WORKING FOR THE FUTURE OF ALL OF US

ANNUAL REPORT 2012

NEW ZEALAND
SUPERANNUATION
FUND

WORKING FOR THE FUTURE

OF EACH OF US.

PERFORMANCE SUMMARY

How we did

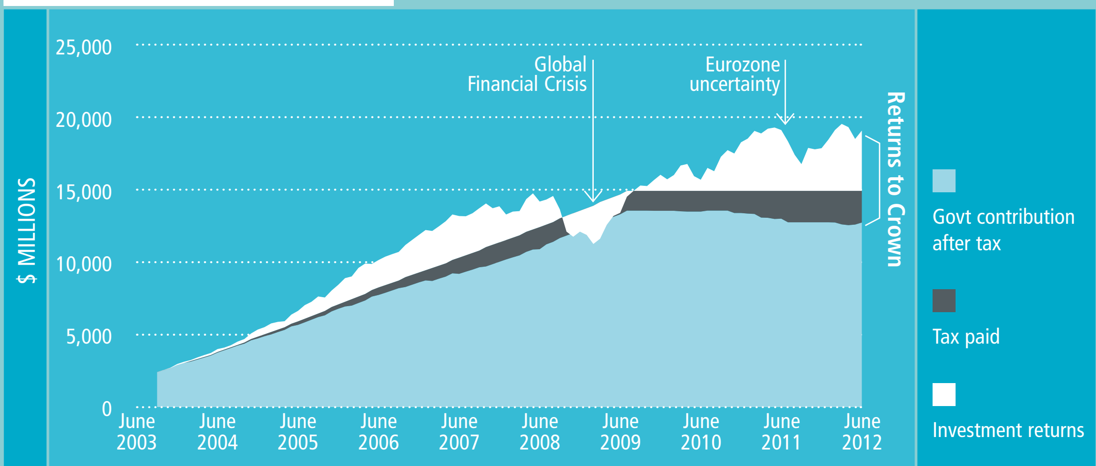
FUND RETURN
1.21%

FUND SIZE
$19b

VALUE ADDED SINCE INCEPTION THROUGH ACTIVE INVESTMENT
$827m

As at 30 June 2012	Fund size: $18,996 million before tax			
Returns	One year	Three years	Five years	Since inception (30 Sept 2003)
Actual Fund Return (before tax, after costs)	1.21%	13.46% p.a.	1.58% p.a.	7.05% p.a.
Reference Portfolio Return	(0.23%)	10.96% p.a.	1.25% p.a.	6.54% p.a.
Value Added (Actual Return – Reference Portfolio Return)	1.44%	2.51% p.a.	0.33% p.a.	0.51% p.a.
Estimated $ earned relative to Reference Portfolio	$275 million	$1,290 million	$450 million	$827 million
NZ income tax paid	$267 million	$820 million	$1,065 million	$2,183 million
NZ Treasury Bill (T-Bill) Return	2.45%	2.64% p.a.	4.25% p.a.	5.23% p.a.
Net Return (Actual Return – T-Bill Return)	(1.24%)	10.82% p.a.	(2.67%) p.a.	1.82% p.a.
Estimated $ earned relative to Treasury Bills	($236 million)	$5,161 million	($1,365 million)	$1,512 million
$ change in net asset position[1]	($36 million)	$5,647 million	$5,868 million	$18,996 million

Growth in Fund size since inception



1 Excludes provisions for New Zealand tax. Five year change figure is based on 2007 IFRS net asset position.

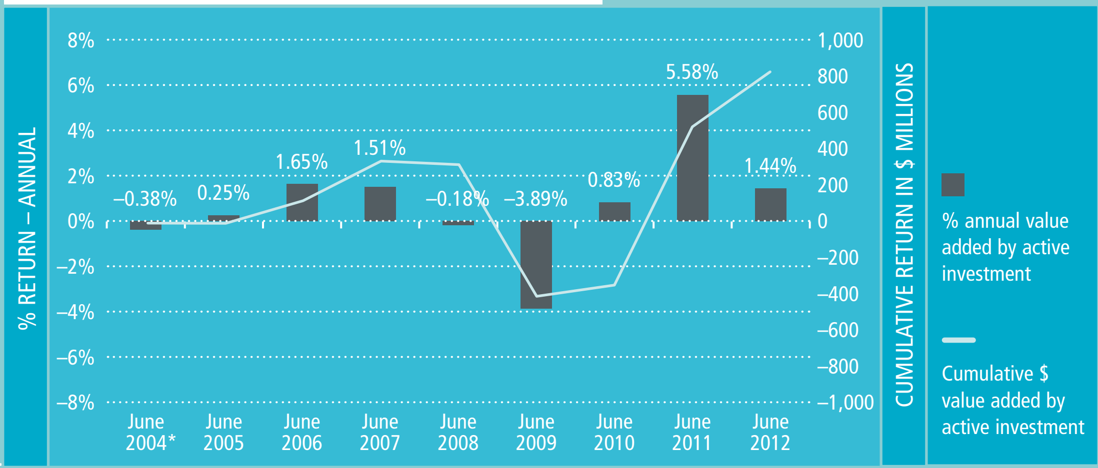
WINNER
2012 CIO AWARDS
Executive Team of the Year

2012 INFINZ
Excellence in Treasury Award

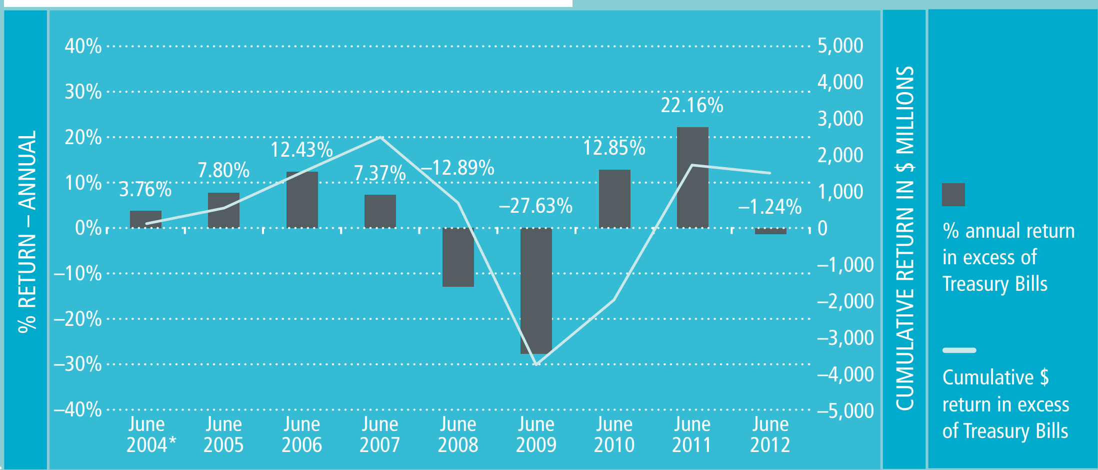
NEW ZEALAND INVESTMENTS
$3,386m
(excluding cash and derivative financial instruments)

FUND RETURN SINCE INCEPTION
7.05% p.a.

Performance relative to Reference Portfolio – Value Add



Performance relative to Treasury Bills – Excess Return



*** Nine months to June 2004.**

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Working for the future of all New Zealanders

Over the next few decades, the New Zealand population will age significantly. Statistics New Zealand predicts that the population aged 65 years and over will surpass one million by the late 2020s, compared with 550,000 in 2009.

The 65+ age group will also grow as a proportion of New Zealand's total population, increasing from 13% in 2009 to more than 20% by the late 2020s. By the late 2050s, one in every four New Zealanders will be 65 years of age or older.

This situation presents particular challenges for funding New Zealand Superannuation (also known as the pension, National Super or Super) which is paid to New Zealanders once they reach the age of 65.

In response to this challenge, the NZ Superannuation and Retirement Income Act 2001 (the Act) established two entities:

- the New Zealand Superannuation Fund (the Fund), a pool of assets on the Crown's balance sheet; and
- the Guardians of New Zealand Superannuation (the Guardians), a Crown agency charged with managing the Fund.

By using the Fund to save now in order to pay for future retirement benefits, the Government aims to smooth the tax burden of New Zealand Superannuation between the taxpayers of today and those of the future. The Fund will not alter the future cost of New Zealand Superannuation, but it will improve its affordability through accumulated savings and investment returns in excess of alternative funding methods.

The Government will begin to withdraw money from the Fund to help pay for New Zealand Superannuation around 2029/30.

This long time frame is reflected in our Mission Statement: **'Maximise the Fund's return over the long term, without undue risk, so as to reduce future New Zealanders' tax burden'.**

It is our expectation, given our mandate and hence portfolio construction, that we will return at least the Treasury Bill rate +2.5% p.a. over any 20-year moving average period. The Fund has been invested for less than 10 years to date.

SIX THINGS TO REMEMBER ABOUT THE NZ SUPER FUND

1

We are required to invest the Fund so that it makes as much money as possible, without incurring undue risk.

2

The Government is not scheduled to make withdrawals from the Fund until 2029/30 – some 17 years from now.

3

We take advantage of this long-term horizon to invest in growth assets such as listed company equities in New Zealand and globally.

4

Our long-term horizon also allows us to invest in illiquid assets – for example, forests, infrastructure and private (unlisted) companies. Because these assets can be difficult to sell quickly, they are not suitable for all investors but are expected to deliver a premium return over time.

5

In the short term, growth assets can be volatile, moving up and down in value. Single-year snapshots of the Fund's performance should always be seen in a long-term context.

6

We believe responsible investment will add value to the Fund over the long term: companies which manage environmental and social issues well, and which have strong governance, should perform better and create more value over time.

Retiring Chair's Statement

David May, who has chaired the Guardians since establishment in 2002, retired on 31 August 2012.

DAVID MAY
CHAIR

When the Board of the Guardians of New Zealand Superannuation met for the first time in 2002, we were faced with the challenge of setting up, from scratch, a potentially very large investment fund that could compete in an intensely competitive global market.

In September 2012, we have a well-established institution that has weathered the worst financial crisis in most living memories and now invests nearly $20 billion across a wide range of global investment opportunities.

It is interesting to reflect on how things have developed and changed over those 10 years.

The one thing we have had going for us right from the start is that we can invest for the long term. It has been our enduring theme. We can tolerate many more ups and downs in short-term performance than most investors can. We can invest much more in illiquid assets.

So at the outset – and this has not changed – we put a heavy emphasis on volatile growth assets, principally global equities.

The last 10 years have not been a good decade for equity investments which have struggled to match risk-free investment returns and, with the Global Financial Crisis and its partial recovery, returns have certainly been volatile.

What was important, however, was that we didn't lose our nerve during the crisis. We stuck to our strategy. And two of our best-performing years (15.5% in 2009/10 and 25.05% in 2010/11) followed the one really bad year (a 22.1% loss in 2008/09).

Thanks to this, our 7.05% p.a. return over the life of the Fund has exceeded the risk-free return of 5.23% p.a. over the same period, and we are on course to exceed our 20-year performance expectation of returning the Treasury Bill rate plus 2.5%.

Perhaps more importantly in the long run, we are strongly placed to capitalise on the high equity and illiquidity risk premia that persist in a still-nervous market.

We have, as originally planned, sought out that illiquidity premium by investing in private markets. These investments have been made gradually, as we have built our knowledge of, and expertise in, a wide diversity of investment sectors. Today, the Fund has almost $5 billion in private markets, including forestry, rural land, private equity, infrastructure and insurance – with a substantial proportion in New Zealand. To date these investments have provided both diversification and substantial additional investment returns.

Private markets are one of a number of ways we add value compared to the simple alternative of investing passively in listed index funds. Initially, we concentrated on the conventional way: seeking out good, sector-specialist investment managers.

But over time, and particularly during times of stress, we found that the attractiveness of the opportunity set at which a particular manager's skills were aimed, waxed and waned quite rapidly. Crowds gather at goldfields and even good managers fail at the end of the gold rush. So today, we have toughened our hurdles for active management, and focus much more on our own independent rigorous analysis and monitoring of opportunity sets.

We have also introduced a new way. Over the last four years, we have made occasional tilts towards or away from asset classes and currencies when we think the market has substantially overreacted (up or down) compared with our long-term assessment of relative value. To date, the results have been promising.

So, over the last four years, we have put an increasing focus on improving how we add value. Back in 2002, we set ourselves a target of adding 0.5% p.a. – which doesn't sound a lot but, if it can be achieved consistently over the whole life of the Fund, will add many billions of dollars.

After 10 years, we are slightly ahead of that target. Looking forward, with our sharper focus and wider strategy, we believe we will do better.

From the start, we believed we should be as transparent as possible if we were to inform and earn the trust of our stakeholders, the New Zealand public. We publish our performance and significant investment holdings monthly, and our strategies and policies are continuously updated on our website.

It is pleasing to see that we are now internationally recognised as the leader in transparency and governance amongst our peer sovereign wealth funds. We are also recognised as one of the leaders in our approach to responsible investing, where we have progressively built our in-house team to monitor our investments and ensure we exercise our duties as a responsible asset owner.

In recent years, we have built very strong relationships with many like-minded, long-term peer funds overseas. This is more than just information sharing. We increasingly work together and are now seriously looking at a range of co-investment opportunities where we can achieve greater access through pooling sector knowledge and expertise.

Over the last ten years, we have gradually and considerably strengthened our management team. This has enabled us to put increasing resources into building our value-add and risk-management processes and activities, widen our oversight of private markets and opportunities, and bring in-house some activities where we have made substantial cost savings. We have been fortunate in attracting a talented group of people and my thanks go to them for their dedication and application.

In the last five years, we have put enormous effort into building investment tools and frameworks that enable us to assess all investment opportunities on the same demanding basis. We have put an emphasis on building a constructive team culture that enables issues and opportunities to be tackled openly and together. Through the introduction of our Reference Portfolio, we made our value-add more transparent and easier to monitor. These initiatives have all strengthened governance and the sustainability of the organisation and its culture, so that it is not susceptible to the loss of a few talented individuals.

We have been lucky to have enjoyed the continuity of having two very competent CEOs: Paul Costello, who took us through the very demanding establishment phase; and, for the last five and a half years, Adrian Orr, who has continued our growth into a disciplined and well-resourced institution well able to tackle the opportunities and storms of the future. My thanks go to them for the development of the Fund and how they each rose to the demands of a very challenging job.

The Board too has evolved from being very hands on in its early days, to one that properly exercises its roles of oversight and strategy setting. The membership too has completely changed. However, the transition has been smooth and gradual, and the support for the strategy and determination to build a world-class institution unwavering. My thanks go to all 13 Board members who willingly have given their time, brain cells and considerable expertise over the last 10 years.

When the Fund was first set up, some were concerned about the risks of political inputs into investment decision-making or resourcing. Throughout my period as Chair, there has never been the slightest suggestion of that. So my final thanks go to the two Ministers of Finance to whom the Fund has reported, for trusting us to get on with the job and respecting our arms-length relationship.

Today we believe we have a high-class, long-term investment organisation that has been strengthened by the storms of its first ten years: one we hope New Zealanders can be proud of and one we believe is well placed to meet the challenges of its second decade.

David May.

DAVID MAY, CHAIR

Chief Executive Officer's Statement

ADRIAN ORR
CHIEF EXECUTIVE OFFICER

The 2011/12 year was a testing one for the Fund with European debt concerns sparking considerable movements – up and down – in equity markets around the world.

I am therefore pleased to be able to report a positive total return of 1.21% for the year, including a strong value-add result of 1.44% or $275 million.

Since inception, a more meaningful period against which to assess our performance, we have achieved returns significantly in excess of the Treasury Bill rate, and remain well within range of our long-term expected rate of return.

Given the massive financial shocks to the world's financial system that we have seen over recent years, the Fund's value-add performance since inception is especially pleasing. We have outperformed our Reference Portfolio benchmark by 0.51% p.a. ($827 million) over this time.

In addition, over the five years to 31 December 2011, a period which included the Global Financial Crisis, the Fund has been among the strongest performers of its type internationally. CEM's most recent annual survey[2] noted that our net five-year value-add of 0.5% p.a. was significantly above the median value-add of our peers. In addition, the Fund's costs, when adjusted for our asset mix, were well below median levels.

These results show the benefit of remaining focused on long term value, having the fortitude to stay the course and concentrating on the things that we can influence.

Looking forward, we remain of the view that bond yields are very low and equities cheap. The Fund is well placed to take advantage of our long-term investing horizon and exploit the market's current risk aversion.

We are at an exciting point in our evolution as an organisation. Over the last few years, we have put a significant effort into building our capability and capacity, and ensuring we have processes and policies that are up with international best practice. That we have been successful in this was recognised in December 2011, when the Guardians placed second in aiCIO magazine's Industry Innovation Awards, in the Sovereign Wealth Fund category.

This year, we have been focused on redefining our investment style – what we are good at and how best to resource ourselves – in the context of global trends in institutional investment. Our target operating model, which is discussed in more detail on page 45, looks at how the organisation will need to respond in order to stay ahead of the game over the next five years.

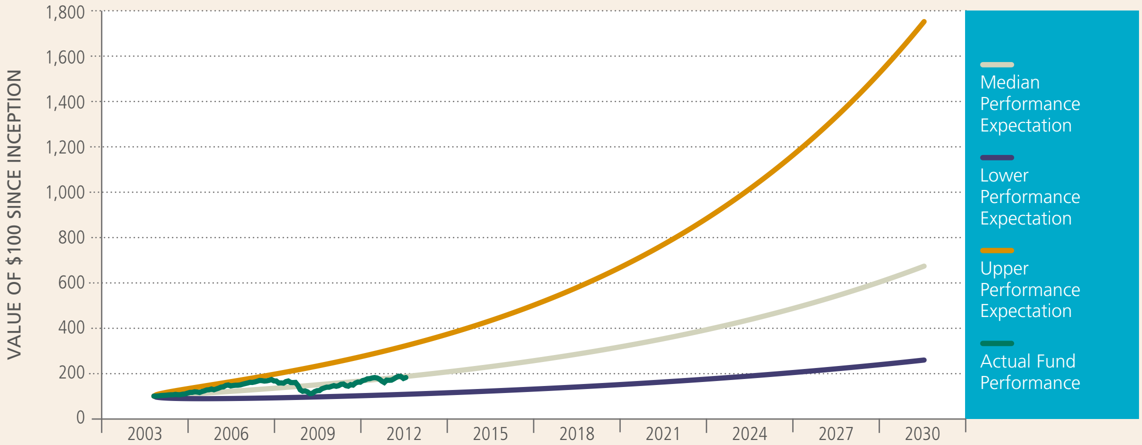
The target operating model reflects the ongoing evolution of the Fund from considering 'supply driven' investments to being 'demand driven'. This means we will select our investments based on broad themes and opportunity sets that we have identified ourselves as the best fit for the particular characteristics of our Fund.

In this context, as a long-term investor, we aim to exploit slow-burning macroeconomic trends which will pay off over future decades. During 2011/12, we agreed on three high-level investment themes: resource sustainability; emerging market segmentation; and evolving demand patterns. These themes are explained on page 45.

Another important body of work has been our focus on managing the Fund's liquidity: maximising returns while also ensuring that the Fund is able to meet all its financial commitments under all reasonable scenarios. Over the course of the year, we developed a much more detailed understanding of the liquidity of our portfolio and modelled a range of crisis scenarios to stress test our ability to respond to a major market event.

2 CEM benchmarks the performance of 286 sovereign and wealth funds annually. Their value-add calculations are based on calendar years. The CEM survey report is available on www.nzsuperfund.co.nz.

Actual & Estimated Fund Returns to 2030 (projected commencement of withdrawals)



Another major initiative during the year was the reorganisation of our investment teams. As a result of the changes, I was pleased to be able to make a number of internal appointments to key roles. As the organisation has grown and matured, it is good to be able to retain high-performing staff and to assist in their career progression.

It's also good to see that talent recognised externally. In May 2012, we were delighted to win the INFINZ Massey University Excellence in Treasury Award, and in June 2012 the inaugural CIO Clearpoint Executive Team of the Year award. Well done and thank you to the staff members involved.

This report discusses in some detail our progress in implementing the Minister of Finance's May 2009 directive to identify and consider opportunities that would enable us to increase the allocation of New Zealand assets in the Fund.

In the three years since then, the proportion of the Fund that is invested in New Zealand has increased by 1.6% and the value of our New Zealand investments has grown by a billion dollars.[3]

While this progress is pleasing, it would be fair to say that, particularly over the last year, it has been challenging to transact major new local investments. We have identified a number of opportunities, but will continue to take our time and are committed to remaining disciplined on price.

Over the next 12–24 months, we will also continue to place a high priority on further developing our peer-group relationships, with a focus on moving from collaboration and cooperation to executing co-investment opportunities.

It is extremely important to me that the team here at the Guardians understands how proud I am of their efforts and how grateful for their support. The saying is meant to go: "I am all for progress, it is change I hate". This team has shown no such concern for change, continuously challenging each other to create the best structure, decision-making process, information, relationships, systems and investments. Change has been constant and our progress has been significant as a result. Thank you for your contribution to a year in which the organisation has developed considerably, positioning us well for the years ahead.

