,779	8,779
Less accumulated amortisation and impairment losses		
Balance at 1 July 2017	8,779	8,779
Amortisation expense	-	-
Balance at 30 June 2018	8,779	8,779
Carrying amounts at year end	-	-
Balance at 30 June 2018	$16,141	$28,416

13. Investments in subsidiaries

The Parent company's investment in the subsidiary comprises shares at cost.

Subsidiary	Principle activity	Interest held 2018	Interest held 2017
NZVIF Investments Limited	Investment through venture capital funds and start-up companies	100%	100%

The subsidiary has a 30 June balance date and is included in the consolidated financial statements.

14. Investments through NZVIF Venture Capital Funds

All NZVIF investments are early-stage investments at the time of the initial investment and the valuation of these investments is undertaken by NZVIF using accepted industry guidelines. The International Private Equity and Venture Capital Valuation Guidelines (IPEV) have been accepted as the industry standard valuation guidelines and are based on the principle of "fair value" and are reviewed following any relevant changes in accounting standards or market practices. The IPEV Guidelines provide a framework for private equity and venture capital investors to arrive at a fair value for their investments. The IPEV are of the view that compliance with required standards can be achieved by following the guidelines.

IPEV Guidelines recommend that for early-stage investments, where it is difficult to assess the future profitability of the company, fair value is generally determined by the price of the most recent investment. This methodology is appropriate until the circumstances of the company change such that an alternative valuation methodology (such as, but not limited to price/earnings analysis or discounted cash flow) is appropriate or there is evidence that the value of the investment should be adjusted. An adjustment is considered necessary where the performance of the investment is significantly below the expectations on which the investment was based, leading to a diminution in value. Where an investment has been fully impaired, NZVIF does not carry any risk or reward associated with that investment.

NZVIF co-invests, alongside private sector investors, in primarily early-stage venture capital investments and these investments represent equity owned directly by NZVIF subsidiary. These investments are made through venture capital funds (NZVIF Venture Capital Funds), which are managed by private sector venture capital fund managers (NZVIF Venture Capital Fund Managers), who make the investment decisions. NZVIF is not responsible for and does not exercise significant influence over these individual investment portfolio investments.

The fair value of NZVIF Venture Capital Fund investments as at 30 June 2018 has been determined by NZVIF in accordance with IPEV guidelines.

The IPEV recommends that investors in private equity and venture capital funds should use the fund managers reported valuation as an input in determining the fair value of their interest in the fund's investments. The IPEV also recommends that investors have the appropriate processes and controls in place to monitor the fund manager and assess the data received. The NZVIF Venture Capital Fund Managers are contractually required to report to NZVIF on an on-going basis and NZVIF monitors the performance and valuation of the portfolio. The reported fair value of the investment by each fund manager has been used as an input for the fair value assessment performed by NZVIF.

NZVIF has reviewed the process undertaken by the NZVIF Venture Capital Fund Managers when valuing NZVIF investments and are satisfied that the valuation process complies with the fund managers' contractual requirements.

NZVIF has made a number of investments through NZVIF Venture Capital Funds. These investments are as follows:

Investment	Carrying value 2018	Interest held 2018	Carrying value 2017	Interest held 2017
Investments through NZVIF Venture Capital Funds in listed and unlisted companies	43,750,376	2.5% - 40%	74,605,401	12.5% - 50%
Accumulated revaluations and impairments	(6,177,448)		(6,159,465)	
	$37,572,928		$68,445,936	

All investments through NZVIF Venture Capital Funds have been valued by NZVIF, using managers reported valuations as an input.

The value of investments is the value of NZVIF Venture Capital Funds at balance date calculated in accordance with NZVIF's valuation policy. Historically, contracts entered into by NZVIF include a buyout option which can be exercised in the first five years of the funds life by other investors in those funds. If the buyout option for any NZVIF Venture Capital Fund is "in the money" at balance date, NZVIF adjusts the value of its investments by the value of the buyout option. If the value of NZVIF's investments are greater than the buyout option price then the impact of the buyout option (if exercised) is a cost to NZVIF. The buyout option for PCPII was partially exercised during the 2018 year, NZVIF sold 80% of it's interest in the fund. The Valar Ventures Fund was exercised during the 2017 year. There are no further buyout options in place.