Finally, I would like to formally thank our retiring Chairman David May for his contribution to the Guardians over the last 10 years. Establishing the Guardians and Fund from scratch, in a small country remote from the world's major financial markets and talent pools, was no mean feat. David's demeanour has been unflappable, his commitment extraordinary and his humour good. His intelligence, wise counsel and his genuine desire to do the best thing for the New Zealand taxpayer have been fundamental to building the Guardians into the well-governed and globally recognised institution it is today.

ADRIAN ORR, CEO

3 Figures exclude cash and foreign exchange hedging contracts. See page 25 for further detail.

OUR PEOPLE

Board Members

1. DAVID MAY, CHAIR: David May was appointed Chairman of the Board of the Guardians in August 2002. His term of office was renewed in September 2007 and expired on 31 August 2012.

David is a past Director of the Government Superannuation Fund Authority and Southern Cross Medical Assurance Society. He is also a Director of Sovereign.

David has 44 years' experience in the financial services, superannuation and insurance industries, including 32 years with Colonial Group, most recently as managing director of Colonial Life NZ Ltd (1995–2000).

David has a BSc (Hons) in Mathematics from Manchester University, England, and is a qualified actuary.

Committee membership:
Chair, Employee Policy and Remuneration

2. GAVIN WALKER, DEPUTY CHAIR: Gavin Walker was appointed to the Board of the Guardians in July 2010 and to the position of Deputy Chairman in May 2012. His term of office expires in July 2013.

Gavin is currently the Chairman of ASB Bank, Sovereign Insurance, CommSec, the Kirin International Advisory Board and the Ultra-Fast Broadband Steering Committee. He has been a Director of Lion since 2000. Gavin has extensive experience in the funds management industry, including as CEO of Bankers Trust in both New Zealand and Australia. He is a past chairman of the Foreign Direct Investment Advisory Board and a past director of BT Investment Management Limited, Southern Cross Building Society and Goodman Fielder Limited.

Gavin has a BCA from Victoria University majoring in Economics.

Committee membership:
Chair, Audit

3. CRAIG ANSLEY: Craig Ansley was appointed to the Board of the Guardians in September 2011. His term of office expires on 30 September 2016.

Craig is an Adjunct Professor of Finance at the University of Auckland and a board member of the Government Superannuation Fund Authority.

Craig was founder of the New Zealand office of Russell Investment Group, and spent several years in senior roles in that organisation. He was a member of the Savings Working Group, a trustee of the National Provident Fund and has been a director of a number of companies in the private sector.

Craig has a BSc (Hons) in Mathematics from the University of Canterbury, and a Ph.D. (Business Administration) from the University of Michigan.
He is a Fellow of the New Zealand Society of Actuaries.

Committee membership:
Audit

On 1 September 2012, Gavin Walker was appointed Chair and Catherine Savage Deputy Chair.

4. PIP DUNPHY: Pip Dunphy was appointed to the Board of the Guardians in May 2012. Her term of office expires on 30 April 2017.

A former member of the nominating committee for the Guardians, Pip's work experience and knowledge is in capital markets, banking, finance and investment management. Her previous governance experience includes being a board member of the Earthquake Commission, ACC and Crown Health Financing. Current appointments include Auckland Transport, Mint Asset Management, NZ Post, NZ Clearing and Depository, and Motu.

Pip has a Bachelor of Horticulture Science and is qualified as a CFA (Chartered Financial Analyst), from the Association of Investment Management and Research (AIMR), USA.

5. STEPHEN MOIR: Stephen Moir was appointed to the Board of the Guardians in November 2009. His term of office expires on 30 September 2014.

Stephen is a non-executive director of the Bank of New Zealand and of BNZ Life Insurance.

Stephen has more than 25 years of experience in financial services, including being the General Manager of the Westpac Institutional Bank from 1998–2001, preceded by senior positions with Credit Suisse in Singapore, and Citibank in Singapore, Bangkok and Sydney.

Committee membership:
Employee Policy and Remuneration

6. CATHERINE SAVAGE: Catherine Savage was appointed to the Board of the Guardians in November 2009. Her term of office expires on 30 September 2014.

Catherine is Chairman of the National Provident Fund, an independent Director of Kiwibank and a Director of Pathfinder Asset Management. She is also the Managing Director of CMS Capital Limited.

Catherine was Treasurer of the National Gas Corporation from 1991–1993 prior to moving to AMP Capital Investors (NZ) Ltd. where she worked in various senior management roles to 2000 when she became the Managing Director – AMP's youngest and only female country manager.

Catherine is a Chartered Accountant with a Bachelor of Commerce and Administration from Victoria University in Wellington.

Committee membership:
Employee Policy and Remuneration

7. MARK TUME: Mark Tume was appointed to the Board of the Guardians in April 2006. His term of office expires on 30 April 2016.

Over his career, Mark has held a variety of senior roles within the finance sector, in areas such as investment banking, capital markets, asset and liability management, and risk control.

Mark's directorships include KiwiRail, NZ Oil and Gas, the New Zealand Refining Company Limited and Infratil Limited.

Mark holds a Bachelor of Business Studies and a Diploma in Banking Studies (Treasury Management) from Massey University.

Committee membership:
Audit

Management Team

The Guardians' senior executives have broad international and domestic expertise in investment, financial services, law, economics, risk management and human resources, and a mix of public and private sector experience.

1. ADRIAN ORR, CHIEF EXECUTIVE OFFICER: Adrian joined the Guardians in 2007 from the Reserve Bank of New Zealand where he was Deputy Governor and Head of Financial Stability. Adrian has held the position of Chief Economist at Westpac Banking Corporation, Chief Manager of the Economics Department of the Reserve Bank of New Zealand and Chief Economist at the National Bank of New Zealand. He has also worked at the OECD. Adrian is New Zealand's representative on the International Forum of Sovereign Wealth Funds, a member of the investment council for the World Economic Forum and of the Expert Advisory Group for the World Bank's Treasury. He is also a Board Member of the Emory Center for Alternative Investments at Emory University, Atlanta, Georgia.

Areas of responsibility:
General management of the Guardians under delegation from the Board

2. STEWART BROOKS, GENERAL MANAGER FINANCE: Stewart joined the Guardians in 2003 from Sterling Grace Portfolio Management Group, where he was Group Company Secretary. Stewart was previously Financial Controller for Motorola Cellular and worked in private equity for seven years. Prior to this, he worked for a computer multinational in the UK.

Areas of responsibility:
External audit
Financial control
Financial reporting
Tax

3. MARK FENNELL, GENERAL MANAGER PORTFOLIO COMPLETION*: Mark joined the Guardians in 2007 from The Warehouse Group where he was the Company Secretary and Treasurer. Mark also has significant public sector experience, working in a senior finance position for the Ministry of External Relations and Trade, and for State-Owned Enterprises (Forestry Corporation and NZ Railways Corporation).

Areas of responsibility:
Chair, Investment Committee
Treasury operations including cash management and portfolio rebalancing
Portfolio investments

4. JANET GALLAGHER, GENERAL MANAGER HUMAN RESOURCES: Janet joined the Guardians in 2007 after eight years managing her own consultancy business in which she advised a number of major New Zealand companies including Mitre10, SKYCITY, New Zealand Wines & Spirits and Goodman Fielder. Prior to starting her own business, Janet held senior HR positions with Lion Nathan and New Zealand Dairy Foods. In her role with Lion, Janet provided HR advice to Pepsi-Cola, Lion Liquor Retail, H2GO Water Company and the Lion Foundation.

Areas of responsibility:
People and performance
Culture

5. TIM MITCHELL, GENERAL MANAGER CORPORATE STRATEGY: Tim joined the Guardians in 2003. He was previously a consultant to the Board with responsibility for establishing the Guardians' infrastructure and policies. Prior to that, Tim was a principal advisor at The Treasury. Before moving into the public sector, he worked in a variety of private sector asset-management roles, most recently as Chief Investment Officer with Colonial First State Investment Managers.

Areas of responsibility:
Chair, Risk Committee
Communications
Coordinating peer relationships
Legal
Records management
Strategic planning

6. DAVID SARA, GENERAL MANAGER OPERATIONS*: David Sara joined the Guardians in 2009. He has substantial experience in financial services, including as Head of Strategy with UK-based Platform Home Loans, Head of Venture Development for Lloyds Banking Group, and Manager of Strategic Planning for the National Bank of New Zealand.

Areas of responsibility:
Information technology
Investment operations
Portfolio risk and compliance

7. MATT WHINERAY, GENERAL MANAGER INVESTMENTS: Matt joined the Guardians in 2008 from Credit Suisse (Hong Kong) where he was Head of Financial Sponsor Coverage for non-Japan Asia. Prior to this, Matt was a Managing Director of First NZ Capital and a Vice President at Credit Suisse First Boston (New York). Matt began his career as a Barrister and Solicitor with Russell McVeagh.

Areas of responsibility:
Appointment of investment managers
Asset allocation
Investment analysis including macroeconomic strategy and responsible investment
NZ direct investments
Public and private market investments

8. NEIL WILLIAMS, CHIEF INVESTMENT ADVISOR AND HEAD OF STRATEGIC TILTING: Neil joined the Guardians in 2008 from UBS Global Asset Management in London where he was Global Head of Asset Allocation and a Managing Director in Global Investment Solutions. Neil was previously Chief Global Strategist, Executive Director for Goldman Sachs International (London).

Areas of responsibility:
Investment advice to Board and management
Strategic tilting

* Mr Fennell and Mr Sara were appointed to their new roles in July 2012.

Investment Report

Performance Report

ABSOLUTE RETURN
1.21%

OUTPERFORMED THE REFERENCE PORTFOLIO BY
$275m
(1.44%)

VALUE ADD SINCE INCEPTION
$827m

NET RETURN SINCE INCEPTION
$1.5b
(above risk free rate)

PERFORMANCE COMMENTARY

The Fund's before-tax, after expenses result for the year was a modest gain, in difficult markets, of 1.21%. This compared to a return of –0.23% for the Reference Portfolio, meaning the value added by the Fund's active investment strategies was 1.44% or $275 million.

Overall Fund size remained flat at $18.70 billion ($18.65 billion in 2010/11) on an after-tax basis.

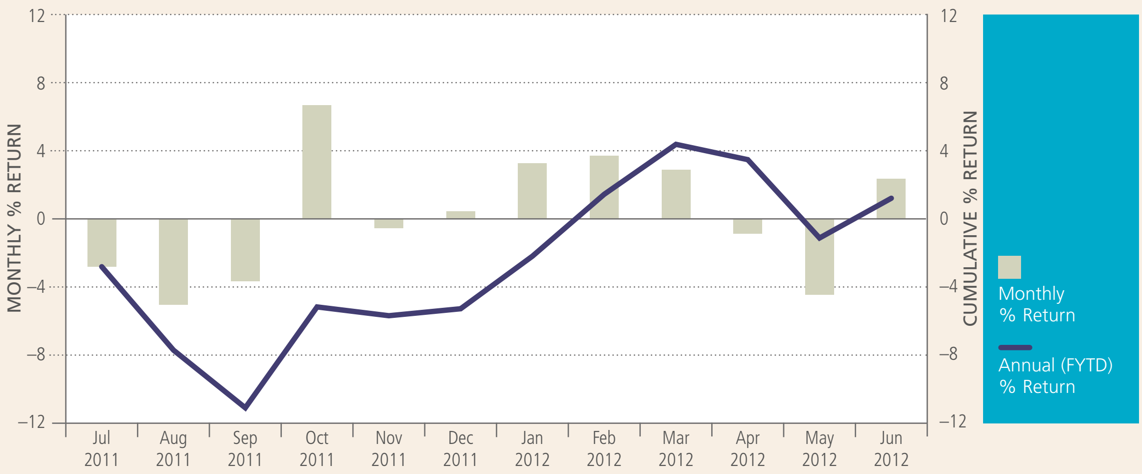
This modest Fund return comes after two good years (15.45% in 2009/10 and 25.05% in 2010/11) in which equity markets partially recovered from the Global Financial Crisis.

It is worth noting that last year's very strong result of 25.05% was in part driven by significant increases in market valuations of two of our key New Zealand investments (Kaingaroa Forest and Z Energy) and by good performance by our global investment managers.

In contrast, the major contributor to the value we have added to the Fund over 2011/12 has been strategic tilting: judicious adjustments to our asset mix when currency and equity prices in particular have departed significantly from long term valuations. This approach has worked well in markets where sentiment has been volatile, driven in the main by European sovereign debt concerns, over the past 12 months.

We remain of the view that the prospects for returns to comfortably exceed risk-free rates over the next decade are extremely good as, from a medium-term perspective, we believe growth assets remain significantly undervalued.

Fund returns over 2011/12



This graph illustrates the volatility of returns during 2011/12

Performance Report (continued)

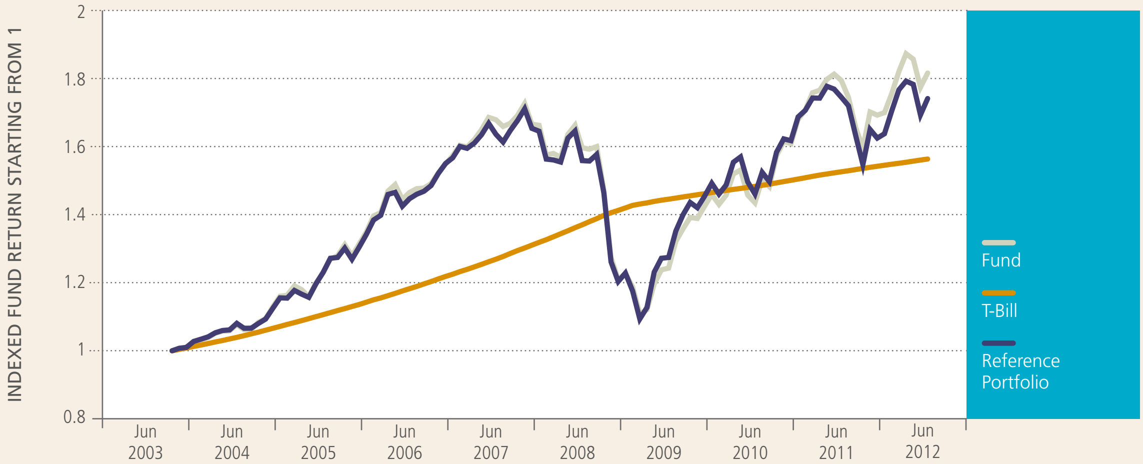
PERFORMANCE IN CONTEXT

Since we began investing, the Fund has returned 7.05%, 1.82% ahead of the 90-day Treasury Bill or 'risk-free' rate. We compare the performance of the Fund to 90-day Treasury Bills because they proxy the 'opportunity cost' to the Government of contributing capital to the Fund, instead of using the money to retire debt.

We remain confident in our expectation that over the long term (rolling 20-year periods), the Fund will outperform Treasury Bills by 2.5% p.a., making a substantial contribution to Crown wealth. It is important to understand that this figure is not a precise target: it is, rather, a figure we believe the Fund will have a pretty good chance of beating over the long term. As shown in this table, since inception the Fund has outperformed the Treasury Bill rate by more than 2.5% in six out of nine financial years, with the three exceptions occurring in the most recent year, and during the Global Financial Crisis.

Financial year	Fund Return	Risk Free Return (Treasury Bills)	Excess return relative to Treasury Bills	Reference Portfolio return	Value Added relative to Reference Portfolio
2003/04	7.69%	3.93%	3.76%	8.07%	–0.38%
2004/05	14.13%	6.33%	7.80%	13.88%	0.25%
2005/06	19.21%	6.77%	12.43%	17.56%	1.65%
2006/07	14.58%	7.21%	7.37%	13.07%	1.51%
2007/08	–4.92%	7.97%	–12.89%	–4.73%	–0.18%
2008/09	–22.14%	5.49%	–27.63%	–18.25%	–3.89%
2009/10	15.45%	2.60%	12.85%	14.62%	0.83%
2010/11	25.05%	2.89%	22.16%	19.48%	5.58%
2011/12	1.21%	2.45%	–1.24%	–0.23%	1.44%
Since inception	7.05%	5.23%	1.82%	6.54%	0.51%

Cumulative Fund return since inception

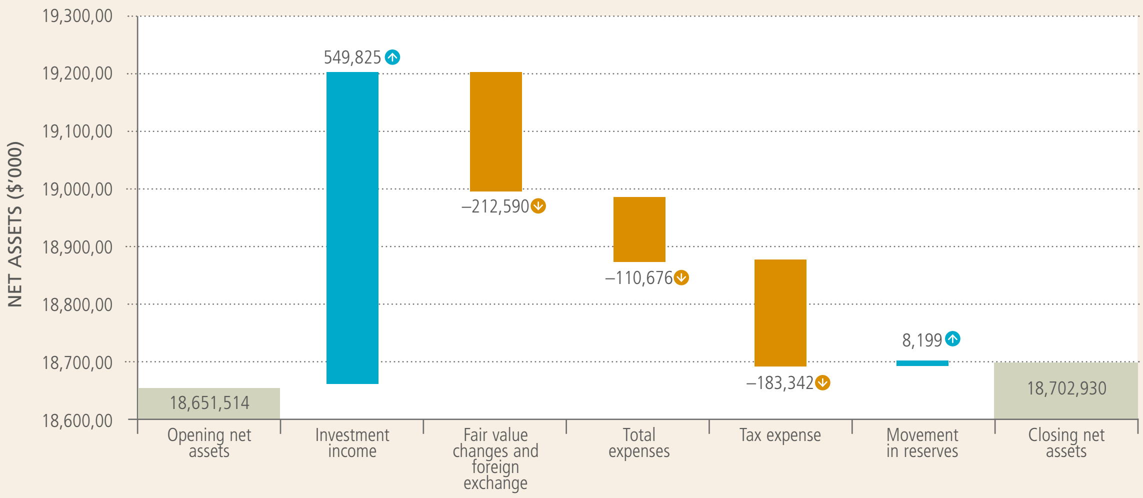


This graph shows the **cumulative** Fund return since inception. The impact of the Global Financial Crisis, and the subsequent recovery in Fund returns, can be seen in the 2009–2012 period.

The gap between the Reference Portfolio return and the actual Fund return, as at 30 June 2012, illustrates the value the Fund's active investment activities have added since inception ($827 million or 0.51%). The gap between the Treasury Bill return and the Fund return shows the return earned in excess of the risk-free rate ($1.5 billion or 1.82%).

In recent years, the composition of the Fund has become increasingly different from the Reference Portfolio, and the Fund has moved visibly ahead of the Reference Portfolio's returns. For more information, see the section below on how we added value to the Fund during the year.

Movement in Net Assets (post-tax) for Year Ended 30 June 2012



* Tax expense comprises New Zealand income tax paid in the year, movements in deferred tax and availability of tax credits.

This graph illustrates the components that contributed to the flat performance of the Fund for the year, as measured by Fund size (post-tax). From a starting point on 1 July 2011 of $18.65 billion after tax, the Fund ended the year at $18.70 billion after tax. While investment income[4] added $550 million to the Fund over the year, fair value changes[5] and foreign exchange movements on our investments detracted $213 million, and total expenses[6] and tax[7] detracted a further $294 million.

4 Investment income primarily comprises dividends and interest received, along with income from timber, milk and livestock sales.

5 Fair value changes in our investments represent the revaluation of our investment holdings to their market values.

6 Total expenses is primarily comprised of fees paid to investment managers, the operating expenses of our timber and farm holdings, trade expenses associated with the sale, purchase and custody of investments and the administrative expenses of the Fund including payroll. The administrative expenses of the Fund amounted to $23.8 million.

7 Tax expense represents New Zealand income tax.

Performance Report (continued)

REFERENCE PORTFOLIO

We use a Reference Portfolio to benchmark our performance and the value we are adding through our active investment strategies.

The Reference Portfolio is a shadow or notional portfolio of passive, low-cost, listed investments suited to the Fund's long-term investment horizon and risk profile. It has an 80%:20% split between growth and fixed income investments and its foreign currency exposures are 100% hedged to the New Zealand dollar (NZD).

The Reference Portfolio is a way for us to:

- estimate our expected returns;
- benchmark our active investment returns and costs; and
- be clear on the 'hurdles' for active investment.

Since the Fund's inception the Reference Portfolio has returned an average 6.54% p.a., 1.31% ahead of the Treasury Bill rate. Our aim, as an active investor, is to add more value after all costs to the Fund than the reference approach would do, using strategies based on the Fund's natural advantages as a long-term, sovereign investor with low liquidity requirements.

For example, we:

- invest in a range of illiquid assets – including infrastructure, private equity and timber;
- undertake extensive due diligence and manager monitoring to ensure we choose the most effective and skilled investment managers;
- aim to implement our trades and investments as efficiently as possible; and
- periodically adjust our exposure to various asset classes within our actual portfolio, using our long-term horizon to take advantage of market volatility. This is called 'strategic tilting'.

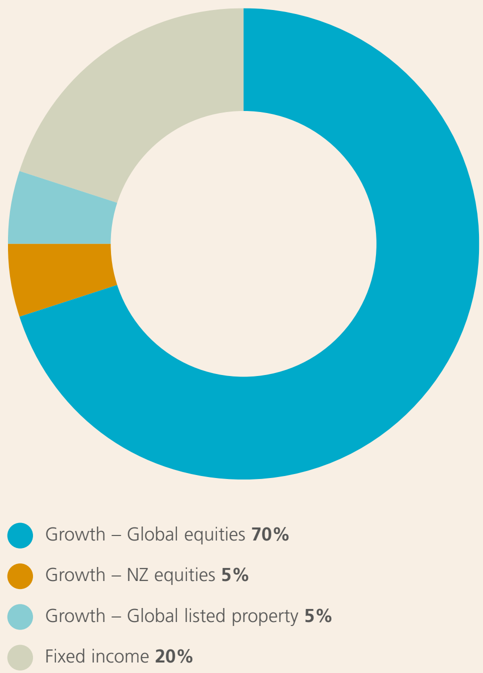
Since inception, the Fund has outperformed the Reference Portfolio by 0.51% p.a. or $827 million.

The chart on page 21 illustrates the allocation of assets within our actual investment portfolio as at 30 June 2012 (excluding the impact of any strategic tilting positions). It shows the diversification of the actual portfolio away from the Reference Portfolio into private markets, timber and infrastructure.

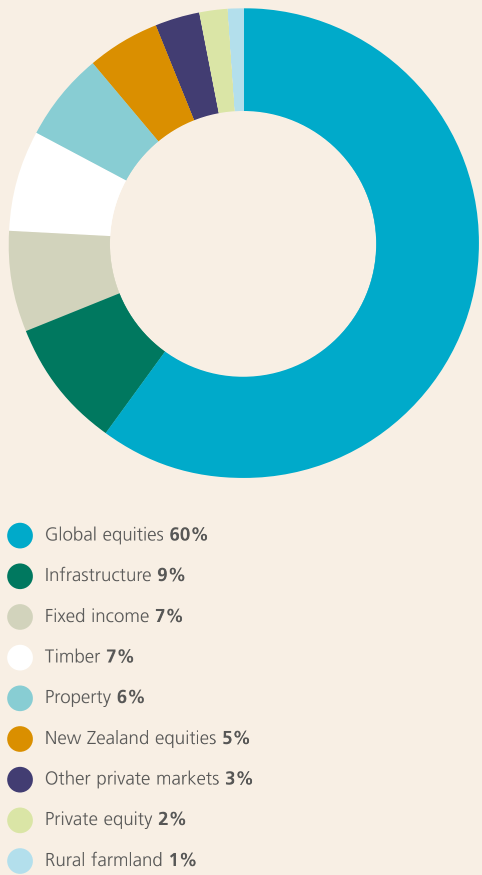
Our precise strategic tilting positions at any point in time are commercially sensitive, especially in regard to currency exposures. However, in general terms, our strategic tilting strategy over the past year has seen us take a significantly overweight position in global equities and a significantly underweight (negative) position in bonds (fixed interest), relative to the proportions shown here. We have taken the view that global equity markets are underpriced relative to historical means and will revert to a more normal price over time. Through the year, we have also been significantly underweight the New Zealand dollar relative to the Reference Portfolio's position of hedging 100% of foreign currency exposures to the New Zealand dollar.

For further information on our strategic tilting programme and use of derivatives, see the 'How we Invest' document on www.nzsuperfund.co.nz.

Reference Portfolio asset allocation



Pre-tilt asset allocation 30 June 2012



Performance Report (continued)

VALUE-ADD IN 2011/12

In this section we break down the various components of the value-add activities during the year. By value-add, we mean the return differential between our actual portfolio and the Reference Portfolio.

In total, relative to the Reference Portfolio, our active investment activities added 1.44% or $275 million to the Fund over 2011/12, before tax. This result compares to 5.58% in 2010/11, and exceeds the 0.83% value we added in a strong market environment in 2009/10.

The following table outlines the **primary** contributors to the value we added to the Fund, compared to the Reference Portfolio, over the year. (For clarity, we have estimated the before-tax dollar value of these activities.)

It is important to recognise that many of the investment activities described are long-term strategies that are designed to pay off over a number of years. Movement up and down from one year to another is expected.

Total value added by active investment over 2011/12: 1.44% or $275 million.

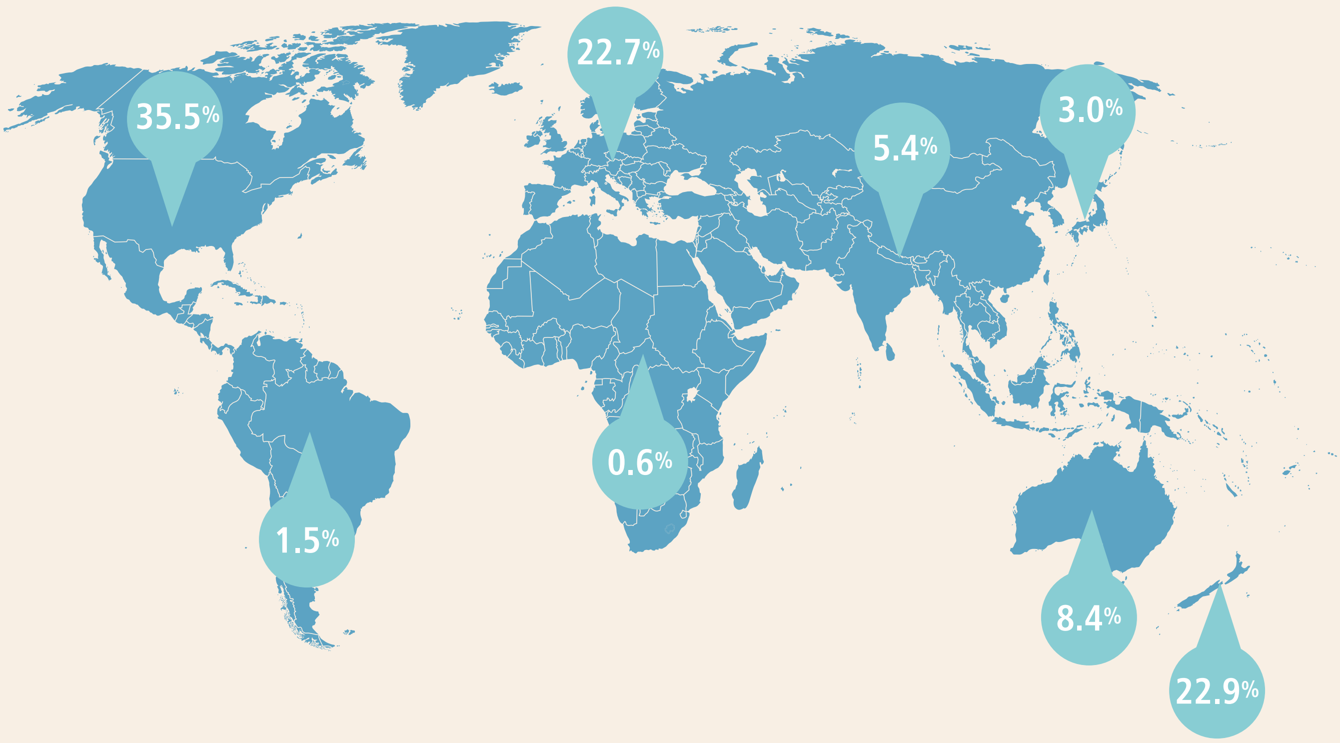
KEY ACTIVITIES*	YEAR TO 30 JUNE 2012		YEAR TO 30 JUNE 2011		COMMENTARY
	%	$'m	%	$'m	
Capturing active returns – total					
Active investment managers	–0.36	–50	1.56	230	As a whole, our investment managers seeking active returns underperformed their benchmarks. Our New Zealand active equity managers performed well.
Private markets relative to public markets	0.13	3	3.94	612	Our investments in private markets outperformed their risk-adjusted listed market equivalents, as the global equity markets performed poorly during the year. The value of our two largest assets, Z Energy and Kaingaroa, remained flat after large increases in the previous financial year. For further information on these investments see the case studies on pages 30–33.
Internally executed arbitrage	0.21	28	0.11	16	This value add strategy takes advantage of pricing differentials between two securities or indices that are economically the same. For example a stock may be dual-listed; we can generate returns by buying it on one exchange and selling it on the other for a higher price, with no economic risk.
Strategic Tilting					
Strategic Tilting	1.79	295	–1.55	–244	Strategic Tilting was the major driver of positive returns over the course of the year. The key factor in this was the gains from our currency tilting activity where we under-hedged our foreign currency exposure relative to the Reference Portfolio (which is 100% hedged to NZD). It should be noted that Strategic Tilting is a long-term strategy. For further information see the 'How we Invest' document on www.nzsuperfund.co.nz.
Portfolio completion – total					
Portfolio completion	0.24	48	0.75	101	We aim to buy and sell our investments as efficiently as possible. We also make decisions about whether to invest by buying individual physical securities or using derivatives to gain market exposure. When we enter into a derivative contract, we are often not required to make any deposit on this exposure. Where we are required to set aside a deposit, it is often a relatively small percentage of the underlying exposure. This means we are able to hold and earn returns on a pool of collateral within the Fund, while maintaining the desired market exposures through the derivative.
Currency hedging	–0.62	–97	0.83	127	This reflects primarily the mismatch between our actual currency hedging and the theoretical hedging in the Reference Portfolio, mostly related to emerging market currencies. As with Strategic Tilting, our currency positions are taken with a very long-term view in mind. Movements up and down in the returns generated from one year to another are expected.

* Major contributing activities only.

WHERE WE INVEST*

	30 JUNE 2012	30 JUNE 2009
New Zealand	22.9%	21.3%
Australia	8.4%	5.2%
Africa	0.6%	0.3%
Europe	22.7%	16.2%
Asia (excl. Japan)	5.4%	3.2%
Japan	3.0%	4.3%
North America	35.5%	48.4%
South America	1.5%	1.1%

* Figures exclude cash and foreign currency hedging instruments such as forward foreign exchange contracts and cross currency swaps.



Investment Activity Report

NON-NEW ZEALAND INVESTMENTS

The Fund has made the following new investments outside New Zealand over the past 12 months:

APOLLO LIFE (FINANCIAL CREDIT INVESTMENT I)	In February 2012, we made a commitment to invest in Financial Credit Opportunities I, which invests in United States life settlements. The fund is managed by a subsidiary of Apollo Global Management (www.agm.com). Headquartered in New York, Apollo was founded in 1990, had approximately USD$86 billion of assets under management as of March 31, 2012 and a team of more than 500 employees in nine offices around the world. This is the Fund's second investment in life settlements. The earlier investment was noted in our 2008/09 Annual Report.
D.E. SHAW HELIANT INTERNATIONAL FUND	In March 2012 we made a commitment to invest in D.E. Shaw's Heliant International Fund, a global macro hedge fund. The D.E. Shaw group (www.deshaw.com) is a global investment and technology development firm with more than 1,100 employees, approximately USD$26 billion in investment capital and offices in North America, Europe and Asia.
CHINA INFRASTRUCTURE PARTNERS LP	See our case study on page 36 for further information.
GLADIUS VOLATILITY ONSHORE FUND	In July 2011, we made a commitment to invest in the Gladius Volatility Opportunities Master Fund, a highly liquid uncorrelated strategy managed by Gladius Capital Management ('Gladius'). The Fund invests in volatility globally. Gladius, which was established in 2009, is a dedicated volatility investment manager based in Chicago. Its key personnel have significant experience trading global derivatives across asset classes.
GLOBAL FOREST PARTNERS	In June 2012 the Fund made an AUD$40-million co-investment with Global Forest Partners (www.gfplp.com) to purchase a share of some Australian Eucalyptus plantation assets being liquidated by Elders Forestry. The assets are located in close proximity to other plantations in which we are already an investor with Global Forest Partners, and the management of the operations will be merged.
RED FORT INDIA REAL ESTATE FUND II	In July 2011, we made a commitment to Red Fort India Real Estate Fund II. The Fund is managed by Red Fort Capital (www.redfortcapital.com), a leading private equity real estate firm focused on India.

What is a life settlement?
A life settlement is a financial transaction in which the owner of a life insurance policy sells that policy to a third party.

What is a global macro strategy?
A strategy that bases its positions in various equity, fixed-income, currency and futures markets primarily on overall economic and political (macroeconomic) views of various countries.

What is volatility trading?
Volatility trading is a strategy that looks to exploit changes in the volatility (movements up and down) of the equity market rather than the direction of the market.

The Fund has committed a total of NZD$787.5 million to these investments. Of this amount, as at 30 June 2012, NZD$628.0 million had been invested, and NZD$159.5 million had been committed but not yet invested.

NEW ZEALAND INVESTMENTS

In 2009, we received a Direction from the Minister of Finance requiring us to, while always investing in a prudent and commercial manner, identify and consider opportunities to increase the allocation to New Zealand assets in the Fund. This section of our Annual Report sets out how we have had regard to the Minister's Direction.

Proportion of NZ investments

In the three years since 30 June 2009, the proportion of the overall Fund that is invested in New Zealand has risen from 21.3% to 22.9% (excluding cash and foreign exchange hedging instruments such as forward foreign exchange contracts and cross currency swaps). Including foreign exchange hedging instruments (the value of which can fluctuate significantly from month to month), the proportion of New Zealand investments increased from 26.6% to 28.6%.

Minister of Finance's Direction
14 May 2009

"… I direct the Guardians to note that it is the Government's expectation, in relation to the Fund's performance, that opportunities that would enable the Guardians to increase the allocation of New Zealand assets in the Fund should be appropriately identified and considered by the Guardians.

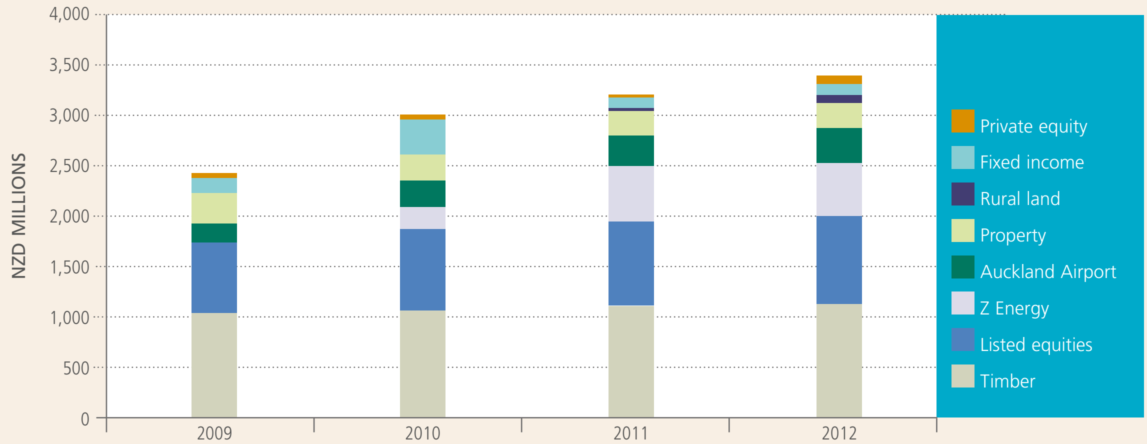
This direction is not considered to be inconsistent with the Guardians' duty to invest the Fund on a prudent, commercial basis, in accordance with section 58 of the Act, and the above paragraph is subject to that duty."

Value of our NZ investments

Over the same period, the value of our New Zealand investments has risen from NZD$2.4 billion to NZD$3.4 billion as at 30 June 2012 (excluding cash and foreign exchange hedging instruments). If we include foreign exchange hedging instruments which, as noted above, can fluctuate significantly from month to month, the value of our New Zealand investments has risen from NZD$3.2 billion to NZD$4.6 billion.

The following graph illustrates the growth and changes in composition in our New Zealand investments since 2009.[8]

Value of New Zealand Investments



8 The graph provides a breakdown of investments (as defined by financial reporting standards) which have been made in New Zealand as well as New Zealand rural and timber land and buildings. It excludes derivative financial instruments, funds committed but not drawn, debtors' and creditors' balances and other items. As above, derivative financial instruments have been excluded on the basis that they fluctuate significantly from month to month.

Investment Activity Report (continued)

Our approach

As noted in the Chief Executive's Statement, we take a rigorous approach to identifying and transacting suitable domestic investment opportunities.

Any investment we make needs to generate sufficient returns for the risk we have to take on, relative to other investment opportunities both domestically and internationally. Local investment opportunities are compared with other ways of accessing the sector or asset class involved, including listed markets. Furthermore, as part of our extensive due diligence and valuation process, we take a reasonably conservative approach to forecasting the cashflows of the transactions reviewed.

Under current legislation, the Fund cannot control any entity. As a result, our investment strategy is focused on partnering with other investors.

To this end, we continue to place a high priority on developing relationships with Iwi, private investors and larger private companies.

Portfolio highlights over 2011/12

The value of the Fund's New Zealand investments, excluding cash and financial derivative instruments, increased by 6.27% over 2011/12, from $3.2 billion to $3.4 billion. Key factors in the increase were:

- the purchase of further rural assets in the year ($61.6 million);
- investment of previously committed capital to private equity funds ($43.5 million);
- increased investment in and increased value of New Zealand-listed equities ($81.5 million), including an increased value of our investment in Auckland Airport ($34.4 million);
- relatively minor increases in the value of our investments in New Zealand-listed property ($14.4 million) and fixed income ($17.6 million); and
- an increased valuation of our investment in New Zealand timber plantations ($18.0 million).

The above increases were partially offset by a drop in the value of our investment in Z Energy ($42.1 million), primarily due to a reduction in the share price of NZ Refining, in which Z is a major shareholder.

In July 2011, we settled our purchase of an approximately one-third share in Scales Corporation. Further information about this transaction, our investment in Z Energy and our largest domestic investment, Kaingaroa Forest Holdings, can be found on pages 30–35.

Other highlights included settling on six additional dairy farms, bringing the total we hold to 10. The value of our rural investments in New Zealand is now approximately NZD$110 million. A case study of how we are applying our responsible investment philosophy to our rural land portfolio can be found on page 43.

In total, 33 investment opportunities were reviewed in detail during the year, with a number still under active consideration as at 30 June 2012.

MANAGERS AND CUSTODIANS

The following table sets out a complete list of the Fund's asset and investment managers (both those appointed by us and those who manage funds in which the Fund is invested), and custodians during the financial year. It identifies where new managers or custodians have been appointed or terminated over the past 12 months. It also identifies whether managers invest primarily in listed (or highly traded) or unlisted securities.