15. Investments through the Seed Co-investment Fund

All NZVIF investments are early-stage investments at the time of the initial investment and the valuation of these investments is undertaken by NZVIF using accepted industry guidelines . The International Private Equity and Venture Capital Valuation Guidelines (IPEV) have been accepted as the industry standard valuation guidelines and are based on the principle of "fair value" and are reviewed following any relevant changes in accounting standards or market practices. The IPEV Guidelines provide a framework for private equity and venture capital investors to arrive at a fair value for their investments. The IPEV are of the view that compliance with required standards can be achieved by following the guidelines.

IPEV Guidelines recommend that for early-stage investments, where it is difficult to assess the future profitability of the company, fair value is generally determined by the price of the most recent investment. This methodology is appropriate until the circumstances of the company change such that an alternative valuation methodology (such as, but not limited to price/earnings analysis or discounted cash flow) is appropriate or there is evidence that the value of the investment should be adjusted. An adjustment is considered necessary where the performance of the investment is significantly below the expectations on which the investment was based, leading to a diminution in value. Where an investment has been fully impaired, NZVIF does not carry any risk or reward associated with that investment.

NZVIF co-invests, alongside private sector investors, in seed and start-up stage investments and these investments represent equity owned directly through a 100% owned NZVIF subsidiary. NZVIF is a passive investor and does not take a seat on investee company boards; these roles are undertaken by NZVIF's co-investment partners. However NZVIF reserves certain shareholder rights and may make subsequent investment decisions in certain circumstances.

PBE standards make specific reference to investments held by venture capital organisations and that all investments must be recognised at fair value, except for those where control exists. Under PBE IPSAS 29 (AG 14), an investment by a venture capital organisation is considered to be a financial instrument. The appropriate standard dealing with investment in associates is not applicable and the financial instruments standard applies.

NZVIF has made a number of investments through the NZVIF Seed Co-investment Fund. These investments are as follows:

Investment	Carrying value 2018	Interest held 2018	Carrying value 2017	Interest held 2017
Investments through the NZVIF Seed Co-investment Fund in unlisted companies	54,480,037	0% - 33%	47,256,217	0% - 33%
Accumulated revaluations and impairments	9,394,284		14,467,497	
	$63,874,321		$61,723,714	

The NZVIF Seed Co-investment Fund has invested into 199 (2017 : 171) companies. As at 30 June 2018, 33 (2017:31) of these companies have been fully impaired.

16. Related parties

NZVIF accounts for related party loans at their cost less impairment, with impairment based on the underlying value of the subsidiary's venture capital investments, which will have been purchased through the loan funding. This treatment is permitted following the assessment that the loans are outside the scope of PBE IPSAS 29 Financial Instruments: Recognition and Measurement. The accounting treatment for the loans is in accordance with the cost method of an investment in a subsidiary under PBE IPSAS 6 Consolidated and Separate Financial Statements, which gives an entity the option of accounting for an investment in a subsidiary either at cost (less impairment) or under PBE IPSAS 29. Furthermore the terms of the loans are no interest with limited recourse of repayment. Accordingly the loans have characteristics similar to an equity instrument.
A further consideration in carrying related party loans at cost (less impairment) is that their fair value cannot be reliably determined at initial recognition due to difficulties in forecasting the obligations to repay the loans and the timing of such repayments.

Related party loans and transactions with the subsidiary are eliminated on consolidation.

Advances made by the Parent to the subsidiary are by way of limited recourse loans. Such advances fund the subsidiary' investment activities. Repayment of the advances is limited to amounts or assets received by way of a distribution from the NZVIF Venture Capital Fund investment or amounts received upon the realisation of the NZVIF Venture Capital Fund investment. Thus the ability of the subsidiary to repay the limited recourse loans may be reduced if there is impairment in the value of the investments held by the NZVIF Venture Capital Funds.

Advances made by the Parent are unsecured and are not subject to interest.

The Parent company is a wholly owned entity of the Crown. The Crown provides revenue to meet the fund management and market development operating costs of NZVIF. The Crown also subscribes for equity in the Parent company, which the Parent company advances to its subsidiary investment company in the form of limited recourse loans. The funds received from the Crown for these loans are converted into additional share capital (refer Note 8).

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect NZVIF would have adopted in dealing with the party at arm's length in the same circumstances. Further, transactions with other government agencies are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

The NZVIF investment subsidiary charges NZVIF a management fee in relation to the NZVIF Venture Capital Funds. These management fees are eliminated on consolidation.

The NZVIF Parent and investment subsidiary hold a tax loss of $23,083,862 (Parent) and $23,083,862 (Group) for the year ended 30 June 2018 (2017:$21,891,569 and $21,891,569). These losses will be carried forward and offset against any future taxable income.