MANAGER	YEAR	FUND NAME (WHERE APPLICABLE) AND FOCUS AREAS	TYPE
New managers appointed in 2011/12			
Apollo Management	2012	Financial Credit Investment – US life settlements, in particular those acquired from other investors	Unlisted
China Infrastructure Partners	2011	See the case study on page 36	Unlisted
D.E. Shaw & Co	2012	D.E. Shaw Heliant International Fund – global macro hedge fund	Listed
Gladius Capital Management	2011	Gladius Volatility Opportunities Onshore Fund – volatility trading in various markets	Listed
Red Fort Capital	2011	Red Fort India Real Estate Fund II – Indian real estate	Unlisted
Managers terminated in 2011/12			
Western Asset Management Company Limited (WAMCO)	2009	Global fixed income securities	Listed
Managers retained in 2011/12			
Adams Street Partners	2007	Adams Street Partnership Fund – 2007 Non-U.S. Fund – non-U.S. private equity	Unlisted
American Securities Opportunity Fund II	2010	American Securities Opportunity Fund II – US companies experiencing operating or financial stress	Unlisted
AMP Capital Investors (New Zealand)	2005	AMP Property Portfolio (APP) – New Zealand property	Unlisted
	2003	New Zealand equities	Listed
	2005	AMP Pencarrow Private Equity Fund II – New Zealand management buy-outs and expansion capital transactions	Unlisted
Apax Partners Europe Managers	2007	Apax Europe VII – A (Feeder) – large European buyouts in the financial and business services, healthcare, media, retail and consumer, and technology and telecoms sectors	Unlisted
AQR Capital Management	2007	AQR Absolute Return Fund – multi-strategy mandate	Listed
	2009	CNH Convertible Arbitrage Fund – a diverse convertible arbitrage fund	Listed
Astorg Partners	2011	Astorg V FCPR – buy-outs and expansion capital in mid-market companies, predominantly based in France	Unlisted
BlackRock Investment Management (UK)	2010	Institutional Cash Series PLC – passive, global fixed income	Listed
Blenheim Capital Management	2010	The Blenheim Fund – active, market-neutral commodities	Listed
Bridgewater Associates	2006	Bridgewater Pure Alpha Fund II, Limited – global tactical asset allocation	Listed
Canyon Capital Advisors	2010	Canyon Distressed Opportunity Fund (Delaware) – distressed credit	Unlisted
Capital Partners Pty Limited (CP2)	2005	CP2 (A) Direct Investment Fund – global infrastructure mandate	Listed & Unlisted
	2011	Infrastructure – Horizon Roads	Unlisted
Coller Investment Management	2007	Coller International Partners V Fund – global private equity secondaries	Unlisted

Investment Activity Report (continued)

MANAGER	YEAR	FUND NAME (WHERE APPLICABLE) AND FOCUS AREAS	TYPE
Devon Funds Management	2011	Active New Zealand equities mandate	Listed
Direct Capital	2005	Direct Capital Partners III – mid-sized private equity in New Zealand and Australia	Unlisted
	2009	Direct Capital Partners IV – mid-sized private New Zealand companies that typically require further capital to continue growing their businesses, expand into Australia, or to assist with ownership succession	Unlisted
Direct Capital – Scales Corporation co-investment	2011	See the case study on page 34	Unlisted
Elementum Advisors	2010	Catastrophe-linked securities	Unlisted
FarmRight	2010	See the case study on page 43	Unlisted
GAW Capital	2010	Gateway Real Estate Fund III – real estate investments in Greater China and South-east Asia	Unlisted
Global Forest Partners	2007	Global Timber Investors 8 – timber assets in Australia, New Zealand and South America	Unlisted
	2010	Global Timber Investors 9 – timber assets in New Zealand, Australia, Asia, Africa and South America	Unlisted
	2012 & 2009	AIF Properties – Australian timber	Unlisted
GMO Renewable Resources	2005	Timber assets in New Zealand	Unlisted
Hancock Natural Resource Group, Inc	2005	Timber assets in the United States	Unlisted
	2005	Timber assets in New Zealand	Unlisted
HarbourVest Partners	2006	HarbourVest International Private Equity Partnership V Fund – non-U.S. private equity opportunities	Unlisted
Hellman & Friedman	2009	Hellman & Friedman Capital Partners VII (Parallel) – private equity in media, financial services, professional services, software and information services in developed markets	Unlisted
HIG Capital	2010	HIG Bayside Loan Opportunities Fund II (Bayside II) – stressed/distressed senior debt obligations of US and European small-cap companies	Unlisted
JMI Equity	2010	JMI Equity Fund VI – private equity focused on software, internet, business services and healthcare IT companies, predominantly based in USA	Unlisted
Kohlberg Kravis Roberts (KKR)	2008	KKR 2006 Fund – large and predominantly US private equity buyouts with scope to invest in Europe and Asia Pacific	Unlisted
	2007	KKR Asian Fund – private equity in Asia, including Australasia	Unlisted
LSV Asset Management	2005	Emerging markets equities	Listed
	2004	Value-oriented global equities	Listed
Milford Asset Management Limited	2009	Active New Zealand equities	Listed
H.R.L. Morrison & Co	2006	Global Infrastructure mandate which includes our investment in Z Energy; see the case study on page 32	Listed & Unlisted
	2009	Public Infrastructure Partners Fund – social infrastructure such as educational and healthcare facilities and student accommodation	Unlisted
Mountgrange Investment Management	2010	Mountgrange Real Estate Opportunity Fund – UK real estate; see the case study on page 42	Unlisted
	2010	MoREOF (Parallel I) Unit Trust – UK real estate	Unlisted

MANAGER	YEAR	FUND NAME (WHERE APPLICABLE) AND FOCUS AREAS	TYPE
Numeric Investors	2006	Global equities – multi-strategy	Listed
Orion Capital Managers	2009	Orion European Real Estate Fund III – private equity real estate	Unlisted
Pencarrow Private Equity	2010	Pencarrow IV Investment Fund – small and mid-market New Zealand businesses	Unlisted
QS Investors	2011	Global equities	Listed
Savanna Real Estate	2010	Savanna Real Estate (PIV) Fund II – private equity real estate in the major markets surrounding New York City, Washington, D.C. and Boston	Unlisted
Secured Capital	2010	SCJREP IV Loan Fund – non-performing and sub-performing commercial property loans in Japan	Unlisted
Sveafastigheter	2011	Sveafastigheter Fund III – real estate assets primarily in Sweden and Finland; see the case study on page 42	Unlisted
State Street Global Advisors	2009	Passive equities in: global large-cap and small-cap equities; developed-world listed real estate trusts; and emerging markets	Listed
Thompson, Siegal and Walmsley Inc	2004	US small-cap value equities	Listed
Vermillion Asset Management	2010	Viridian Fund – active, market-neutral commodities strategy	Listed
Waterman Capital	2010	Waterman Fund II – private equity investments in New Zealand companies with values ranging from $10 million to $50 million	Unlisted
Willis Bond & Co	2010	Willis Bond Institutional Partners – private equity real estate in New Zealand	Unlisted

CUSTODIANS	ROLE
Custodians during the financial year	
Direct Capital	Holding shares in Scales Corporation Limited as custodian
The Northern Trust Company	Global Master Custodian for the Fund's public market assets
Custodians appointed for a specific purpose during the financial year	
Wells Fargo and Bank of New York Mellon	Holding collateral associated with our investment in catastrophe-linked securities (including catastrophe bonds)
Euroclear Bank NA/SV	Holding collateral required under sale and repurchase (repo) transactions
The New Zealand Guardian Trust Company of New Zealand, the Public Trust and Perpetual Trust	Trustees for holding money relevant to tax pooling arrangements

GAVIN WALKER, CHAIR

ADRIAN ORR, CEO

A Statement of the Guardians' Investment Policies, Standards and Procedures (SIPSP) is published on our website www.nzsuperfund.co.nz. On behalf of the Board and Management of the Guardians of New Zealand Superannuation, we hereby certify to the best of our knowledge that the SIPSP has been complied with throughout the 2011/12 financial year.

Case Studies

KAINGAROA

The Fund's minority shareholding in Kaingaroa Timberlands Forestry Estate is our single largest investment.

Our original stake in the forest was purchased from the Harvard Management Company, the endowment fund of Harvard University, in 2006. Since then, we have increased our shareholding in Kaingaroa to 40%.

Located in the central North Island of New Zealand between Taupo and Rotorua, Kaingaroa covers around 178,000 hectares of planted forest, the bulk of which is Radiata Pine with a small quantity of Douglas Fir. It is widely recognised as one of the world's premier softwood plantations with attractive growth rates, close proximity to the Port of Tauranga, extensive infrastructure and low cost structure.

Around 4% of the forest is protected from the commercial harvesting of timber and is managed primarily for conservation objectives.

Kaingaroa owns harvesting rights to the plantation and the underlying land is owned by local Iwi.

Kaingaroa is managed in an environmentally sustainable manner by Rotorua-based Timberlands Ltd. and is registered under the strict international Forest Stewardship Council certification standard (www.fsc.org).

Kaingaroa was most recently audited to the Forest Stewardship Council standard in May 2012. The audit process, which found Kaingaroa conformed to the standard, included:

- field inspection visits;
- extensive stakeholder outreach and consultation;
- policy audits and document verification; and
- staff interviews.

The auditors noted that:

- harvesting levels were within sustainable limits;
- a baseline assessment of Kaingaroa's natural areas has been completed;
- Timberlands has begun monitoring water quality and key endangered species; and
- Timberlands' monitoring of chemical usage and reductions has improved.

The auditors also noted concerns among some stakeholder groups about recreational access to the forest. Access is currently restricted to daylight hours during weekends and public holidays with a low fire danger. Our forest managers aim to achieve an appropriate balance between public access and commercial outcomes. However, it is important to understand that Kaingaroa is a working forest and that health and safety concerns – both for the public and for the people working at Kaingaroa – are real and paramount.

UPDATE ON OUR INTEREST IN INCREASING OUR STAKE IN KAINGAROA

In May we announced that the Fund was (in partnership with global investment firm GMO Renewable Resources) in discussions with Harvard with a view to purchasing Harvard's majority stake in Kaingaroa. Ultimately, the parties were unable to reach agreement and discussions on the matter have not progressed.

INVESTING IN TIMBER GLOBALLY

While Kaingaroa is the Fund's largest timber investment, we also invest in a range of other timber assets in New Zealand and globally. Because of its relatively low levels of correlation to other investments, timber is a useful way of diversifying the portfolio. Furthermore, as a long-term, illiquid asset, timber is not suitable for all investors and is expected to deliver a premium return over time.

In June 2012, the Fund made an AUD$40 million co-investment with Global Forest Partners (www.gfplp.com) to purchase a share of some Australian Eucalyptus plantation assets being liquidated by Elders Forestry. The assets are located in close proximity to other plantations in which we are already an investor with GFP, and the management of the operations will be merged.

PERFORMANCE HIGHLIGHTS

Kaingaroa has consistently been one of the Fund's strongest-performing assets

18%
AVERAGE RETURN P.A. SINCE 2006

$954m
SHAREHOLDING AS AT 30 JUNE 2012

Case Studies (continued)

Z ENERGY

In 2010 the Fund purchased the New Zealand assets of global energy company Shell, in a 50:50 joint venture with listed New Zealand company Infratil (www.infratil.co.nz).

Shell's decision to exit New Zealand in order to pursue other opportunities internationally provided us with a rare opportunity to invest in a substantial local business.

With a limited number of suitable purchasers, we were able to acquire what is now known as 'Z Energy' at a good price. As a long-term, New Zealand investor, we were also attracted to its stable cash flows and the possibility of adding value by leveraging Z as a locally owned and managed business. We also felt the company would respond well to judicious investment after many years of limited available capital.

Over the last eighteen months, Z Energy has successfully completed one of the largest rebranding projects undertaken in New Zealand, with market research showing a high level of brand recognition and positive feedback on customer experiences.

Improving the company's retail offering has also been a priority, with around 100 service stations identified for a total shop refit; guaranteed forecourt service between 10 am and 5 pm; and a commitment to put all 2,500 site staff through a customer-service training programme.

In April 2012, Z Energy voted in favour of a $365-million upgrade to the Marsden Point oil refinery, in which it is a shareholder. The upgrade, which will allow for a wider range of crude oils to be processed in a more-efficient way, is expected to substantially improve the plant's energy efficiency and environmental outcomes.

The project is also expected to boost the Northland economy through the creation of 300 new jobs, with twice as many other roles created in supporting industries nationwide. Construction will begin in 2014.

The Fund's original $209.8-million investment in Z, which is one of the largest it has made, was independently valued at $518.5 million as at 30 June 2012.

SUSTAINABILITY

The Fund and Infratil have a made a formal commitment to ensuring Z Energy has good environmental, social and governance practices. We require ongoing monitoring of responsible investment criteria by our manager Morrison & Co, and are given direct access to health, safety, security and environmental reports by the company.

Z Energy has defined what it stands for on sustainability as:

- We will act to reduce our customers' carbon intensity by helping New Zealanders reduce their use of fossil fuels.
- We will use less and waste less.
- We will do what matters for people and communities.
- We will do business in a way that supports New Zealand.

Under each of these themes, the company has set measurable goals for 2015 and made a commitment to annual reporting of progress against them.

Specific activities include calculating the company's carbon footprint to establish an audited baseline against which it can measure progress in reducing carbon emissions.

Z Energy is also moving to gain certification to NZS/AS4801, a recognised Australasian occupational health and safety management system.

Further information is available at www.z.co.nz.

PERFORMANCE HIGHLIGHTS
For the year ended 30 June 2012:

$18.0m
DIVIDENDS PAID TO THE FUND

$13.7m
INTEREST RECEIVED BY THE FUND

ABOUT Z ENERGY

Z Energy (www.z.co.nz), which supplies around 30% of New Zealand's fuel, owns and manages businesses including:

17.1%
STAKE IN REFINING NZ WHICH RUNS NEW ZEALAND'S ONLY OIL REFINERY

25%
STAKE IN LOYALTY NEW ZEALAND WHICH RUNS FLY BUYS

208
RETAIL SITES

94
TRUCK STOPS

PIPELINES, TERMINALS AND BULK STORAGE TERMINAL INFRASTRUCTURE AROUND THE COUNTRY

Z Energy supplies fuel to retail customers and large commercial customers like airlines, trucking companies, mines, shipping companies and vehicle fleet operators. It also provides bitumen to roading contractors and manufactures ingredients used in detergents and other household products.

Case Studies (continued)

SCALES CORPORATION

During 2011, the Fund purchased approximately one-third of Scales Corporation, one of New Zealand's oldest companies. The opportunity to buy into Scales, a private unlisted company, came about through the receivership of South Canterbury Finance, which owned a 79.7% share of the business.

The sale price was $2 a share, valuing South Canterbury Finance's shareholding at about $44 million. Our investment was in two forms:

- 6% via investment firm Direct Capital's IV Fund, in which we have been invested since 2009; and
- a further 26% direct stake in the form of a 'co-investment' alongside Direct Capital.

The Fund's investment in Scales Corporation, which was settled in July 2011, marks the first time we have chosen to take an additional, direct stake in a private New Zealand company in addition to exposure achieved via one of our managers' funds. Scales was attractive to us for a range of reasons, including historical earnings stability and the integrated nature of its core apple business.

We also liked the alignment between Scales' activities in horticulture and storage for the farming sector with the long-term investment themes discussed on page 45. The growth potential in Asian markets for agriculture and food production is particularly relevant.

The Fund has a long-standing relationship with New Zealand investment firm Direct Capital (www.directcapital.co.nz), committing $20m in 2005 to the company's III Fund and a further $50m in 2009 to its IV Fund. The funds invest in mid-sized private New Zealand companies that typically require capital to fund business growth, expand into Australia, or assist ownership succession. Companies in which we have a stake through these funds include the real estate firm Bayleys, online retailer Fishpond, New Zealand King Salmon Limited and Hiway Group.

ABOUT SCALES CORPORATION

Scales Corporation (www.scalescorporation.co.nz), which celebrated its 100th anniversary in July 2012, is a horticulture and primary sector processing, exporter and logistics business headquartered in Canterbury. Led by Chairman Jon Mayson and Managing Director Andy Borland, it operates a diversified range of businesses throughout New Zealand and trades throughout the world.

Scales Corporation's businesses and activities include:

- Mr Apple – the largest grower, packer and exporter of apples in New Zealand;
- Polarcold and Whakatu Coldstores – comprising New Zealand's largest cold store network;
- Meateor Foods – pet food processor;
- Liqueo Bulk Storage Limited – bulk liquid storage;
- Freight consolidator Scales Logistics Limited; and
- Industrial property interests.

Case Studies (continued)

CHINA INFRASTRUCTURE PARTNERS

In December 2011, the Fund committed USD$100 million to China Infrastructure Partners, an investment fund sponsored by BOC International, a wholly owned subsidiary of Bank of China Ltd. and Temasek, an investing company based in Singapore.

The USD$426-million fund has the objective of achieving long-term capital appreciation in companies primarily engaged in the development, ownership or operation of infrastructure-related investments in China.

The kinds of opportunities that China Infrastructure Partners plans to pursue include:

- growth infrastructure opportunities such as water supply and sewage treatment, solid-waste treatment, natural gas distribution, renewable and alternative energy and environmental protection operations;
- social infrastructure opportunities in the healthcare and education sectors; and
- broader infrastructure-related opportunities including industrial gas, logistics and other infrastructure-related equipment and component manufacturing as well as related services.

WHY DID WE INVEST?

The infrastructure sector is a natural fit for the Fund, due to our long investment horizon and ability to hold illiquid assets. We also see China as a particularly attractive economy for investment. China is widely expected to enjoy better long-term growth than will more-developed markets; there is a strong trend to urbanisation and household incomes are growing rapidly.

The scale of investment in infrastructure in China is large but the investment environment is also complex. The opportunity to work with a specialised investor

China Infrastructure Partners management and investors, Beijing 2012.

like China Infrastructure Partners, which can harness Temasek's and Bank of China's deep in-market investor experience, as well as their ability to access support from the Bank of China's extensive local networks, was particularly attractive to us.

The decision to invest followed an 18-month due diligence process and a number of face-to-face meetings and site visits with representatives of Temasek and BOC International, as well as with China Infrastructure Partners' management team.

China Infrastructure Partners has a select number of investors with Temasek, Bank of China, ourselves and Korea Investment Corporation each making substantial financial commitments. This structure provides good alignment among the investors and provides us with a meaningful amount of influence in relation to the Fund. In addition, as we look to increase our knowledge of Asian markets more broadly, the networks and investment experience of the other investors in the fund will be extremely valuable.

BANK OF CHINA INTERNATIONAL (BOCI)

BOC International Holdings Limited (www.bocigroup.com/pub/en/), which specialises in investment banking, is a wholly owned subsidiary of Bank of China Ltd. BOCI has subsidiaries in New York, London, Hong Kong and Singapore, and a sales network covering most major Chinese cities such as Beijing, Shanghai, Guangzhou and Chongqing. BOCI offers its clients a wide range of investment banking services, including securities underwriting, mergers and acquisitions, financial advisory, equity sales and trading, equity derivatives, fixed income, private equity investments, leveraged and structured finance, asset management and commodities business.

TEMASEK

Based in Singapore, Temasek's (www.temasek.com.sg) SGD$198 billion investment portfolio, as at 31 March 2012, is concentrated principally in Singapore, Asia and growth markets, with 72% of its portfolio in Asia, including Singapore.

Temasek is a commercial investment company incorporated in 1974, governed by the provisions of the Singapore Companies Act. It owns and manages its assets with full commercial discretion and flexibility under the guidance of its board of directors.

As a long-term investor, Temasek has a stake in the lives and well-being of its community. It recognises that social, environmental and governance factors can impact them as well as the long-term sustainability of companies and businesses. Since its inception, Temasek has committed over SGD$1 billion for community, philanthropic and public-good causes.

KOREA INVESTMENT CORPORATION (KIC)

Korea Investment Corporation (www.kic.go.kr/en) is Korea's sovereign wealth fund, aiming to increase national wealth by maximising risk-adjusted returns, investing for the benefit of future generations, and contributing to the development of Korea's financial industry. Established in 2005, KIC had more than USD$42 billion in assets under management at the end of December 2011.

The NZ Super Fund's Joe Halapua at the China Infrastructure Partners' Investor Conference in Beijing, 2012.

Responsible Investment Report

We believe that responsible asset owners who exercise best-practice portfolio management should have concern for environmental, social and governance (ESG) issues. We also believe that, by improving ESG performance, companies can improve their long-term financial performances.

Our responsible investment (RI) work is integrated into all our investment activities. For example, understanding ESG issues is an important part of our risk assessment and due diligence on prospective individual investments. We also:

- monitor our portfolio for breaches of our RI requirements;
- engage with companies we are concerned about; and
- work closely with our investment managers to ensure the votes they make on our behalf are appropriate.

Our RI work programme is closely aligned to the United Nations' Principles for Responsible Investment (UNPRI). The UNPRI (www.unpri.org) is the internationally accepted benchmark for how institutional investors should manage environmental, social and governance issues.

We also provide RI services and advice to two other New Zealand Crown Financial Institutions: the Accident Compensation Corporation and the Government Superannuation Fund Authority.

The Guardians is a member of the Investor Group on Climate Change Australia/New Zealand (www.igcc.org.au), the International Corporate Governance Network (www.icgn.org) and the Responsible Investment Association Australasia (www.responsibleinvestment.org), of which staff member Anne-Maree O'Connor is on the Board.

HIGHLIGHTS FOR 2011/12

During 2011/12, we increased our focus on post-investment RI assessments with investment managers. One key change has been to integrate our RI reviews of manager performance into the overall annual manager review process. Notably, one-third of our managers are now members of the UNPRI, up from 11% in 2010/11.

RI in emerging markets has been another focus. Investment in emerging markets can have positive social and economic impacts, but it can also bring greater ESG risks. Over the year, we worked with our private market managers in India and China to build mutual understanding about the standards we expect them to reach and the processes we expect them to put in place. We also:

- participated in the UNPRI Private Equity Emerging Markets group;
- developed supplementary guidelines for our private market investments; and
- engaged a specialist agency, Det Norske Veritas (www.dnv.com), to help us and our emerging markets managers in controlling health and safety, environmental and other social risks.

Resource sustainability, along with the development implications that flow from this, has been identified as one of the Fund's three key investment themes.

Further information about our activities as a responsible investor is available on www.nzsuperfund.co.nz.

INTEGRATION

Work-stream overview:	Core activities:	UNPRI Principles:
• Developing guidelines to integrate ESG considerations across different types of investments • Effective engagement with the external investment managers and manager selection advisers we use and the companies in which we invest • Considering investments which provide positive social returns in addition to the required financial return	• Integrate RI guidelines across asset classes • Apply exclusions • Positive investment and social rating • Investment manager due diligence, monitoring and conviction	• Principle 1 – We will incorporate ESG issues into investment analysis and decision-making processes

Key activities for 2011/12:

- The Responsible Investment team moved into the Investments team in order to further integrate RI into our investment activities. The team was formerly situated within Corporate Strategy.
- We improved our annual RI review of managers, updating the rating criteria and fully integrating the RI review into how we evaluate managers.
- Resource scarcity was introduced as one of three long-term investment themes.
- We have started to quantify ESG factors in a way that will better integrate these into our overall investment framework.
- Emerging-market guidelines were developed to supplement the RI private-market guidelines and assist with the practical application of ESG requirements in investments.
- A focus on staff training included RI education sessions for Board members and development of an RI induction pack for new staff members.
- As an indication that RI is becoming an integral part of the Fund's culture, around a dozen mainly investment staff have started training with the RI Academy (www.riacademy.org).

OWNERSHIP

Work-stream overview:	Core activities:	UNPRI Principles:
• Being an active owner of securities in which we invest by exercising our voting rights • Maintaining a robust analytical and decision making process in responding to investee companies breaching our RI standards	• Direct and collaborative engagements with companies • Voting – reducing agency risk • NZ Corporate Governance • Governance guidelines for other asset classes	• Principle 2 – We will be active owners and incorporate ESG issues into our ownership policies and practices

Key activities for 2011/12:

CORPORATE GOVERNANCE AND VOTING

- Good corporate governance practices and voting rights are important for maintaining shareholder oversight of directors, boards and company policies. We aim to use our voting rights to promote best-practice corporate governance both in New Zealand and overseas. A record of how we have exercised our voting rights can be found on www.nzsuperfund.co.nz.
- Over the year, we and our managers engaged intensively with several New Zealand companies on corporate governance issues, particularly in relation to the governance structure of property trusts. We submitted resolutions to the General Meetings of the Argosy Property Trust and Vital Healthcare Property Trust.
- The Fund is represented on the Boards of Z Energy and Horizon Roads, and on the Advisory Boards of seven of our external funds.