The Parent company has a subvention payment receivable from NZVIF Investments Limited of $38,138 (2017:$55,139). These transactions were eliminated on consolidation.

Details of key management personnel remuneration are disclosed in Note 25 to the financial statements.

There were no other related party transactions during the year.

17. Trade and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

	Group 2018	Group 2017
GST payable	10,010	33,513
Accrued expenses	114,603	114,987
Trade payables	52,531	48,130
	$177,144	$196,630

Payables and accruals are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value approximates their fair value.

18. Employee costs

	Group 2018	Group 2017
Salaries and wages	1,264,861	1,442,664
Employer contributions to defined contribution plans	43,313	41,362
Increase/(decrease) in employee entitlements (Note 19)	154,860	37,821
	$1,463,034	$1,521,847

19. Employee entitlements

Provision is made for annual leave entitlements estimated to be payable to employees on the basis of statutory and contractual requirements. The provision is equal to the present value of the estimated future cash outflows as a result of employee services provided at balance date.

	Group 2018	Group 2017
Accrued salaries and wages	187,362	24,585
Annual leave	86,472	94,389
Current	273,834	118,974
Non Current	-	-
	$273,834	$118,974

20. Financial instruments

Non-derivative financial instruments comprise investments in shares, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through surplus or deficit, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the company's contractual rights to the cash flows from the financial assets expire or if the company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Regular purchases and sales of financial assets are accounted for at trade date i.e. the date the company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the company's obligations specified in the contract expire or are discharged or cancelled.

NZVIF classifies its NZVIF Venture Capital Funds and Seed Co-investment Fund investments under the category "financial assets at fair value through surplus or deficit" - designated as such upon initial recognition. This is because PBE IPSAS 29 (AG 14(a)) indicates that investments held by venture capital organisations whose business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or from changes in their value, should be designated at fair value through profit and loss. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through surplusor deficit' category are included in the Statement of Comprehensive Revenue & Expense in the period in which they arise.

20a. Categories of financial instruments

The carrying amounts of financial assets and liabilities in each of the PBE IPSAS 29 categories are as follows:

Financial assets designated at fair value through surplus or deficit upon initial recognition	Group 2018	Group 2017
Investments through NZVIF Venture Capital Funds (Note 14)	37,572,928	68,445,936
Investments through NZVIF Seed Co-investment Fund (Note 15)	63,874,321	61,723,714
Total financial assets designated at fair value through surplus or deficit	$101,447,249	$130,169,649
Loans and receivables		
Cash and cash equivalents	62,498,556	21,708,744
Trade and other receivables (excl. prepayments)	111,640	55,326
Related party loans	-	-
Total loans and receivables	$62,610,196	$21,764,070
Financial liabilities measured at amortised cost		
Trade and other payables	$167,133	$163,118

20b. Fair value hierarchy disclosures

For those instruments recognised at fair value through surplus or deficit, fair values are determined according to the following hierarchy:

1. Quoted market price - financial instruments with quoted prices for identical instruments in active markets.
2. Valuation technique using observable inputs - financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
3. Valuation technique with significant non-observable inputs - financial instruments valued using models where one or more significant inputs are not observable.

The balances for the Parent accounts for instruments recognised at fair value are nil so are not disclosed in the tables below.

		Valuation technique		
Group	Total	Quoted market price	Observable inputs	Significant non-observable inputs
2018				
Financial assets designated at fair value through surplus or deficit upon initial recognition				
Investments through NZVIF Venture Capital Funds	37,572,928	8,133,935	1,445,576	27,993,417
Investments through NZVIF Seed Co-investment Fund	63,874,321	874,534	-	62,999,788
Total	$101,447,249	$9,008,469	$1,445,576	$90,993,205
2017				
Financial assets designated at fair value through surplus or deficit upon initial recognition				
Investments through NZVIF Venture Capital Funds	68,445,936	8,113,908	6,731,100	53,600,928
Investments through NZVIF Seed Co-investment Fund	61,723,714	-	-	61,723,714
Total	$130,169,650	$8,113,908	$6,731,100	$115,324,641

20c. Reconciliation of the fair value hierarchy for significant non-observable inputs

	2018	2017
Beginning balance	115,324,692	103,570,911
Net gain/(loss) in the value of investments	2,699,891	(10,880,079)
Purchase of investments	11,067,256	9,595,425
Proceeds received from sale of investments	(42,489,548)	(22,553,097)
Transfer from/(to) quoted market price	(20,027)	24,301,629
Transfer from/(to) observable inputs	5,285,525	11,289,904
Ending balance	$91,867,789	$115,324,692

The valuation of companies will move between significant non-observable inputs to observable inputs when the valuation can be based on significant observable inputs. Changing a valuation assumption to a reasonably possible alternative assumption would not significantly change the fair value.

21. Financial risk management

21a. Strategy in using financial instruments

NZVIF's activities expose it to a variety of financial instrument risks: credit risk, market risk (including market price risk, currency risk and interest rate risk) and liquidity risk. NZVIF has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

21b. Credit risk

NZVIF takes on exposure to credit risk, which is the risk that a third party will default on its obligation to the company, causing NZVIF to incur a loss. NZVIF's maximum credit exposure for each class of financial instrument is represented by the carrying amount. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

Maximum exposure to credit risk	Group 2018	Group 2017
Cash and cash equivalents	62,498,556	21,708,744
Trade and other receivables	111,640	55,326
Related party loans	-	-
Total	$62,610,196	$21,764,070

There are no significant concentrations of credit risk as NZVIF only invest funds with registered banks which have a high Standard and Poor's credit rating. Advances made by NZVIF to subsidiary companies are represented as related party loans (Note 16). For those assets that are not past due it is believed that the risk of default is small and the capital repayments will be made in accordance with the agreed terms and conditions.

Group	Not past due	Past due less than 1 year	Past due more than 1 year
2018			
Cash and cash equivalents	62,498,556	-	-
Trade and other receivables	111,640	-	-
Related party loans	-	-	-
Total	$62,610,196	-	-
2017			
Cash and cash equivalents	21,708,744	-	-
Trade and other receivables	55,326	-	-
Related party loans	-	-	-
Total	$21,764,070	-	-

NZVIF did not have any credit facilities at balance date.

21c. Market risk

Market risk is the combined underlying risk of any investment by NZVIF including market price risk, currency risk and interest rate risk.

Prior to committing to an investment, the Board had the opportunity to consider each of the market risks while they reviewed detailed submissions from the fund manager. Each manager submission is based on extensive due diligence with regard to, but not limited to:

- Management and investment team skills, experience and qualifications;
- Investment structure, conditions of application (including required commitment level) and fees;
- Past performance and outlook for current investments;
- Alignment of personal interest with investors.

Over the life of the investments, market risk is also considered and mitigated as outlined below.

Market price risk

NZVIF invests, either directly or through venture capital funds into unlisted early-stage companies. Unlisted investments are generally not publicly traded. As there may be no open market to establish an independent value for certain unlisted investments, there can be no assurance that a determination of fair value for an unlisted investment will be obtainable in the market, or that there will be a market for the unlisted investment.

Note 14 Investments through Venture Capital Funds explains how NZVIF determines the fair value of its venture capital fund investments. Note 15 Investments through Seed Co-investment Fund explains how NZVIF determines the fair value of its seed fund investments.

Due to the early-stage nature of these investments, significant judgement must be exercised in determining the fair value of unlisted investments totalling $93,313,315 (2017: $122,055,751).

While the Board is of the view that the fair values of the unlisted investments in these financial statements represent the best available information, uncertainty exists over the fair value of the investments in the absence of an active market to determine fair value. Further information is provided below about the uncertainties and judgements in determining fair value.

NZVIF's exposure to venture capital and seed investments is material, but the risks of market price movements have less direct relevance due to the factors outlined below.

The Board considers and manages the market price risk relating to unlisted venture capital investments taking into account the following factors:

- The portfolio of underlying investments is extremely well diversified. NZVIF's investment consists of one investment (2017:1) subsidiary which has exposure to some 273 (2017:239) individual underlying opportunities located in many different industry sectors. Any single underlying exposure does not generally put a material amount of NZVIF's capital at risk.
- As at 30 June 2018 the largest investment in the portfolio makes up 8% (2017:6%) of the total net investments of NZVIF.
- Due to the long term nature of these investments, and the fact that there are no open market values, the Board places more importance on the real progress of the underlying entities as forming the basis of short-term value.
- The valuations of each investment are based on the current value of the underlying companies which they hold. The fund managers' do not intend to sell these underlying companies until their potential has been realised and/ or utilised. Historically, at any point in time, the values at which they are held by the fund manager and hence NZVIF, are generally lower than the eventual sale values.