MONITORING

- Our monitoring list is focused on companies where we have completed our analysis and/or engagement activities. In each of these cases, we are monitoring the company's implementation of agreed actions, monitoring for reoccurrence of breaches of standards or waiting to hear the outcome of legal action against the company.
- As at 30 June 2012, 21 companies were on the Fund's monitoring list.

ENGAGEMENT

- Engagement is when, either on our own behalf or in partnership with other investors, we encourage companies to address poor ESG performance, or where we are encouraging companies to adopt good corporate practice standards. The engagement process we follow is published on www.nzsuperfund.co.nz.
- In our experience, collaborative engagements are more effective than is direct engagement.

Responsible Investment Report (continued)

OWNERSHIP (continued)

- Barriers to engagement include language, limited ability to meet in person, litigation in progress, and the context in which the company operates. Despite this, as a result of engagement programmes by ourselves and other investors, companies are increasingly aware that investors are analysing their environmental, social and governance performance and expecting them to address severe breaches of standards.
- We participated in 10 UNPRI collaborations involving engagement with 190 companies during the year. We also participated in the Carbon Disclosure Project with another 250 regional companies.
- Direct communications were undertaken with 16 further companies in the portfolio, primarily on human rights and safety issues.

EXCLUSION

- Exclusion decisions were applied to the Fund's shareholdings through ongoing monitoring of compliance, regular exclusion list updates and directives to our managers.
- Since 2007 this has included the exclusion from the Fund of companies that are directly involved in the manufacture of tobacco. In 2011, it was brought to our attention that a subsidiary of a company in which we were invested, Shanghai Industrial Holdings Ltd, was involved in tobacco manufacture. We moved quickly to exclude Shanghai Industrial Holdings Ltd. from our investment portfolio and have modified our screening processes to better capture activities by subsidiary companies.
- A list of companies which have been excluded from the Fund is available on www.nzsuperfund.co.nz.

BREAKDOWN OF THE FUND'S ENGAGEMENT ACTIVITIES DURING 2011/12

Number of companies	**ESG issues engaged on**	**Objective**	**Direct or collaborative**	
			Direct	**Collaborative**
37	HUMAN RIGHTS AND SAFETY			
	Conflict zones	Pilot phase for implementing and refining the United Nations' *'Guidance on responsible business in conflict affected and high risk areas: A Resource for companies and investors'*. Engaging on companies' management of security risks and reports of abuses in conflict-prone areas.	6	10
	Health and safety, and labour practices	Improving working conditions and health and safety at mining and electronics manufacturing companies.	4	1
	Supply chain risks	Ensuring supply chain management procedures and policies exist, and are transparent and sufficiently robust to address risks of poor labour practices, human-rights infractions or environmental damage.	0	16
18	SEVERE ENVIRONMENTAL DAMAGE	Improving the management and reporting of environmental risks (including emergency response systems).	2	16
22	BRIBERY AND CORRUPTION	Seeking significant improvements in anti-bribery policies and practices, following significant incidents at the companies.	1	21
376	BEST PRACTICE REPORTING			
	Climate change	Increasing the number of companies reporting on climate change emissions and risk management. Collaboration through the CDP and IGCC initiatives.	0	250
	ESG risks	Encouraging public reporting on ESG risks amongst emerging-market companies (South Korea).	0	10
	UN Global Compact Standards	Comply with reporting requirements under the UN Global Compact.	0	116
3	NZ CORPORATE GOVERNANCE	Addressing Corporate Governance issues at specific NZ companies.	3	
	Palm oil	Multi-stakeholder initiative to improve and promote sustainable certification of palm oil.	0	Multi-stakeholder
			16	440

DISCLOSURE

Work-stream overview:	Core activities:	UNPRI Principles:
• Raising investee companies' awareness of good-practice reporting standards and encouraging their own efforts in this regard	• ESG reporting standards for companies • Carbon Disclosure Project • Encourage good-practice reporting by NZ companies	• Principle 3 – We will seek appropriate disclosure on ESG issues by the entities in which we invest

Key activities for 2011/12:

- We are a participant in the UNPRI collaboration on ESG disclosure in emerging markets because disclosure of environmental, health and safety, social and governance data is an important element in assessing emerging market investment risk.
- We provided feedback on sustainability reporting to Z Energy and our private equity manager KKR.

BEST PRACTICE AND COLLABORATION

Work-stream overview:	Core activities:	UNPRI Principles:
• Benchmarking our performance against the RI standards to which we aspire • Contributing to the development of best practice	• Participation in forums and working groups (e.g. UNPRI) • Engagement with regulators and advisors • Collaboration with Crown Financial Institutions and global peers • Asset and co-investment guidelines	• Principle 4 – We will promote acceptance and implementation of the Principles within the investment industry • Principle 5 – We will work together to enhance our effectiveness in implementing the Principles

Key activities for 2011/12:

- The Guardians was rated in the top quartile of signatories for our implementation of all six of the UNPRI Principles over the previous two annual UNPRI assessments. The most recent UNPRI survey was undertaken in 2010/11. Further detail on our performance in this survey is available in our 2010/11 Annual Report. There is no 2011/12 assessment because the UNPRI is instead piloting a new framework which will be available for 2012/13 (see Communication). This year:
  - one-third of our investment managers are members of the UNPRI (up from 11% last year)
  - the Fund was again an active participant in the UNPRI private equity and property work-streams, with an emphasis on emerging markets and green property respectively.

COMMUNICATION

Work-stream overview:	Core activities:	UNPRI Principles:
• Reporting on our RI policy and activities including the benchmarking of those activities.	• Public reporting of RI activity and benchmarking • Internal reporting • Stakeholder engagement	• Principle 6 – We will each report on our activities and progress towards implementing the Principles

Highlights for 2011/12:

- The UNPRI is developing a new Reporting Framework which, while continuing to measure progress against the Principles, will provide increased transparency over institutions' progress in implementing them. The first reporting process under the new Framework will begin in 2013 and will replace the assessment process that was suspended this year.
- Key differences between the new Reporting Framework and the previous survey are:
  - a shift from self-assessment to self-reporting, with quantitative and qualitative data required to demonstrate the extent to which each Principle is being implemented;
  - publication of a set of mandatory indicators that are core to responsible investment implementation;
  - a deeper and more-holistic focus on asset classes beyond equities;
  - an improved distinction between indirect implementation (by asset owners) and direct implementation (typically undertaken by investment managers and larger asset owners).

We will publicly report on our performance against the new Reporting Framework once it has been finalised.

Responsible Investment Case Studies

INTEGRATION OF ESG INTO INVESTMENTS

Mountgrange
www.mountgrange.com

The Fund is an investor, through the Mountgrange Real Estate Opportunity Fund, in the development of a low-carbon business park in Scotland.

The development aims to deliver offices and warehouses that are best in class for energy efficiency, helping to reduce energy consumption, carbon emissions and running costs. The development aims to achieve the BREEAM 'Excellent' standard. BREEAM (www.breeam.org) is the world's leading design and assessment method for sustainable buildings.

The business park is part of Scotland's Energetica Corridor, which focuses on energy-efficient business communities. Energetica is currently developing a hydrogen-powered bus and refuelling infrastructure project which the business park will support and from which it will benefit. The site is also being considered for a Park & Ride facility by the local council.

Sveafastigheter
www.sveafastigheter.se

Another one of our European managers, Sweden's Sveafastigheter, aims to become a leading nationwide property owner in assisted-living developments.

In May 2012, Sveafastigheter announced that it had taken a majority stake in Högkullen, the owner of around 50 residential units for functionally impaired individuals.

The development is a result of reforms by the Swedish government designed to provide people with more individually tailored housing and welfare than can be provided in large institutions, improving their quality of life and chances of participating in society.

The municipality provides guarantees which reduce tenant and letting risk, and deliver very low tenancy turnover. Högkullen is an example of an investment with a high, positive social impact that can also generate positive returns for investors.

Sveafastigheter, which is also known for its commitment to integrating sustainable design principles into its developments, was named the best real estate investment manager in Sweden and Finland in the 2011 Euromoney Real Estate Poll. We are invested in Sveafastigheter's Fund III.

UNPRI COLLABORATION

As part of a group of 16 UNPRI signatories, we have been engaging with 16 global consumer electronics companies about exposure through their supply chains to metals sourced from Eastern Congo, an area of conflict. In addition, US-listed companies must comply with SEC disclosure rules on this issue.

Of the set of companies contacted, 11 companies have responded positively. During 2012, the companies improved their disclosure practices and most had comprehensive policies on this issue in place. The UNPRI group's focus is now on implementation and due diligence regarding the source and chain of custody of minerals that could come from conflict zones.

In line with this challenging theme, we continued our work with the UN working group on human rights and conflict. The programme is managed jointly by the UNPRI and UN Global Compact as a multi-stakeholder initiative.

Conflict poses significant business, employee and security risks to companies. In 2010, the working group produced a public guidance document for companies and investors working in conflict-affected and high-risk areas. The UN Global Compact has offices in a number of conflict-prone countries and facilitates meetings with companies, communities and investors to test and refine the guidance through practical on-the-ground experience.

UPDATE ON FREEPORT MCMORAN

The Fund recently divested its holding in Freeport McMoRan, operator of the large gold and copper Grasberg mine in West Papua, Indonesia. The decision to exclude the company followed a lengthy engagement with the company on human rights and security issues.

Freeport McMoRan's response to engagement from investors and other stakeholders has included signing up to the Voluntary Principles on Security and Human-Rights, establishing a whistleblowing system, implementing human-rights training, and improving its environmental reporting in Indonesia. However, major concerns about environmental and human rights practices related to the mine have persisted. Despite the company's policies and procedures, it continues to face severe human-rights-related risks arising from security forces over which it has little control. The practice of making direct payments to the military arguably increases tension in the area and is a practice that has been repeated in the company's new mining interests in the Democratic Republic of the Congo.

Based on our belief that continued engagement would be unlikely to deliver substantive further change, particularly considering the security context, the decision to exclude Freeport McMoRan from our portfolio was made in July 2012.



FARMRIGHT

Over the last year and a half, the Fund has built a $110-million rural land portfolio in New Zealand. The portfolio of 10 dairy farms is managed by FarmRight Limited (www.farmright.co.nz) on our behalf.

As a long-term responsible investor, we expect our farms to meet good-practice standards. Prior to purchasing any farms, FarmRight and the Fund agreed on a series of responsible investment requirements, including the development of FarmRight's Responsible Farming Policy. This overarching document includes specific policies on:

- environmental management and sustainability;
- health and safety of staff, contractors and visitors;
- human resources;
- animal management and welfare;
- business standards and ethics; and
- asset management.

FarmRight provides detailed reports to us on compliance with their Responsible Farming Policy, and Fund representatives make minimum six-monthly visits to each farm.

We aim to bring any farms which are not up to industry good-practice standards at the time of purchase, up to scratch within 12 months.

HEALTH AND SAFETY

Occupational Health & Safety policies apply to all employees, managers and contractors. FarmRight has a Health & Safety committee and receives regular reports on Health & Safety audits. FarmRight also engages an independent Health & Safety consultant to assist in reviewing all farms and operations post-purchase, and with the implementation in a structured fashion of an upgraded Health & Safety system for each farm. Health & Safety manuals are updated with risks specific to each farm and there are formal Health & Safety reviews with on-farm staff.

ANIMAL WELFARE

FarmRight's Animal Welfare Policy and Code of Practice applies to all farms. Monthly review checklists are completed by FarmRight's senior managers and farm consultants.

ENVIRONMENTAL MANAGEMENT AND SUSTAINABILITY

Daily checks by farm managers and monthly checks by FarmRight senior managers ensure environmental protection is central to the way our farms are managed. FarmRight operates within a detailed set of policies and procedures on:

- nutrient budgeting;
- fertiliser and nitrogen use;
- effluent management and compliance;
- irrigation water management; and
- protection of waterways in line with the 2003 Dairying and Clean Streams Accord.

TRADING AMONG FARMERS

This year, Fonterra, New Zealand's dairy cooperative company, proposed a 'trading among farmers' scheme to give farmers the ability to trade shares among themselves, as well as to give private investors access to Fonterra's dividend flow. The scheme is designed to mitigate the financial or 'redemption' risk to Fonterra of having to pay out farmers when they sell their farms.

The Fund voted in favour of trading among farmers. Our view is that resolving the redemption risk issue will assist Fonterra in the implementation of its business strategy and ultimately benefit shareholders.

PERFORMANCE REPORTING

The Fund is in the process of agreeing a reporting framework with FarmRight against which we will publicly report on how our farms are performing relative to good industry practice. We intend to commence reporting against this framework in the 2012/13 Annual Report.

All of the Fund's farms are compliant with the 2003 Dairy and Clean Streams Accord and no breaches of resource consents or other regulations were recorded during 2011/12.

QUICK FACTS

- Total number of farms: 10 (four in Waikato; four in Southland; one in Canterbury; one in Otago)
- Farm purchases settled during 2011/12: six
- Land: 2,500+ hectares
- Cows: 9,550

Operational Report

Highlights

TARGET OPERATING MODEL

One of our priorities during the year was to develop a 'target operating model' for the Guardians, establishing an ideal view of our activities and the resources required to support our strategic objectives in the medium term (five years out).

The model is based on a number of key assumptions, including a commitment to active investment management where we have a strong expectation of meaningful risk-adjusted returns net of cost, and on the need to build an operation that is agile and scalable, in anticipation of a resumption of Crown contributions in the 2017/18 year.

In developing the model, we looked closely at international best practice, studying the operating models used by a number of similar funds overseas. Key trends include:

- an increasing focus and discipline on whole-of-fund costs, leading to in-sourcing, co-investment and collaboration;
- greater concentration on direct investments; and
- less reliance on skill and more focus on identifying opportunities as key drivers of return.

We then considered these trends in light of our particular advantages and challenges as a New Zealand-based, sovereign fund with a long-term horizon.

A focus of our work was to develop positions on whether different types of investment and operational support activities should be managed in-house or outsourced. We also re-assessed where we should focus our investment search and selection in order to have the highest possible confidence of achieving our mandate of maximising returns without undue risk.

Our ideal operating model has:

- simpler investment processes which enhance our ability to consistently rank investment opportunities and prioritise our efforts;
- greater influence over the allocation of our capital to different investment risks;
- fewer, but deeper, external manager and advisor relationships, based on more of a partnership approach; and
- a more concentrated, active investment portfolio (as opportunities in which we have high confidence arise).

The work stressed the importance of ranking investment opportunities based on our level of confidence in them. The factors which give us the highest confidence are:

- a high degree of consistency between our natural advantages and investment beliefs, and the investment;
- the ability to gain a clear view of why the opportunity exists and why it will improve the portfolio;
- alignment with our long-term investment themes, as outlined below;
- low reliance on skill alone (including our own) as the driver of expected returns; and
- the highest ability to identify and manage the investment risk ourselves.

We also found that there is a good business case for managing investment functions internally when the activity is high net value-add and/or a key control function. However, we will need to add to our capability in key areas such as portfolio design and investment analysis. We will also continue to invest in building a constructive, collaborative culture with strong integration across teams.

INVESTMENT THEMES

As a long-term investor, we aim to draw out the investment implications of economic, social and environmental trends which we expect will persist through the ups and downs of the economic cycle. These include:

- higher growth in emerging markets than in developed ones;
- demographic shifts such as population ageing and urbanisation in most non-OECD countries; and
- ongoing pressure on many natural resource supply capacities.

The investment themes we have developed from these major trends are:

1. **Emerging Markets Segmentation**. Emerging market economies are more disparate than are those of OECD countries and their domestic growth is often more insulated from the rest of the world. These factors provide important diversification benefits to our investment portfolio. There is also the possibility of high returns, due to underdeveloped capital markets and the time it can take for policy changes (e.g. regulatory improvements) to take effect and reduce risk premiums. However, higher growth rates and the possibility of declining risk premiums only matter to the extent that they have not already been priced in to investments.
2. **Resource Sustainability**. There is a compelling scientific consensus to suggest that many existing resource usage patterns are not sustainable. We think this presents an investment opportunity because impacts may not be fully priced in given short-term investment and policy horizons. Energy, rural land, timber and water are areas of opportunity. We also think that ESG considerations will be increasingly important.
3. **Evolving Demand Patterns**. Population ageing and other demographic shifts, in particular the rise

Highlights (continued)

of middle classes in the emerging markets, have demand implications for sectors including tourism, luxury goods, protein, food security, housing, education and aged care.

While price remains the most important factor for any investment given its direct implication for the expected return, all else being equal, we view an investment which is positioned to benefit from one of these themes more favourably than one that is not. Our challenge is to identify tangible investment opportunities where these themes are not already priced in.

COOPERATIVE COMPLIANCE AGREEMENT WITH IRD

The Fund is one of New Zealand's biggest taxpayers. As such, we work closely with the Inland Revenue Department, with which we have an open and constructive relationship. In October 2011, this relationship was formalised through the signing of a Cooperative Compliance Agreement between the organisations.

The Agreement, which applies for the next four years, aims to provide practical certainty on tax compliance by looking at tax risks in real time prior to the time the tax return is lodged.

INFINZ EXCELLENCE IN TREASURY AWARD

In May our Portfolio Completion team was delighted to win the Massey University College of Business 'Excellence in Treasury' Award as part of the New Zealand Institute of Finance Professionals' annual awards programme.

Established in 2009, the Portfolio Completion function has expanded rapidly to become one of the Fund's key drivers of value. Bringing the Fund's currency management in-house has been a significant achievement, resulting in considerable cost savings and improved risk management.

CIO EXECUTIVE TEAM OF THE YEAR AWARD – SUPERMART DEPLOYMENT

An important focus over 2011/12 was the successful development of 'SuperMart', an operational platform that allows reconciliation of daily investment transactions and reporting of risk positions on a whole-of-Fund basis.

With the size of the Fund projected to grow significantly over time, top-quality, future-proofed information technology systems are essential to our work. As well as managing and reconciling a sizeable number of complex, big transactions, we need accurate, easily accessible information about the performance of the Fund's investments to inform our decision-making.

SuperMart, which was built using Microsoft technology, has delivered:

- rapid loading of multiple data streams into a secure central environment;
- a scalable management information platform; and
- the ability to obtain consistent, whole-of-Fund 'slice-and-dice' information.

As well as giving the Operations team an early view of future work flows, SuperMart provides daily reports, based on built-in tolerances, of any discrepancies between our Bloomberg AIM trading system records and those of our custodian (banker) Northern Trust. This means the team can focus its efforts on identifying and investigating significant breaches rather than on manually reconciling every single transaction.

Once the basic SuperMart platform was in place, work commenced to develop a series of investment applications utilising the whole-of-Fund 'slice-and-dice' information it can provide. Three applications have been developed so far:

Rebalancing

This application measures the risk of the Fund, keeps track of our actual exposure to various asset classes and global currencies (relative to our target weights), and allows us to model and rebalance our actual exposures back to our target weights.

Currency hedging

This application measures currency exposures and enables us to make informed decisions about whether we need to buy or sell a particular currency to manage our risk relative to the New Zealand dollar. On a daily basis, the application calculates how much of the Fund should be hedged, based on target weights, and gives recommendations about how much of each currency we should be buying or selling.

Cash flow analysis

This application enhances the rebalancing tool by tracking the Fund's cash inflows and outflows, giving us a daily forward-looking view of the cash position of the Fund.

In the context of the Global Financial Crisis and ongoing economic uncertainty, the tools have given us greater real-time visibility over the Fund's risk profile and enabled a more sophisticated approach to anticipating and managing risk. Specific benefits include:

- stronger management of cash;
- a better view of the Fund's liquidity; and
- the ability, through the rebalancing tool, to undertake 'stress testing' and run a range of risk scenarios.

Importantly, the increased data integrity delivered by SuperMart has reduced the risk of making bad investment decisions based on bad data.

The Leadership Team's teamwork and leadership on this project was recognised in the 2012 CIO Awards, when it won the Clearpoint 'Executive Team of the Year for Innovative use of Technology' category.

Risk Management

The Guardians has risk-management policies, procedures and other internal controls for application by our staff, external investment managers and other expert service providers. Risk management is further supported by our Code of Conduct. Our approach to managing investment risks is set out in our Statement of Investment Policies, Standards and Procedures, which is available on www.nzsuperfund.co.nz.

We actively monitor staff compliance with the relevant policies and procedures as well as compliance by external managers with the mandates we give them.

Consistent with our increased focus on risk awareness, during the year under review, we commenced a staff education programme, increased the number of formal meetings of the Guardians' Risk Committee and completed a comprehensive update to our enterprise risk record framework. This work included changes to improve the oversight of risks as well as further embedding the risk framework into the business. We also started the annual process of reviewing the various policies that sit under the new policy framework that we put in place in the previous financial year.

The Guardians' Board has developed a risk-appetite statement outlining its expectations regarding the level of risk that is appropriate for the Fund to take on. Our performance against this statement is measured and reported to the Board on a regular basis, with any major breaches being notified on an exception basis.

The key risk measures relate to rebalancing (designed to keep the Fund's overall volatility in line with the Reference Portfolio), strategic tilting active risk, active manager risk limits and target levels of liquidity.

Performance against key risk measures

	TARGET	2011/12
Investment Risk Measures		
REBALANCING		
• Breaches of absolute risk limit (overall acceptable level of risk in the Fund) post-portfolio rebalancing	0	0
• Breaches of relative risk limit (rebalancing limits) post-portfolio rebalancing	0	0
BREACHES OF ACTIVE MANAGER LIMIT	0	0
TILTING		
• Breaches of strategic tilting active risk limit post-portfolio rebalancing	0	0
• Breaches of strategic tilting absolute risk limit post-portfolio rebalancing	0	0
BREACHES OF TARGET LIQUIDITY LEVEL	0	0
BUSINESS RISK MEASURES		
• Active breaches of compliance with investment mandates	0	4*
• Loss of data/IT services of more than 30 minutes	0	0
• Regulatory non-compliance	0	0
• Instances of fraud	0	0
• Restatements of Fund reporting	0	0
• Operational incidents or errors rated as potentially high risk	N/A	6**

* Our custodian reports any breaches of compliance with the Fund's external and internal investment mandates to us for investigation and discussion with the manager involved (e.g. failing to sell a stock that had dropped out of an index within an agreed time period). All breaches, passive and active, are factored into our ongoing monitoring and reviews of our investment managers. In the case of serious incidents, a claims process is available to the Fund. No claims were pursued in 2011/12 and, as at 30 June, all of the breaches had been investigated and resolved to our satisfaction.

** The Fund has a structured process for reporting, investigating and rectifying operational incidents and errors (e.g. a data entry error or a failure to correctly follow a process/instruction). Incidents or errors with potentially high impacts are reported to the Board's Audit Committee. As our objective is to capture as much information as possible with a view to improving our processes and controls, we do not set a target for reducing the number of errors reported. All of the six potentially high-risk incidents over 2011/12 had been resolved as at 30 June 2012; none had serious negative consequences.

Risk Management (continued)

Performance measures

In our 2010/11 Annual Report (page 21) we signalled our intention to introduce a new performance measure (the impact of investment risk on the Sharpe Ratio of the Fund) in the 2012 Statement of Intent. The Sharpe Ratio is the ratio of the expected return to volatility.

However, we have decided against producing this measure on the basis that it may not provide a full picture of the potential range of outcomes that this Fund may be faced with. Our view is that the existing 'worst-case downside risk' measure, as set out in the Statement of Service Performance on pages 57–59, remains the most meaningful and relevant gauge of our expected range of performance outcomes.

LIQUIDITY RISK MANAGEMENT

One of the Fund's natural advantages is its long-term investment horizon. This allows us to invest in illiquid assets – for example, forests, infrastructure and private (unlisted) companies. Because these assets can be difficult to sell quickly, they are not suitable for all investors, but are expected to deliver a premium return over time.

Following the 2008 Global Financial Crisis, we took advantage of market distress to invest in some illiquid assets. As the proportion of illiquid assets in the Fund has risen, we have placed a greater focus on enhancing our management of the Fund's liquidity.

The Fund's liquidity requirements include having:

- access to enough cash to be able to cover our operating costs, pay tax and provide pre-committed capital to investment managers; and
- a large enough pool of liquid assets in reserve in order to rebalance the portfolio and to meet potential collateral requirements from our derivative exposures.

Liquid assets are those which can be sold quickly (we define this as being within nine days) and at low cost, even in times of market stress.

During the year, we assessed all of the Fund's investments for their liquidity under various scenarios, using the Global Financial Crisis as a base case. As a result, we have a structured process for responding to extreme market volatility, and have established a series of trigger points for Investment Committee and Board notification and involvement.

The project also resulted in the refining of our (already higher) hurdle for new investments, if they are illiquid.

Ultimately, the ongoing work programme aims to ensure that, regardless of market conditions, we always have an adequate level of liquidity to survive future extreme market events.

Cost Efficiency and Benchmarking

Cost efficiency is central to all our investment decisions. We therefore seek to:

- ensure that any fees paid to external managers are in line with market standards and the complexity of the investment;
- include the cost of due diligence in our assessment of whether an investment opportunity is worth pursuing, relative to the potential risk-adjusted value;
- choose cost-effective access points for all investment opportunities; and
- benchmark our costs against those of our peers.

During 2011/12 we worked to leverage joint public sector purchasing power where possible, entering into All-of-Government purchasing agreements for Office Consumables and IT equipment. Work also began with the Ministry of Business, Innovation and Employment on the All-of-Government Contracts for Travel and Legal Services.

The annual CEM cost-effectiveness survey provides international benchmarking information for sovereign wealth and pension funds. The most recent survey, which is available on www.nzsuperfund.co.nz, estimated the Fund's total costs for the 2011 calendar year, when adjusted for asset mix and implementation style, to be well below the median cost of our peers.

In 2011 we also participated in the inaugural CEM Global Leaders Forum. Global Leaders is a new initiative by CEM, focused on deeper benchmarking of a group of around 20 leading long-term global investors, with an average fund size of USD$100 billion plus. The inaugural Forum focused on organisational design. Risk-management practices have been selected as the Forum's focus for 2012.

FUND EXPENSES

The Guardians' and the Fund's expenses are accounted for separately. Both sets of expenses are met by the Fund, with the exception of a small annual appropriation from Parliament, to meet the expenses of the Board of the Guardians and for audit fees.

In dollar terms and as a proportion of funds under management, the Fund's overall expenses reduced over the year, primarily driven by a significant decrease in the performance fees paid to managers. Net of performance fees, expenses remained flat, at approximately 0.45% of funds under management.

Base manager fees increased from $34.7 million in the prior year to $38.3 million, but remained broadly flat at approximately 0.20% of funds under management.

In the 2010/11 financial year, the Fund set aside $36.1 million to pay performance fees to investment managers over the course of 2011/12. Of this amount, $23.8 million was paid out during the year. Of the remaining amount, $11.6 million was not paid out as the managers concerned did not meet all their key performance benchmarks. This amount is therefore considered a credit against expenses, as illustrated in the following Expenses Analysis graph.

Custody fees decreased marginally from $4.8 million to $4.5 million. These fees have been reduced through various cost-saving initiatives as well as being impacted by the size of the funds under management, which lay below the year-end level for a large portion of the period.

Personnel costs increased from $18.3 million in the prior financial year to $19.6 million – a function of the increased headcount of the Guardians. As a proportion of the funds under management, however, these costs fell slightly from 0.11% to 0.10%.

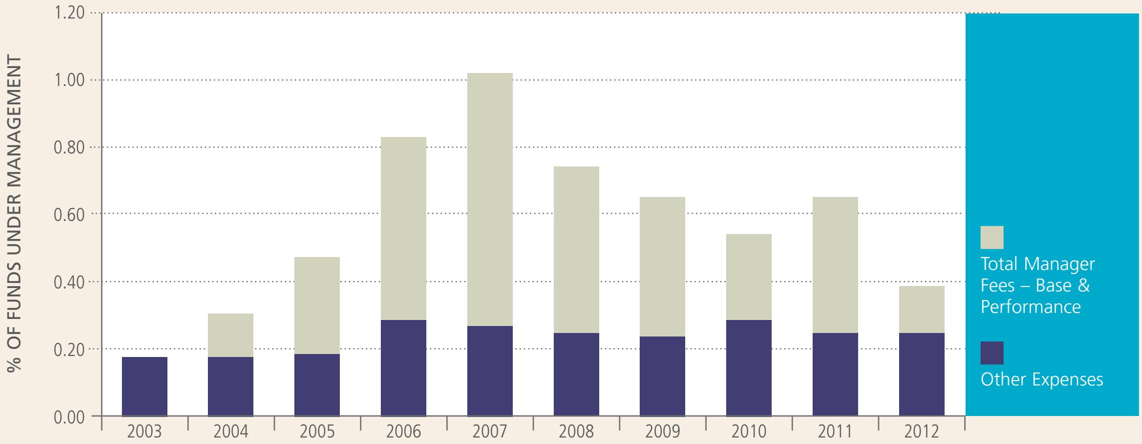
Other operating expenses (including trading and brokerages expenses, depreciation and amortisation, audit fees and advisor costs) increased from $20.5 million to $22.8 million in the year, again, remaining flat as a proportion of funds under management at 0.12%.

As a direct result of the lower level of profit generated, the Fund has recognised a tax expense for the year of $183.3 million, a significant decrease from the previous year.

As a proportion of profit before tax, the tax expense for the year has increased as a result of adjustments arising from the Fund's foreign equity holdings (due to the application of the fair dividend rate (FDR) regime).

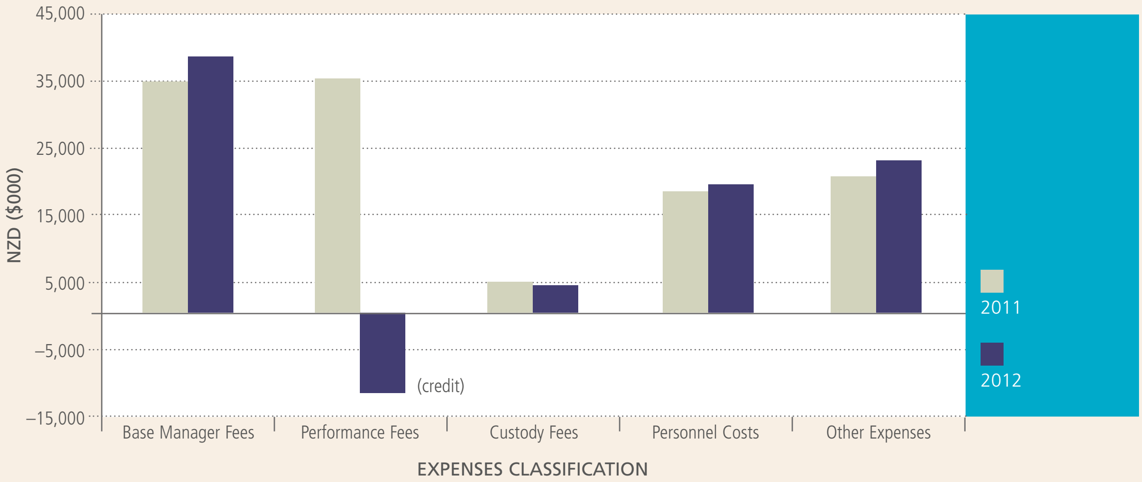
Cost Efficiency and Benchmarking (continued)

Fund Expenditure as a Percentage of Funds Under Management



Expenses Analysis for the Year Ended 30 June 2012

Total expenses 2012: $73.7m 38.8bps (excluding performance fees: $85.2m 44.8bps)
Total expenses 2011: $113.4m 65.4bps (excluding performance fees: $78.3m 45.2bps)



People and Environment Report

Our People

The Guardians aims to foster and develop strong leadership, to have a strong culture and shared values, and to ensure all staff members are working to clear and defined objectives in line with our strategic plan.

Being able to attract, retain and develop high-calibre people in what is a highly competitive, global market is vital to the performance of the Fund. As financial markets recover from the Global Financial Crisis, competition for good people from institutional investors, including peer funds, has intensified.

We place a high priority on attracting the best candidates, retaining our top talent and building the capacity of our team. We strive to be a good employer and are committed to offering equal employment opportunities to prospective and existing staff. Workplace flexibility, investing in professional development and offering staff career progression opportunities are central to our employment offering.

As a Crown entity, we are mindful of the Government's focus on fiscal prudence. We aim for an employment offering which is both reasonable in the New Zealand context and sufficient to attract the talented people who can deliver value in terms of Fund performance, relative to cost incurred.

LEADERSHIP DEVELOPMENT

Leadership development was a strong focus for the year, with good progress being achieved against a programme to build leadership capability and, in turn, create an inclusive culture that is strongly focused on achievement and development.

An organisation-wide culture survey was completed, providing a solid basis for strategy development and a good benchmark for future research. A 360° leadership styles survey also showed a marked improvement in all constructive styles over the year.

Our commitment to building a positive, collaborative and transparent culture is reflected in the Guardians' remuneration framework. Unusually for an investment organisation, we remunerate staff in part on Key Performance Indicators (KPIs) that put an equal weighting on achievement by way of objectives and competencies. This means employees are rewarded not just for their results and what they achieve, but also for the way they work with others. Further information on our remuneration framework is contained later in this section.

SECONDMENT PROGRAMME

For a small, geographically isolated fund like New Zealand's, collaboration with peers across the world offers a range of strategic benefits. In the Guardians' early years, as the organisation established itself and built internal capacity, relationships with similar funds were particularly valuable for the insights they provided into best practice. As we mature as an organisation, we continue to strengthen our peer fund relationships in order to benchmark our performance, increase our access to attractive investment opportunities, and share knowledge and expertise.

One concrete example of this strategy in practice during 2011/12 has been a six-month secondment into Brisbane-based sovereign fund manager QIC (www.qic.com) for a Guardians RI staff member. QIC is one of the largest institutional investment managers in Australia, with more than AUD$84 billion of exposures under management.

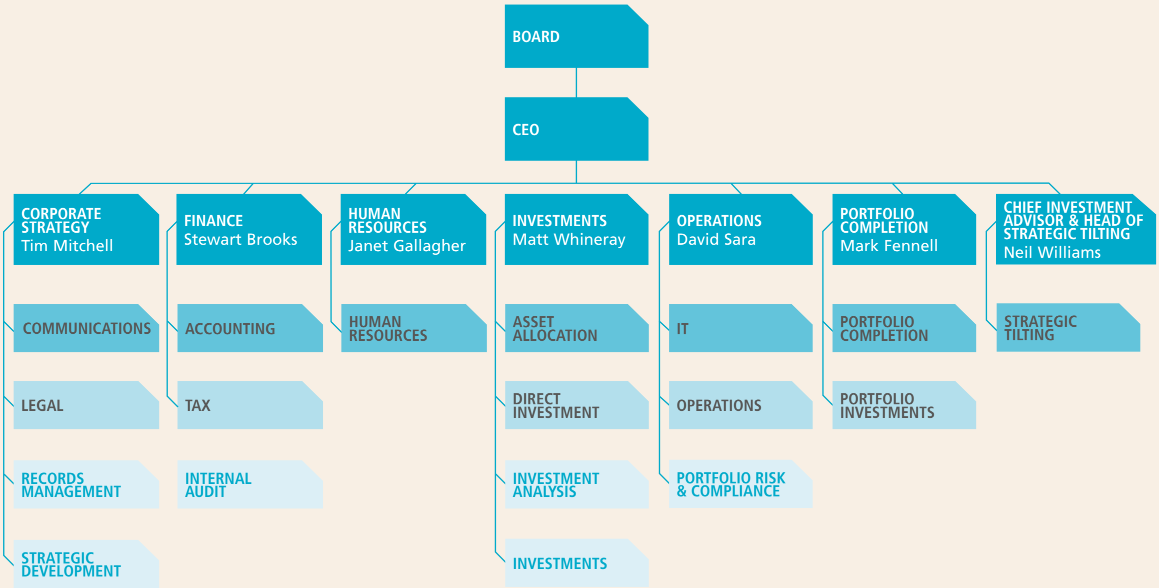
REORGANISATION

A reorganisation of the investments teams was completed, for the most part, in June 2012. The changes were designed to align team members' roles with our desired investment direction, and to improve teamwork in our identification, analysis and implementation of investments.

One of the major features of the reorganisation was to shift our RI and macroeconomic strategy staff into the investment analysis team, a move which is designed to ensure that environmental, social, governance and macroeconomic considerations are fully embedded into our investment analysis and ownership activities.

In a significant milestone for the Fund, we also established a specialist Strategic Tilting unit and appointed Neil Williams as Chief Investment Advisor and Head of Strategic Tilting. The establishment of this unit recognises the success and importance of our strategic tilting programme in the context of the Fund's returns and risk profile, and our aspiration to become a global leader in this area.

Organisational chart



New structure effective 1 July 2012. NB Internal Audit reports to the Chair of the Audit Committee.

GOOD EMPLOYER

Our activities against seven key elements of being a good employer are summarised below.

ELEMENT	GUARDIANS ACTIVITY
Leadership, accountability and culture	• Alignment between strategic plan objectives, individual objectives and performance measures • Culture survey completed during 2011/12 • Improvement to 360° leadership styles survey results
Employee development, promotion and exit	• Programme in place to identify and develop high-performing talent • All vacancies advertised internally • Secondment programme established • Exit interview process
Recruitment, selection and induction	• Robust recruitment and selection processes • Orientation and induction for all staff including a 12-week follow-up checkpoint • Internship programme established
Remuneration, recognition and conditions	• Transparent, equitable and gender-neutral job evaluation practices • Remuneration benchmarked against third-party New Zealand data • New incentive programme into its second year
Flexibility and work design	• IT systems facilitate working from home • Flexible working arrangements supported
Harassment and bullying prevention	• Employee Code of Conduct and relevant policies available at all times • Performance-management process rewards positive and constructive behaviour
Safe and healthy environment	• Strong focus on employee health, safety and well-being through provision of support services, including: – Health and safety policy and training for all staff – Wellness programme – Subsidised health insurance – Bi-annual workplace safety audit (last completed in 2010/11) • Achieved Primary level standard in ACC's Workplace Safety Management Practices Programme. Under this programme, the Guardians receives a discount on the standard ACC Workplace Cover levy in recognition of our establishment of health and safety systems and good practices in injury prevention.

Our People (continued)

WORKFORCE PROFILE

We have taken steps this year to improve the depth of our workforce profile reporting, as recommended by the Human Rights Commission's paper 'Crown Entities and the Good Employer: Annual Report Review 2011'. Initiatives included a voluntary staff survey to provide a baseline understanding of our ethnic demographics. 76% of staff members responded to the survey.

Workforce statistics as at 30 June 2012

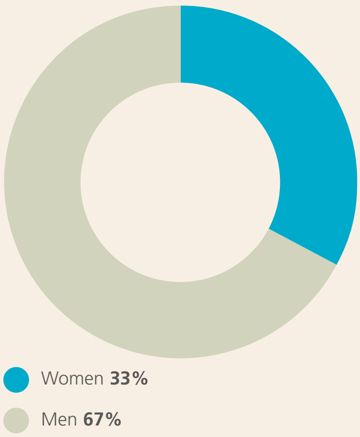
	2012	2011
FTE	75.2	66
Headcount	78	69
Turnover	10%	13%
Full time (FTE)	93%	92%
Part time (FTE)	7%	8%
Staff members with disabilities	0%	0%
Female Board members	2 (28%)	1 (14%)
Female senior executives*	1 (14%)	1 (14%)
Female senior management**	5 (36%)	3 (20%)
Female senior professionals***	6 (25%)	5 (31%)
Female investment professionals	7 (22%)	6 (23%)
Lost time injuries	0	0

* 'senior executives' are defined as direct reports to the CEO.

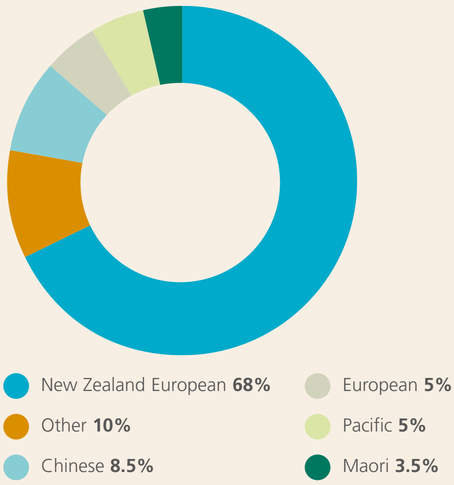
** 'senior management' is defined as Heads of teams.

*** 'senior professionals' are defined as senior analysts, senior strategists, legal counsel and portfolio managers.

Gender Balance as at 30 June 2012

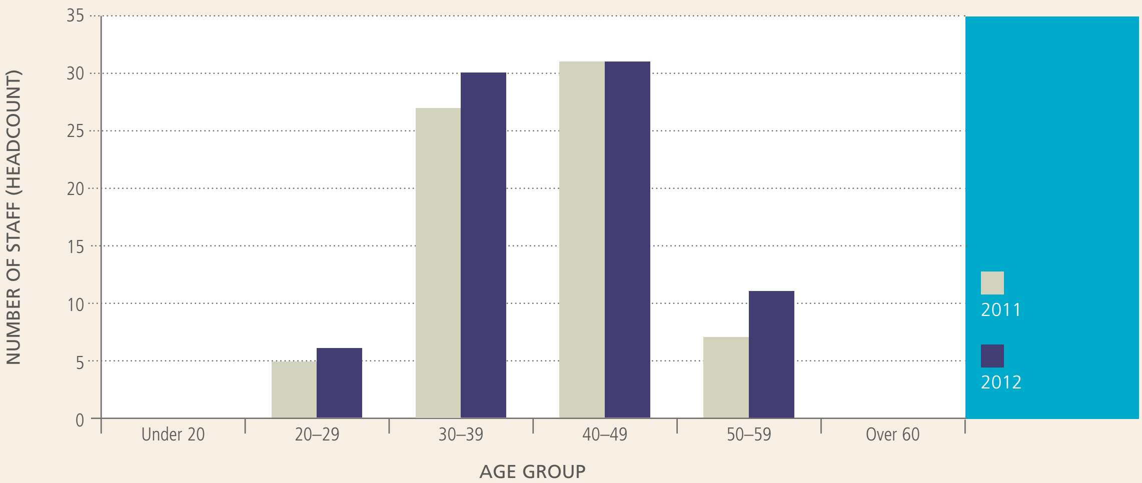


Ethnic Profile as at 30 June 2012*



* Based on 76% response rate to voluntary staff survey.