The major risks to NZVIF are more indirect in relation to the investments in so far as a prolonged drop in market values may lead to increased impairment allowances and lower surplus/ (deficit) in the short-term. Risks may also include an underlying investment not being able to reach its full potential in a timely manner or at all, which would cause a delay or a decrease in the expected cash flows. The likelihood of such an event is considered periodically by NZVIF and the findings are reviewed by the Board. Consideration procedures include, but are not limited to, the review of regular reports from the managers, direct correspondence with the manager, and information provided in quarterly reports which explain any movement in valuation of the investments. In the event that such an event becomes likely, the investment will be considered to be impaired which will have an effect on the surplus/(deficit) of NZVIF.

Currency risk

NZVIF records the transactions using the exchange rate applicable at the date of the invoice and recognises an exchange gain or loss at the time of payment. As there are a small number of transactions denominated in foreign currencies, NZVIF does not take out any forward cover.

NZVIF has exposure to foreign exchange risk as a result of investments in foreign currencies made through venture capital funds, which are managed by private sector venture capital fund managers. The investments are denominated in US dollars and UK pounds.

As at 30 June 2018, if the NZ dollar had weakened/ strengthened by 5% against the Australian dollar, the US dollar and the UK pound with all other variables held constant, the movement in the value of investments held at fair value would have been +/- $538,562 (2017:$1,038,038).

Interest rate risk

NZVIF is subject to cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates. NZVIF's exposure to interest rate risk is limited to its cash and cash equivalents which are held in short-term, floating interest rate accounts.

Sensitivity analysis

For financial instruments held at balance date, NZVIF has exposure to market risks on those financial instruments that give rise to an impact on the surplus/(deficit) and equity as detailed above.

NZVIF may be exposed to risks arising from the validity of the investment valuation. Where the price of the most recent investment method is used (as detailed in Notes 14 and 15) validity is eroded over time, since the price at which an investment was made reflects the effects of conditions that existed on the date that the transaction took place. In a dynamic environment, changes in market conditions, the passage of time and other factors will act to diminish the appropriateness of this methodology as a means of estimating value at subsequent dates. In stable market conditions with little change in the entity or external environment, the length of period for which this methodology is likely to be appropriate will be longer than during a period of rapid change.

NZVIF holds investments which are listed on the NZX, the ASX or the AIM (London Stock Exchange). If these investments were subject to an increase/decrease of 5% in these markets, the overall portfolio would be subject to a change of +/- $401,792 (2017:$460,862) as detailed in the following table.

21d. Liquidity risk

Liquidity risk is the risk that NZVIF will encounter difficulty raising liquid funds to meet commitments as they fall due. NZVIF has an agreement with the Crown under which NZVIF can call on capital to meet commitments. NZVIF does not make commitments in excess of the amount it can call from the Crown. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Due to the nature of NZVIF's operations, management aims at maintaining flexibility by keeping sufficient available funds to meet liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to NZVIF's reputation.

NZVIF's liquidity requirements include day to day running costs and expenditures such as the amounts payable to creditors and the amounts which NZVIF are committed to pay to fund managers which are paid on a "drawdown" basis.

Contractual maturity analysis of financial liabilities

The table below analyses NZVIF's financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

Group	Carrying amount	Contractual cash flows	Less than 1 year	More than 5 years
2018				
Trade and other payables	167,133	167,133	167,133	-
Total	$167,133	$167,133	$167,133	-
2017				
Trade and other payables	163,118	163,118	163,118	-
Total	$163,118	$163,118	$163,118	-

22. Commitments

Capital commitments

Estimated capital expenditure contracted for at balance date but not provided for:

	Group 2018	Group 2017
Firm commitment remaining – Venture Capital Fund	13,036,841	36,440,974
Firm commitment remaining – Seed Co-investment Fund	403,142	221,439
Conditional commitment	-	-
	$13,439,983	$36,662,413

These commitments reflect the capital commitment in respect of future investments in current venture capital investments held. Due to the inherent nature of this type of investment, the time frame of these commitments cannot be predicted because capital can be called by investment managers at any time, however it is unlikely that the NZVIF Group would be required to pay the entire outstanding commitment at one time. This is supported by historical trends.

Generally, drawdowns by a specific fund manager are substantially made over the five year period from the first commitment. Over the life of a fund, the NZVIF Group may receive distributions which it uses to fund future capital calls.