Workforce Age



DISCRETIONARY INCENTIVE SCHEME

The Guardians' remuneration framework is benchmarked against relevant New Zealand comparisons using third-party data. The framework includes base remuneration and an incentive payment. There are two components to the incentive payments:

- achievement of individual stretch objectives (KPIs); and
- medium-term financial performance.

The medium-term financial performance incentive is only payable to the CEO, General Managers, and Investments staff. All incentive payments are at the discretion of and approved by the Board.

Incentive eligibility*

COMPONENTS	MAXIMUM ACHIEVABLE – % OF BASE REMUNERATION		
	Corporate Staff	Investment Staff	CEO and Non-investment GMs
Annual stretch target	20%	30%	20%
Financial Performance (4 year cumulative rolling average)			
– Excess Return (over Treasury Bills)		10%	6.7%
– Value-add (over Reference Portfolio)		20%	13.3%
Total Financial Performance		30%	20%
Total incentive achievable	**20%**	**60%**	**40%**

Incentive payments in 2011/12

Total incentives to be paid: $4.0 million (2011: $4.8 million).

Individual stretch targets (KPIs)

The targets are designed to be challenging and to stretch staff over and above normal daily tasks. Overall, an average of 73% of the targets were achieved for the financial year, consistent with the level of achievement in 2010/11.

Financial performance

Incentive payments for financial performance are capped at either 20% or 30% (refer to the above table) and are based on rolling four year periods. Staff become eligible for the full incentive amount only when they have been employed by the Guardians for the full four years.

The benchmarks for triggering an incentive payment for financial performance are Total Fund Performance relative to the:

- return on 90-day Treasury Bills, capped at 4% p.a. ahead of the Bill rate. If the return is below 90-day Treasury Bills the payment is zero. This benchmark counts for ⅓ of the financial performance payment.
- Reference Portfolio, capped at 0.75% ahead of the Reference Portfolio. If value-add is zero or negative, the payment is zero. This benchmark counts for ⅔ of the financial performance payment.

-1.24%
PERFORMANCE RELATIVE TO TREASURY BILLS

+1.44%
PERFORMANCE RELATIVE TO THE REFERENCE PORTFOLIO

COMPONENTS	PERCENT OF INCENTIVE ACHIEVED FOR THE PERIOD ENDED FY2012			INCENTIVE PAID FOR THE PERIOD ENDED FY2012 AS A % OF BASE REMUNERATION		
	Corporate Staff	Investment Staff	CEO and Non-investment GMs	Corporate Staff	Investment Staff	CEO** and Non-investment GMs
Annual stretch target	86%	52%	89%	17%	16%	18%
Financial Performance (4 year rolling average)						
– Excess Return (over Treasury Bills)	50%*	50%	50%	2%*	4%	4%
– Value-add (over Reference Portfolio)	100%*	100%	100%	7%*	18%	14%
Total Financial Performance	83%*	83%	83%	9%*	22%	18%
Combined Totals	**85%**	**66%**	**86%**	**26%***	**38%**	**36%**

* Some corporate staff received financial performance incentive payments during 2011/12 as a legacy from a previous incentive programme. The current scheme, under which corporate staff do not receive financial performance incentives, has been in place since 1 July 2010. For more information see our 2010/11 Annual Report.

** CEO remuneration comprised $479,201 base remuneration plus an accrued incentive entitlement of $167,684. The financial performance incentive entitlement relates to the trailing four year tranches.

Note: Note 12 of the Guardians' Financial Statements sets out total remuneration including incentive entitlements for all staff earning over $100,000.

Environmental Performance

The Guardians' environmental policy, which was developed in 2009, makes a commitment to understanding and managing the environmental impact of our activities.

Despite continued growth in the number of full-time-equivalent employees (FTEs) working for the Guardians, taxi use, electricity use and the estimated average number of kilometres flown were down both in total terms, and per full-time-equivalent employee, compared to 2010/11.

Flights continue to be the major driver of our consumption of energy. As a global fund with a large number of local and offshore investments, managers and business partners, travel to undertake due diligence and investment monitoring is an essential part of our work. We always strive to travel in the most efficient way possible.

In late June 2011, we moved to new premises at 21 Queen St, a building which has received a 5-star Green rating from the New Zealand Building Council.

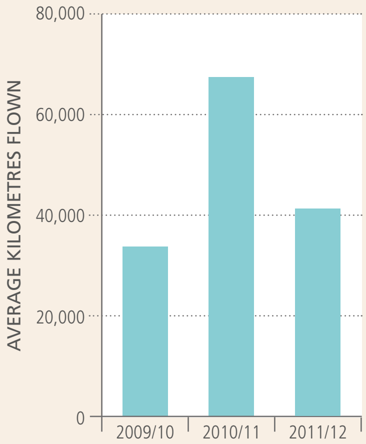
The shift has facilitated the introduction of a more comprehensive waste recycling programme, in which food/organic waste, recyclables such as cans, glass and plastic, and landfill rubbish are separated. An existing paper shredding and recycling programme has been continued.

A waste audit was undertaken over the course of the year to understand how much rubbish we are creating and how much is being recycled. The audit found that, by weight, 69% of our rubbish is recycled.

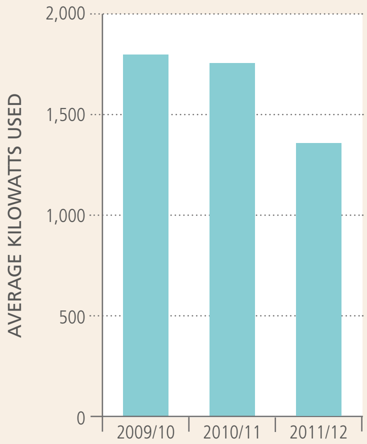
In previous years, we have reported an estimate of our carbon footprint based on the free calculators available on www.climatefriendly.com. Looking forward, we intend to move to a different assessment of our carbon footprint. A priority for the year will be to complete this work and to use the baseline data obtained in our new location to establish measurable targets for reducing our consumption of energy and resources.

As a responsible investor, we also look to integrate environmental concerns into our wider activities as an investment manager. See the Responsible Investment Report on pages 38–43 for more information on our activities in this area.

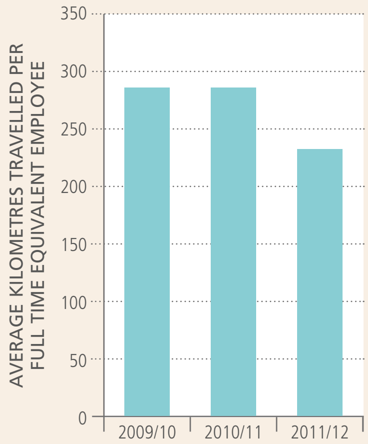
Estimated KMs flown per FTE



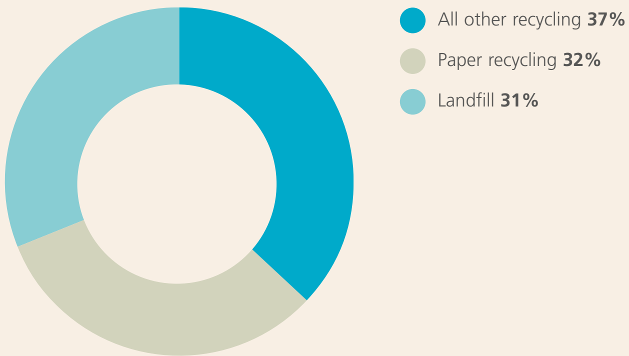
Electricity use per FTE



Taxi use per FTE



Proportion of rubbish being recycled, 2011/12



Statement of Service Performance

This Statement of Service Performance (SSP) measures our progress against objectives and measurements set out in the Forecast Statement of Service Performance in our 2011/16 Statement of Intent (SOI).

As set out in our SOI, the single output of the Guardians is managing the Fund. That output comprises five work programmes covering:

- investment returns;
- risk management;
- cost control;
- governance; and
- organisational capability.

For each work programme, we have set performance measures which, collectively, are performance measures for our output.

Note: while Government cash contributions to the Fund are suspended, we receive no Crown funding other than an appropriation to meet Board costs and audit fees. All other costs (e.g. manager fees, staff salaries, research costs) are met by the Fund, and it is these costs which are the subject of our cost-control work programme.

OUTCOME MEASURES

The Fund's ultimate outcome is to reduce the tax burden on future New Zealand taxpayers arising from the cost of New Zealand Superannuation. This long-term outcome will not be tangibly realised until the Government starts withdrawals from the Fund in 2029/30 or thereabouts. In the shorter term, we seek to influence that outcome by maximising the Fund's returns without incurring undue risk.

MEASURE	EXPECTED OUTCOME – 1 YEAR	ACTUAL OUTCOME – 1 YEAR	EXPECTED OUTCOME – 5 YEARS	ACTUAL OUTCOME – 5 YEARS	ACTUAL OUTCOME – SINCE INCEPTION
Reference Portfolio returns relative to Treasury Bills (per annum)	+3.50%	–2.68%	+2.40% p.a.[9]	–3.00% p.a.	+1.31% p.a.
Actual Portfolio returns relative to Reference Portfolio (after costs)	+0.80%	+1.44%	+0.50% p.a.[9]	+0.33% p.a.	+0.51% p.a.
Expected worst-case downside return	–31.00%	1.21%	–5.00% p.a.[10]	1.58% p.a.[10]	+7.05% p.a.

Further information

See the Performance Summary at pages 2–3 and our Investment Performance Report on pages 17–23.

9 Our 2007 Statement of Intent did not include expected outcomes over a five-year period. To contextualise our performance relative to the Reference Portfolio and Treasury Bills, we have therefore cited the 10-year expected outcomes that were set out in 2007.

10 Because no figure for worst-case downside was calculated in 2007, the 2011 value has been applied. The expected worst-case outcome set in the 2011 SOI for the period from 2011 to 2016 is compared to the actual outcome for the period from 2007 to 2012.

Statement of Service Performance (continued)

OUTPUT MEASURES

WORK PROGRAMME	MEASURE	EXPECTED OUTCOME	ACTUAL RESULT	FURTHER INFORMATION
Investment	As per Outcome Measures above	As per Outcome Measures above	As per Outcome Measures above	As per Outcome Measures above
Cost control	Costs relative to peers in CEM survey	Achieve/better rating of 'median cost, value-adding'	Cost (1 year) = achieved Cost (5 year) = achieved Value-add (1 year) = achieved Value-add (5 year) = achieved	CEM's most recent annual survey of 286 sovereign wealth and pension funds noted that our net five-year value-add of 0.5% was significantly above the median value-add of our peers. In addition, the Fund's costs, when adjusted for our asset mix, were well below median levels. The CEM survey report, which covers the five years to 31 December 2011, is available on www.nzsuperfund.co.nz
Risk management	Expected worst case downside return (per annum)	As per Outcome Measures above	As per Outcome Measures above	As per Outcome Measures above
Risk management	Transparency ratings	10/10 in the Sovereign Wealth Fund Institute's Transparency Index; results as appropriate in other surveys	Achieved 10/10 In a new Transparency and Governance Index by the Centre for Financial Stability (Argentina) the Fund placed 4th equal for Transparency and 1st equal for combined Transparency and Governance, out of more than 80 funds	Refer to www.nzsuperfund.co.nz and www.swfinstitute.org for more information Review of European Studies: Vol. 4, No. 2, June 2012
Risk management	Annual updating of response to 'Santiago Principles'	Completed	Completed	See www.nzsuperfund.co.nz and the website of the International Forum of Sovereign Wealth Funds at www.ifswf.org
Risk management	UNPRI assessment over time	Top quartile	The UNPRI survey was not held this year. In the most recent survey (for the 2008 – 2011 period), we achieved top quartile results on all measures	Refer to the Responsible Investment Report on pages 38–43 for more information
Risk management	Published records of voting, Responsible Investment in Practice	Published	Published	See www.nzsuperfund.co.nz and the Responsible Investment Report at pages 38–43
Governance	Outcome of independent reviews	N/A (five-yearly independent review)	N/A (five-yearly independent review) Note: The Transparency and Governance Index by the Centre for Financial Stability (Argentina) noted above also placed the Fund 1st equal for Governance, out of more than 80 funds	Refer to www.nzsuperfund.co.nz for copies of previous reviews. The next review will be completed in 2014 Review of European Studies: Vol. 4, No. 2, June 2012
Organisational capability	Key person risks identified and covered	Board approval received for our assessment of our key person risks and our plans to mitigate that risk	Achieved	Refer to 'Our People' section at pages 52–55
Organisational capability	Key performance indicators (KPIs) achieved	Staff members achieve their personal KPIs. Non-achievement to be explained	73% Achieved	The level of achievement reflects the challenging nature of the KPIs, which are designed to be stretch targets. At 73%, the level of achievement is consistent with that of 2010/11

HIGHLIGHTS FOR 2011/12

This table reports progress against a series of key initiatives which were highlighted in the 2011/16 Statement of Intent and which formed the basis of our Strategic Plan for the year.

WORK PROGRAMME	STRATEGIC PLAN OBJECTIVE / MANAGEMENT PRIORITY	ACTIVITY	ACHIEVEMENT	COMMENTS
Investment	Single view across a wide range of investment opportunities and access points	Further development of the investment framework that was completed in 2010/11, with a focus on mapping risks and opportunities, and enhancing our valuation models	• Investment opportunity maps completed • Valuation models enhanced • Embedding of portfolio risk allocation framework	Resource availability constrained the completion of the portfolio risk allocation framework. This important work will continue in 2012/13
Investment	Co-investments alongside peers in NZ and globally	Establishment of investment protocols for co-investments with peer funds	• One additional co-investment protocol was entered into during the year and work progressed on a number of other co-investment opportunities	Refer to our case study on the China Infrastructure Partners investment on page 36
Cost control	Maximising cost efficiency and effectiveness	Developing and embedding a resource-allocation tool that will allow us to rank expenditure priorities against investment opportunities, assign people and expenditure accordingly, and retrospectively assess the efficiency and effectiveness of effort and money	• Board approval of the overall approach to the resource allocation tool was received	Work to implement the tool will continue in 2012/13
Risk management	Building and maintaining a great team	Maintaining best practice in enterprise risk management, including reviewing our governance of risk, enhancing our risk records, and enhancing our internal reporting of risk to management and the Board by adopting standardised reporting and a 'key risk indicator' approach	• New risk record framework rolled out • Content of Fund and Guardian risk reporting improved	From 2012/13, a new objective has been added to our Strategic Plan: raising and embedding risk awareness. For further information, see our 2012–2017 Statement of Intent. Measurement will be via our participation in CEM's Global Leaders Risk Management benchmarking survey
Organisational capability	Retention of key talent	Retaining and developing key talent, including being able to demonstrate that we have a positive organisational culture driven by a leadership team with well-benchmarked skills	• Culture development programme established • Target operating model developed • Student internship programme developed • Leadership development of functional heads progressing	2012/13 will see a strong focus on talent management, culture and leadership development

Governance

This section reports on the Guardians' observation of each of the Securities Commission's corporate governance principles in the year to 30 June 2012.

PRINCIPLE 1

Directors should observe and foster high ethical standards

Both the Board and employees have Codes of Conduct setting out clear expectations of the ethical standards expected at the Guardians. The Codes, both of which are available on www.nzsuperfund.co.nz, address:

- professional conduct and duties of Board members and employees;
- conflicts of interests;
- confidentiality;
- securities markets legal obligations;
- use of Guardians' information and assets;
- receipt of gifts and entertainment;
- political participation; and
- whistleblowing.

For Board members, actual or potential conflicts of interest are managed in accordance with the requirements of the Guardians' governing legislation. Codes are reviewed regularly as part of the Guardians' Legislative Compliance Framework.

PRINCIPLE 2

There should be a balance of independence, skills, knowledge, experience and perspectives among Directors so that the board works effectively

The skills and attributes required to be a Board member are set out in the Act. Board members are chosen for their experience, training and expertise in the management of financial investments, as well as their mix of complementary skills.

Board members are appointed by the Governor-General on the recommendation of the Minister of Finance. The Minister's recommendation follows nominations from a committee, independent of the Guardians, which is established by the Minister. On receiving those nominations, the Minister consults with representatives of other political parties in Parliament before recommending the Governor-General appoint a person to the Board.

The Board must comprise at least five, but no more than seven, members. Each Board member is appointed for a term of up to five years and is eligible to be reappointed. The first Board members were appointed in August 2002.

The Board composition at 30 June 2012 with details of individual Board members' backgrounds is set out at page 12.

The Guardians' governing legislation and the Board Charter define Board responsibilities, responsibilities of individual Board members, as well as matters reserved for the Board and matters delegated to management. While the day-to-day responsibility for the operation of the business is delegated to the executive, there are a number of matters which, either because it is required by law or because the Board has decided it is in the interests of the Guardians to do so, are decided only by the Board as a whole.

The Board regularly reviews its delegations and governance priorities. The Board also hears directly from a range of external experts on investment markets and regularly visits international peer funds for the purpose of assessing developments in best practice. A highlight for 2011/12 was the participation of four Board members in a joint International Centre for Pension Management/University of Toronto course relating to governance of long-term investment funds.

PRINCIPLE 3

The Board should use committees where this would enhance its effectiveness in key areas while retaining board responsibility

The Board had two standing Board committees during the 2011/12 financial year:

- **Audit Committee:** Oversees financial reporting, internal and external audit, compliance (including tax compliance), accuracy of financial statements, and other governance systems.
- **Employee Policy and Remuneration Committee:** Oversees the development and operations of employment and remuneration policies.

The roles and responsibilities of the Board committees are set out in the respective committee's Terms of Reference. Copies of the Terms of Reference are available on www.nzsuperfund.co.nz. Minutes of the committee's meetings are provided to the Board. In addition, all Board members are able to attend any committee meeting. From time to time, the Board may establish a specific sub-committee to address a particular matter or for a particular purpose. This allows the Board to function effectively and to manage conflicts of interest.

The Board committees either meet quarterly or are convened as necessary. Each committee is entitled to the resources and information it requires to operate effectively. The Chief Executive Officer and senior executives are invited to attend committee meetings as necessary.

The Board met seven times during 2011/12, and its standing committees held six meetings. The following table sets out the number of meetings attended by each Board member relative to the total number of meetings they could have attended.

MEETING TYPE	BOARD	AUDIT COMMITTEE	EMPLOYEE POLICY AND REMUNERATION COMMITTEE
Number of meetings	7	4	2
David May	7/7	n/a	2/2
David Newman*	3/3	1/1	n/a
Mark Tume	7/7	4/4	n/a
Stephen Moir	7/7	n/a	2/2
Catherine Savage	6/7	n/a	2/2
Gavin Walker*	5/7	4/4	n/a
Craig Ansley*	7/7	3/3	n/a
Philippa Dunphy*	1/1	n/a	n/a

* Dr Craig Ansley joined the Board in September 2011 and Philippa Dunphy in May 2012. Gavin Walker was appointed Deputy Chairman in May 2012. David Newman retired after completing his second term in September 2011.

PRINCIPLE 4

The board should demand integrity both in financial reporting and in the timeliness and balance of disclosures on entity affairs
As a Crown entity the Guardians must meet all its obligations in respect of the Guardians and the Fund under the Act, the Crown Entities Act 2004 and the Public Finance Act 1989, including tabling the Annual Report for the Guardians and the Fund in the House of Representatives. The Annual Report is available to the public in hard copy and on our website. The financial statements for the Fund are signed by the Chairman of the Board and the Chief Executive Officer. The financial statements for the Guardians are signed by the Chairman and one other Board Member.

The Guardians is required by the Crown Entities Act 2004 to prepare a Statement of Intent. Our Statement of Intent for the five years from 2012–2017 was published in June 2012. The Guardians also report quarterly to the Minister with a written report on the progress of the Fund and the Guardians.

PRINCIPLE 5

The remuneration of directors and executives should be transparent, fair and reasonable
The remuneration of Board members is set by the Minister of Finance operating in accordance with the Fees Framework for Members of Statutory and Other Bodies Appointed by the Crown.

Board members' remuneration is disclosed in Note 11 to the Guardians' financial statements.

The objective of the staff remuneration strategy is to provide competitive remuneration aimed at attracting and retaining competent people and aligning rewards with the achievement of financial and non-financial targets. Staff remuneration comprises base or fixed remuneration and a long-term incentive scheme based on the achievement of individual and financial performance targets.

Further details concerning staff remuneration are disclosed in Note 12 to the Guardians' financial statements. Further detail regarding the Guardians' staff bonus scheme is set out on page 55.

Governance (continued)

PRINCIPLE 6

The board should regularly verify that the entity has appropriate processes that identify and manage potential and relevant risks

The Board is responsible for reviewing and approving the Guardians' risk management strategy including the risk management framework and risk records. The Board reviews and approves the framework and records on a regular basis set out in the Board calendar.