Conditional commitments are those investments subject to the fund manager raising matching private sector capital and successfully concluding investment arrangements and documentation with NZVIF and other investors.

Operating lease commitments

Lease commitments under non-cancellable operating leases:

	Group 2018	Group 2017
Less than 1 year	31,629	114,460
Later than 1 year but not later than 2 years	-	22,640
Later than 2 years but not later than 5 years	-	-
Total operating lease commitments	$31,629	$137,100

NZVIF leases one building which has a 90 day notice period and has a lease agreement which expires on 11 September 2018.

23. Employee remuneration

The number of employees who received remuneration and other benefits of $100,000 or more per annum, shown in $10,000 ranges.

	Group 2018	Group 2017
100,000 - 109,999	1	1
110,000 - 119,999	-	1
140,000 - 149,999	-	1
150,000 - 159,999	1	1
160,000 - 169,999	1	-
170,000 - 179,999	-	1
250,000 - 259,999	1	-
260,000 - 269,999	-	1
410,000 - 419,999	-	1
510,000 - 519,999	1	-

24. Directors' remuneration

Member	Group 2018	Group 2017
Murray Gribben	61,166	49,583
Anne Blackburn	38,229	32,864
Roger Bridge	30,583	27,292
Richard Hughes	30,583	27,000
David Flacks	30,583	27,292
	$191,144	$164,030

These fees cover attendance at six full Board meetings, one Board conference call, as well as additional duties undertaken by the Chairman and Deputy Chairman.

25. Key management personnel compensation

	Group 2018	Group 2017
Salaries and other short-term employee benefits	705,194	594,655
Post-employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
	$705,194	$594,655

Key management personnel include all Directors and the Chief Executive. The NZVIF senior leadership team consists of 4 FTE employees (2017 : 3) as well as 5 Directors (assessed as 5 FTE) (2017 : 5).

26. Contingent liabilities

There were no material contingent liabilities at balance date (2017: Nil).

27. Post balance date events

There were no material events subsequent to balance date.

28. Major budget variations

Explanations for significant variations from NZVIF's budgeted figures in the Statement of Performance Expectations are as follows:

Statement of comprehensive revenue and expense
Revenue
Revenue was higher than budgeted due to more interest earned than anticipated on cash held.

Statement of changes in equity
Surplus/deficit for the year
The net loss for the year in the Group accounts was greater than anticipated due to negative revaluation of investments held that was not anticipated.

Statement of financial position
Cash and cash equivalents
Greater than anticipated cash held at year end due to the timing of distributions received and investments made.

Investments through NZVIF Venture Capital and Seed Co-investment Funds
There was an decrease in the value of investments held by the VC Fund due to exiting from VC funds and a decrease in the Seed Co-investment Fund due to unbudgeted revaluations.

Payables and accruals
Payables and accruals are greater than budget due to the timing of payments and accrued expenses over the year end period.

Statement of cash flows
Cash flow from investing activity
More proceeds were received from sale of investments than expected due to VC fund buy-outs and distributions which were not anticipated for the year.

Shareholder information for the year ended 30 June 2018

Substantial security holders

The Crown is registered by the NZVIF Group as a substantial security holder owning 100% of the parent company.

Largest security holder	Shares held	Percentage
Crown	172,219,802	100%

Use of company information

Pursuant to section 145 of the Companies Act the Board recorded no notices from Directors requesting to use the company information received in their capacity as Directors that would not otherwise have been available to them.

Indemnification and insurance of Directors and Officers

In accordance with section 162 of the Companies Act 1993 and the constitution of the company, the company has given indemnities to, and has affected insurance for, Directors and executives of the company and its related companies which, except for specific matters which are expressly excluded, indemnify and insure Directors and executives against monetary losses because of actions undertaken by them during their duties. Specifically excluded are certain matters, such as the incurring of penalties and fines, which may be imposed for breaches of law.

Directors' interests as at 30 June 2018

The following are general disclosures of interest given by Directors of the company pursuant to section 140(2) of the Companies Act 1993 as at 30 June 2018.

Murray Gribben
Chair, Ruapehu Alpine Lifts Limited
CEO, Crown Irrigation Investments Limited
Advisory Trustee, National Army Museum
Investor, Maui Fund

Anne Blackburn*
Director, Development Auckland
Director, Warren and Mahoney Limited
Director, Fidelity Life
Director, TSB Bank Limited, TSB Group Capital Limited, TSB Group Investments Limited
Director, Fisher Funds Management
Director (pro bono), Committee for Auckland
Director, Wairaka Land Company
Member, Commercial Operations Advisory Board, Treasury
**Term ended 30 June 2018*

Roger Bridge*
Director, New Zealand National Party
Deputy Chair, Quotable Value Limited
Director, Darroch Limited
Director, National Mortgage Underwriters Limited
Director, Advisory Board of Morrison Social Investment Fund
Director, City Assets Limited
Director, Research Built Limited
Director, Storewell Limited
Chair, Rātā Foundation (formerly Canterbury Community Trust)
Trustee, Re:Start the Heart Trust
Trustee, Christchurch Arts Festival
Trustee, Te Papa Foundation
Trustee, The Church Property Trust
Member, Christchurch Cathedral Working Party
Advisory Board Member, Morrison & Co. Public Infrastructure Partners LP ("PIP Fund")
**Term ended 30 June 2018*

Richard Hughes*
Director, Black Prince Limited
Director, Orthotic Group Holdings Limited and related companies
Director, Oriens Capital Limited
Director, Mint Innovation Limited
Chair, WNT Ventures Management Limited and related companies
Member, Entrepreneurs Challenge Investment Committee
**Reappointed as Director on 1 July 2018 for a further three years*

David Flacks*
Chair, AFT Pharmaceuticals
Chair, Harmoney Corporation
Chair, Upside Biotechnologies Limited
Director, Vero Insurance and Vero Liability Limited & Asteron Limited
Director, Flacks & Wong Limited
Director, Project Janzoon
Director, Zero Invasive Predators (ZIP) Limited
**Reappointed as Director on 1 July 2018 for a further three years. Appointed as Deputy Chairman*

Conflict of interest procedures

The NZVIF Board has a documented conflict of interest policy that sets out procedures for identifying and addressing potential conflict of interests. This policy applies to NZVIF Directors and employees.

The key determination when considering whether an interest might create a conflict is whether the interest creates an incentive for the Director or employees to act in a way that may not be in the interests of NZVIF. In deciding whether a conflict is present in any given situation it is appropriate that the determination be whether a reasonably informed objective observer would infer from the circumstances that the Board or employee's judgement is likely to be influenced to the detriment of NZVIF's best interests.

Where a conflict exists, then the Director or employees must declare the conflict and may not participate or vote on any matters in which they have a conflict of interest.

An interest's register is maintained of Directors' and employee's declared interests and updated at each Board meeting.

Organisational health and capability

Ensuring NZVIF is a good employer

NZVIF is a small organisation with eight full-time* and three part-time staff (9.92 FTE). Our flexible working environment enables staff to balance work, family and other commitments. NZVIF supports staff to develop their leadership skills and become the best they can be, in a positive working culture.

The values of the organisation ensure that all staff can engage and participate in organisational decisions.

Our good employer and personnel policies are formally recorded and include a commitment to equal employment opportunities. We do not tolerate harassment or discrimination of any type. We recognise the value of attracting employees of diverse backgrounds and talents, and the positive impact this has on our organisation.

- Equal employment opportunity principles are incorporated in staff selection and management within the limits of our small size. Our team gender ratio is 5:6 female to male. The age of staff in the organisation range from 27 to 52 years with three of the seven staff from the Pacific, Asia and the Middle East.

Measure

- EEO principles included in all relevant documents and practices.

Capability development

To continue enhancing our capability, we will maintain and develop policies that ensure:

- Recruitment, training and remuneration policies focus on attracting and retaining skilled, flexible, efficient and knowledgeable team players.

Measures

- Individual staff training needs are assessed and supported. External salary comparisons and individual role assessments are conducted regularly.

Health and safety

NZVIF is committed to being a zero-harm employer. Regular observations will be undertaken to identify hazards and unsafe workplace practices and any training required will be provided as appropriate. Any serious event will be notified to the CEO and Board Chair immediately.

- Our office environment and equipment are safe and well maintained.

Measures

- Zero tolerance of harassment, bullying and discrimination. Each employee has an ergonomically suitable workspace.

Wellness in the workplace

Employee wellbeing is a core responsibility of NZVIF. This year, well-being programmes focussed on physical and mental health. Activities included:

- access to an independent Employee Assistance Programme;
- access to wellness and fitness programmes.

Measures

- Improved employee satisfaction and engagement.

**As at 23 October 2018*

Our investment partners and companies

NZVIF has partnered with 28 venture funds and angel groups. In association with them, we have invested into 278 companies.

Active Investee Companies

1Above
Aroa
Author-it
Adherium (NZ)
ableX
Auror
APIMATIC
AskNicely
Avalia Immunotherapies
Acuite
Aura EQ
Avertana
Automio
Ad Cloud
Adeption
Aquafortus
Biolumic
Biomatters
Booktrack
Breathe Easy
Bison Group
Beany.biz
BuzzTech
CropX
Caldera Health
CalfSMART
Croplogic
Clean Planet
Coachseek
Construct Brands
Conscious Consumer
Coherent Solutions
Cove
Cumulo9
Derceto
Designer Wardrobe
Debtor Daddy
Dexibit
DROPIT
Dotterel
Datagate
Engender Technologies
Eight Wire
EFTPlus
Educa
Eye-Fly
Enring
Expander
Fuel 50
Flexidrill
Footfalls and Hearbeats
FirstCheck
FileInvite
Glory League
Hunter Safety Lab
Heilala Vanilla
HydrOxSys
Humblebee
Hot Lime Labs
ikeGPS
IndieReign
Innovative Learning
Invert Robotics
IMeasureU
InsuredHQ
Insite.AI
Joiy
Jaipuna
Justly
K9 Natural
Konnect
Kami
LightKnight International
Living Green
Logicore
Leaping Tiger
Modlar
Martin Aircraft Company
Moa Brewing Company
Mobot
Mohiomap
Mi5 Security
Motim Technologies
Mish Guru
Montoux
Monk Fruit
Magic Memories
Mastaplex
Nextspace
nomos one
Notable PDF
NoticeMatch
NZeno
OMNI
Orion Health
Onesixone
Objective Acuity
Orbis Diagnostics
Photonic Innovations
Pet Doctors
Pukeko Pictures
Publons
Pictor
Puteko
Plantae
Parrot Analytics
Postr Media
Preno
Pricetech
Patternsnap
Quantec
Qotient
Quantiful
ReGen
Rockit
Roholm
Rex Bionics
Ripetime
Rush Digital
SLI Systems
SMX
ShowGizmo
SIMTICS
SolarBright
Sharesight
Spalk
StretchSense
SimTutor
Signal
SuchCrowd
Synthase Biotech
SwipedOn
Sunfed Meats
Spoke Network
The Appreciation Engine
Times-7
Techion Group
Texus Fibre
Tracplus Global
TourWriter
The Social Club
Tradify
Tinderbox Media
Unimarket
Ubco
Upstream Medical Technologies
Uproar
Upside Biotechnologies
Unfiltered
Unleashed
Vital Food Processors
Veritide
Vesper Marine
Viscovery
Vid App
Wipster
Waikato Milking Systems
WhereScape
Wherewolf
Wing Acoustics
Xenos

Investment Partners

Angel HQ
AngelLink
Arc Angels
Canterbury Angels
Cure Kids Ventures
Enterprise Angels
Flying Kiwi Angels
Global from Day One
ICE Angels
Launch Taranaki
Manawatu Investment Group
Movac
Nelson Angels
Otago Angels
Pacific Channel
Pioneer Capital Management
Sparkbox Ventures
Taranaki Angels

Closed/Exited Investment Partners

BioPacific Management
Endeavour i-Cap
GRC SinoGreen
iGlobe Treasury Management
New Zealand Diagnostics
No 8 Ventures Management
Powerhouse Ventures
Trans-Tasman Commercialisation Fund
TMT Management
Valar Ventures

New Zealand Venture Investment Fund Limited

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Auckland 1142

venture@nzvif.co.nz
www.nzvif.co.nz

New Zealand **Venture Investment Fund**

Directors

Murray Gribben, Chairman
Anne Blackburn*
Roger Bridge*
Richard Hughes
David Flacks, Deputy Chairman
**Term ended 30 June 2018*

Management

Richard Dellabarca, Chief Executive

Registered Office

12 Madden Street
Wynyard Quarter
Auckland 1010

Contact Details

PO Box 91705
Victoria Street West
Auckland 1142
www.nzvif.co.nz

Auditor

Audit New Zealand
Level 6
280 Queen Street
Auckland
On behalf of the Auditor-General

Bankers

Westpac Banking Corporation
318 Lambton Quay
Wellington

ASB Bank Limited
12 Jellicoe Street
Auckland

Solicitors

Simpson Grierson Limited
88 Shortland Street
Auckland

Chapman Tripp
23 Albert Street
Auckland