The Board delegates day-to-day management of risk to the Chief Executive Officer and, as appropriate, other staff. Inherent in this delegation is the belief that responsibility for managing risks at the Guardians is the domain of the relevant business unit. The Risk Committee provides management oversight in respect of risk records and the underlying business unit risk registers. It also reviews operational risk assessments in respect of investment transactions.

The Audit Committee reviews the reports of management and the external and internal auditors on the effectiveness of systems for internal control, financial reporting, and operational and legislative risk management.

To assist in discharging this responsibility, the Board has in place a number of strategies designed to safeguard the Fund's and Guardians' assets and interests, and ensure the integrity of reporting.

PRINCIPLE 7

The board should ensure the quality and independence of the external audit process

The Audit Committee is responsible for overseeing the external audit of the Guardians and the Fund. Accordingly, it monitors developments in the areas of audit, and threats to audit independence, to ensure its policies and practices are consistent with emerging best practice in these areas.

The external auditors are not permitted to perform non-audit work assignments.

The Auditor-General has appointed, to carry out the external audit of the Guardians and the Fund on her behalf, Brent Penrose of Ernst & Young.

PRINCIPLE 8

The board should foster constructive relationships with shareholders that encourage them to engage with the entity

The Guardians is a Crown entity and its assets, and the assets of the Fund, form part of the Crown's assets. The Guardians is accountable to Parliament, through the Minister of Finance, for those assets.

The Guardians' Statement of Intent for the five years from 2012 to 2017 is published on our website and will be reported against in the Annual Report next year. The Guardians also provide a quarterly written report to the Minister on the Fund's progress.

The Minister may give directions regarding the Crown's expectations as to the Fund's performance, including its expectations as to risk and return. However, the Minister may not give any direction that is inconsistent with the duty to invest the Fund on a prudent, commercial basis.

No directions were received in 2011/12 financial year. We report on our progress in implementing the single direction received to date (May 2009, about our New Zealand investment activities) at pages 25–26 of this Annual Report.

PRINCIPLE 9

The board should respect the interests of stakeholders within the context of the entity's ownership type and its fundamental purpose

The Guardians published its Statement of Intent under the Crown Entities Act 2004 in June 2012. This set out the broad parameters of work for the five years from 2012 to 2017 and a detailed plan for FY2012/13.

Objectives for the 2011/12 financial year were set out in the 2011–2016 Statement of Intent and are reported against at pages 57–59 of this report.

Financial Statements

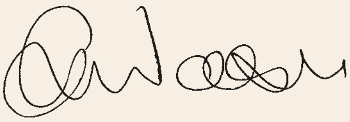
NEW ZEALAND SUPERANNUATION FUND AND GROUP

Statement of Responsibility

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements of the New Zealand Superannuation Fund and Group and the judgements used in them.

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting of the New Zealand Superannuation Fund and Group.

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements for the year ended 30 June 2012 fairly reflect the financial position, operations and cash flows of the New Zealand Superannuation Fund and Group.



GAVIN WALKER, CHAIRMAN

25 September 2012

ADRIAN ORR, CHIEF EXECUTIVE OFFICER

25 September 2012

Statement of Comprehensive Income

For the year ended 30 June 2012		GROUP ACTUAL		BUDGET (UNAUDITED)
		2012	2011	2012
	NOTE	NZ $000	NZ $000	NZ $000
Interest income	2(a)	243,065	236,131	152,260
Dividend income		237,143	224,695	350,889
Timber sales		56,377	64,114	47,736
Milk sales		8,700	-	-
Livestock sales		368	-	-
Fair value changes in investments held at fair value through profit or loss	3	(792,006)	3,589,873	1,138,455
Net foreign exchange gain/(loss)		508,136	(179,239)	-
Fair value changes in forests		(27,253)	(9,481)	-
Fair value changes in livestock		(622)	72	-
Share of profit of investments accounted for using the equity method	6(f)	99,155	102,819	76,077
Other income		4,172	8,217	-
Net operating income/(loss)		**337,235**	**4,037,201**	**1,765,417**
Operating expenses	2(b)	110,676	134,904	148,966
Profit/(loss) for the year before income tax expense		**226,559**	**3,902,297**	**1,616,451**
Income tax expense/(credit)	5	183,342	906,837	389,731
Profit/(loss) for the year after income tax expense		**43,217**	**2,995,460**	**1,226,720**
Other comprehensive income				
Net fair value gains/(losses) on available-for-sale financial assets		4,462	(584)	5,978
Gain/(loss) on revaluation of assets		5,239	927	-
Income tax on items of other comprehensive income		(1,502)	-	-
Other comprehensive income for the year, net of tax		**8,199**	**343**	**5,978**
Total comprehensive income for the year		**51,416**	**2,995,803**	**1,232,698**

The attached notes form part of, and should be read in conjunction with, these financial statements.

Statement of Financial Position

As at 30 June 2012	NOTE	GROUP ACTUAL 2012 NZ $000	GROUP ACTUAL 2011 NZ $000	BUDGET (UNAUDITED) 2012 NZ $000
ASSETS				
Cash and cash equivalents	19	2,716,586	2,653,018	3,950,571
Cash pledged as collateral	21	502,171	338,040	-
Trade and other receivables	8	116,727	165,519	275,205
Other assets	9	1,312	2,375	-
Investments				
Investments – derivative financial instrument assets	6	1,217,124	1,396,938	256,052
Investments – other financial assets	6	14,130,298	14,091,574	14,525,595
Other financial assets pledged as collateral	6,21	199,018	116,226	-
Investments accounted for using the equity method	6	953,989	907,883	822,486
Agricultural assets	6	77,877	138,657	184,932
Total investments		16,578,306	16,651,278	15,789,065
Assets held for sale	7	91,075	-	-
Property, plant and equipment	10	83,592	80,305	152,693
Intangible assets	11	1,239	8,697	-
Total assets		**20,091,008**	**19,899,232**	**20,167,534**
LIABILITIES				
Cash collateral received	21	162,646	87,964	-
Trade and other payables	12	183,151	165,661	76,356
Investments – derivative financial instrument liabilities	6	749,001	601,037	-
Taxation payable		133,326	250,831	31,754
Provisions	13	-	12,348	24,411
Deferred tax liability	5	159,954	129,877	133,921
Total liabilities		**1,388,078**	**1,247,718**	**266,442**
Net assets		**18,702,930**	**18,651,514**	**19,901,092**
PUBLIC EQUITY				
Retained surplus		3,800,705	3,757,355	4,997,747
Available-for-sale reserve		7,744	3,282	13,388
Asset revaluation reserve		12,402	8,798	7,878
Contributed capital	15	14,882,079	14,882,079	14,882,079
Total public equity		**18,702,930**	**18,651,514**	**19,901,092**

The attached notes form part of, and should be read in conjunction with, these financial statements.

Statement of Changes in Public Equity

For the year ended 30 June 2012		GROUP ACTUAL				
	NOTE	ASSET REVALUATION RESERVE NZ $000	AVAILABLE-FOR-SALE RESERVE NZ $000	CONTRIBUTED CAPITAL NZ $000	RETAINED SURPLUS/ (DEFICIT) NZ $000	TOTAL NZ $000
Balance at 1 July 2010		**7,871**	**3,866**	**14,882,079**	**761,895**	**15,655,711**
Profit for the year					2,995,460	2,995,460
Other comprehensive income		927	(584)			343
Total comprehensive income for the year		927	(584)	-	2,995,460	2,995,803
Fund capital contributions from the Crown				-		-
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15			8,830,246		8,830,246
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15			(8,830,246)		(8,830,246)
Balance at 30 June 2011		**8,798**	**3,282**	**14,882,079**	**3,757,355**	**18,651,514**
Profit for the year					43,217	43,217
Other comprehensive income		5,106	4,462		133	9,701
Income tax on items of other comprehensive income		(1,502)	-			(1,502)
Total comprehensive income for the year		3,604	4,462	-	43,350	51,416
Fund capital contributions from the Crown				-		-
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15			9,583,511		9,583,511
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15			(9,583,511)		(9,583,511)
Balance at 30 June 2012		**12,402**	**7,744**	**14,882,079**	**3,800,705**	**18,702,930**

The attached notes form part of, and should be read in conjunction with, these financial statements.

Statement of Cash Flows

For the year ended 30 June 2012		GROUP ACTUAL		BUDGET (UNAUDITED)
		2012	2011	2012
	NOTE	NZ $000	NZ $000	NZ $000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of investments		11,316,816	21,601,429	20,996,751
Cash collateral received		8,114,666	3,426,277	-
Proceeds from sale of forests		1,377	1,682	-
Proceeds from sale of livestock		368	-	-
Proceeds from sale of associates		53,049	51,521	-
Dividends received		228,077	212,286	348,158
Interest received		240,325	245,120	152,762
Receipts from customers		76,552	61,647	17,105
Other income		1,567	2,903	-
Total cash inflow from operating activities		20,032,797	25,602,865	21,514,776
Cash was applied to:				
Purchases of investments		(11,428,395)	(20,474,562)	(21,033,695)
Cash collateral paid		(8,025,217)	(3,617,390)	-
Purchases of forests		(523)	(39)	-
Purchases of livestock		(11,747)	(2,926)	-
Interest paid on repurchase agreements		(88)	-	-
Managers' fees		(26,836)	(34,790)	(63,898)
Payments to suppliers		(110,285)	(52,196)	(52,374)
Income tax paid		(267,267)	(487,059)	(575,648)
Goods and Services Tax		(1,386)	(3,375)	(3,321)
Total cash outflow from operating activities		(19,871,744)	(24,672,337)	(21,728,936)
Net cash provided by/(used in) operating activities	19(c)	**161,053**	**930,528**	**(214,160)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of property, plant and equipment		1,279	63	-
Total cash inflow from investing activities		1,279	63	-
Cash was applied to:				
Purchases of property, plant and equipment		(46,497)	(33,046)	(1,116)
Purchases of intangible assets		(1,176)	(777)	(17)
Total cash outflow from investing activities		(47,673)	(33,823)	(1,133)
Net cash provided by/(used in) investing activities		**(46,394)**	**(33,760)**	**(1,133)**
Net increase/(decrease) in cash and cash equivalents		**114,659**	**896,768**	**(215,293)**
Cash and cash equivalents at the beginning of the financial year		2,653,018	1,883,835	4,165,864
Effects of exchange rate changes on the balance of cash held in foreign currencies		(51,091)	(127,585)	-
Cash and cash equivalents at the end of the financial year	19(a)	**2,716,586**	**2,653,018**	**3,950,571**

The attached notes form part of, and should be read in conjunction with, these financial statements.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

These are the financial statements of the New Zealand Superannuation Fund (Fund) and its subsidiaries (Group), a fund created under Section 37 of the New Zealand Superannuation and Retirement Income Act 2001 (Act). This Act commenced on 11 October 2001.

The consolidated financial statements comprise the Fund and its subsidiaries.

The Fund is managed and administered by the Guardians of New Zealand Superannuation (Guardians). The Guardians were established as a Crown entity by Section 48 of the Act and became operative from 30 August 2002.

Under Section 43 of the Act, the Crown is required to make capital contributions to the Fund for investment based on a percentage of GDP as set out in the Act. Capital contributions are made by the Crown into the Fund on a fortnightly basis for the purpose of investment and funding the net cost of New Zealand superannuation entitlements. Under Section 44 of the Act, the Crown is entitled to contribute lesser amounts than calculated using the formula under Section 43 of the Act. No capital contributions were received during the current year, other than for superannuation entitlement payments.

The Fund is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 160.

STATEMENT OF COMPLIANCE

The Fund is a profit-oriented entity. The financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements for the year ended 30 June 2012 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 25 September 2012.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Act.

The financial statements have been prepared on a fair value basis, except for certain items as detailed in the policies below.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (NZ$000).

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The budget was approved by the Board of the Guardians of New Zealand Superannuation for the year. The budget figures are unaudited.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group has adopted the following new and amended New Zealand Equivalents to International Financial Reporting Standards and interpretations as of 1 July 2011:

(i) Amendments to NZ IFRSs arising from the Annual Improvements Project (2010)

(ii) NZ IAS 24 Related Party Disclosures (Revised 2009)

(iii) FRS-44 New Zealand Additional Disclosures

(iv) Amendments to NZ IFRS to Harmonise with IFRS and Australian Accounting Standards

The adoption of the above standards and interpretations has resulted in minor amendments to disclosures in the financial statements.

Standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2012. The standards and interpretations applicable to the Fund are outlined in the table below.

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
NZ IAS 12	Amendments to NZ IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets	These amendments update NZ IAS 12 to include a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in NZ IAS 16, should always be measured on a sale basis. The amendments incorporate NZ SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets into NZ IAS 12 for non-depreciable assets measured using the revaluation model in NZ IAS 16 Property, Plant and Equipment.	1 January 2012	The amendments will have no impact on the Group's financial statements as non-depreciable assets measured using the revaluation model in NZ IAS 16 are already reflected in deferred tax on a sale basis.	1 July 2012
NZ IAS 28	Investments in Associates and Joint Ventures	NZ IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) supersedes NZ IAS 28 Investments in Associates (2004), as a result of the issue of NZ IFRS 11 Joint Arrangements and NZ IFRS 12 Disclosure of Interests in Other Entities. NZ IAS 28 (as amended in 2011) prescribes the accounting for investments in associates and joint ventures and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Disclosure requirements relating to these investments are now contained in NZ IFRS 12.	1 January 2013	The amendments will have an impact on the Group's associate and joint venture disclosures.	1 July 2013
NZ IFRS 7	Amendments to NZ IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	These amendments introduce disclosures, which provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position.	1 January 2013	The amendments will have an impact on the Group's financial statement disclosures.	1 July 2013
NZ IFRS 7	Amendments to NZ IFRS 7 Financial Instruments: Disclosures – Transition Disclosures	These amendments to NZ IFRS 7 remove the requirement for the restatement of comparative period financial statements upon initial application of the classification and measurement requirements of NZ IFRS 9. Instead, the amendments introduce additional disclosures on transition from the classification and measurement requirements of NZ IAS 39 Financial Instruments: Recognition and Measurement to those of NZ IFRS 9. These disclosures are required even if entities choose to restate the comparative figures for the effect of applying NZ IFRS 9.	1 January 2013	The amendments will lead to additional disclosures when the Group adopts NZ IFRS 9.	1 July 2013

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
NZ IFRS 10	Consolidated Financial Statements	NZ IFRS 10 establishes a new control model. It replaces parts of NZ IAS 27 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to control another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This could lead to more entities being consolidated.	1 January 2013	Management has assessed that the adoption of the new standard will not result in the Group consolidating any entities which it does not currently consolidate.	1 July 2013
NZ IFRS 11	Joint Arrangements	NZ IFRS 11 replaces NZ IAS 31 Interests in Joint Ventures and SIC-13 Jointly-Controlled Entities – Non-monetary Contributions by Ventures. NZ IFRS 11 uses the principle of control in NZ IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition NZ IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves are accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets are accounted for using the equity method. This may result in a change in the accounting for joint arrangements.	1 January 2013	The new standard is unlikely to impact the recognition and measurement of the Group's joint ventures, but it may impact financial statement disclosures.	1 July 2013
NZ IFRS 12	Disclosure of Interests in Other Entities	NZ IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	The new standard will have an impact on the Group's subsidiary, associate and joint venture disclosures.	1 July 2013
NZ IFRS 13	Fair Value Measurement	NZ IFRS 13 establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by NZ IFRS. Application of the guidance may result in different fair values being determined for the relevant assets. NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	1 January 2013	The new standard may lead to changes in the recognition, measurement and disclosure of assets and liabilities held at fair value.	1 July 2013
NZ IAS 1	Amendments to NZ IAS 1 Presentation of Financial Statements – Presentation of Other Comprehensive Income	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods (reclassification adjustments).	1 July 2012	The new standard will impact disclosures in the financial statements.	1 July 2012

* Designates the beginning of the applicable annual reporting period.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
Annual Improvements to NZ IFRSs 2009–2011 Cycle	Amendments to NZ IFRSs arising from the Annual Improvements Project (2009–2011)	The following amendments may impact the Group: (i) NZ IAS 1 – Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. (ii) NZ IAS 16 – Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.	1 January 2013	The amendments may impact disclosures in the financial statements.	1 July 2013
NZ IAS 32	Amendments to NZ IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the NZ IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.	1 January 2014	The amendments may impact disclosures in the financial statements.	1 July 2014
NZ IFRS 9 (2010)	Financial Instruments	NZ IFRS 9 (2010) supersedes NZ IFRS 9 (2009). The requirements for classifying and measuring financial liabilities were added to NZ IFRS 9 as issued in 2009. The existing NZ IAS 39 Financial Instruments: Recognition and Measurement requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows: The change attributable to changes in credit risk is presented in other comprehensive income (OCI). The remaining change is presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk is also presented in profit or loss.	1 January 2015	The new standard will impact disclosures in the financial statements.	1 July 2015
NZ IFRS 9 (2009)	Financial Instruments	NZ IFRS 9 (2009) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace NZ IAS 39 Financial Instruments: Recognition and Measurement. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39. The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: (a) Two categories for financial assets being amortised cost or fair value (b) Removal of the requirement to separate embedded derivatives in financial assets (c) Strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (i) the contractual cash flows from the instrument represent principal and interest and (ii) the entity's purpose for holding the instrument is to collect the contractual cash flows (d) An option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition (e) Reclassifications between amortised cost and fair value are no longer permitted unless the entity's business model for holding the asset changes (f) Changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income.	1 January 2015	The new standard will affect the classification and measurement of the Group's financial assets.	1 July 2015

* Designates the beginning of the applicable annual reporting period.

The following particular accounting policies which materially affect the measurement of comprehensive income and financial position have been applied:

(a) Capital contributions

(i) Fund capital contributions

The Crown is required to make capital contributions to the Fund in accordance with Sections 42 to 44 inclusive of the Act. Capital contributions are made by the Crown to the Fund for investment and for the purpose of contribution to the net cost of paying superannuation entitlements after 2020. These capital contributions are recorded in the statement of changes in public equity.

(ii) Superannuation entitlement payments

The Minister of Finance, under Section 45 of the Act, must ensure that sufficient money is transferred to the Fund in each year to meet the net cost of superannuation entitlements. These transfers are treated as capital contributions from the Crown in respect of funding the net cost of superannuation entitlements and are offset by capital withdrawals and recorded in the statement of changes in public equity.

(b) Capital withdrawals

(i) Fund capital withdrawals

In terms of Section 47 of the Act no withdrawals of Fund capital contributions are permitted prior to 30 June 2020.

(ii) Superannuation entitlement payments

The net cost of superannuation entitlements is treated as capital withdrawals by the Crown in respect of funding the net cost of superannuation entitlements and is recorded in the statement of changes in public equity. These amounts equate to the associated capital contributions.

The payment of superannuation entitlements is an expense of the Crown and is recorded separately in the Crown's financial statements.

(c) Income tax

In accordance with Section HR 4B of the Income Tax Act 2007, the income derived by the Fund is subject to New Zealand tax determined by using the rules applying to companies.

The income tax expense recognised for the year is based on the accounting surplus, adjusted for permanent differences between accounting and tax rules.

Current tax is calculated by reference to the amount of taxes payable or recoverable in respect of the taxable profit or tax loss for the year. It is calculated using tax rates and tax laws that have been enacted or substantively enacted at balance date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred income tax is provided on all temporary differences at balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

(i) except for a deferred income tax liability arising from the initial recognition of goodwill;

(ii) except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(iii) in respect of taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income tax (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax assets and unused tax losses can be utilised:

(i) except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except that deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Income tax relating to items of other comprehensive income are recognised in other comprehensive income.

(d) Financial instruments

The Group is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, derivatives, investments, receivables and payables. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of comprehensive income.

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial instruments that require delivery within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the instrument. Derivatives are recognised on a trade date basis. The Group offsets financial assets and financial liabilities when the Group has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

(e) Investments

Investments are represented by the following:	KEY
• Financial instruments at fair value through profit or loss (either designated at fair value through profit or loss or held for trading):	
– Equities	i)
– Fixed income securities	ii)
– Derivatives	iii)
– Collective investment funds	iv)
– Certain private equity investments	v)
– Unlisted unit trusts	vi)
– Insurance-linked investments	vii)
– Unlisted debt instruments	viii)
• Available-for-sale financial instruments:	
– Certain private equity investments	ix)
– Other available-for-sale investments	x)
• Loans and receivables: unlisted debt instruments	xi)
• Investments accounted for using the equity method (refer to accounting policies (i) and (j))	
• Agricultural assets – forests and livestock (refer to accounting policies (k) and (l))	

FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Initial recording

Financial instrument investments at fair value through profit or loss are initially recognised at fair value on a trade date basis. Transaction costs, for example trading commission, are expensed immediately in the statement of comprehensive income.

Subsequent measurement

Subsequent to initial recognition, these investments are recorded at fair value and are classified into the category "at fair value through profit or loss". The Guardians manage and evaluate the performance of these investments on a fair value basis in accordance with the Fund's investment strategy, and information about the investments is provided internally on this basis to the Guardians' key management personnel. Changes in fair value are recognised in profit or loss in the statement of comprehensive income.

Determination of fair value

Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value is determined as follows:

i) Listed equities are valued at the last quoted bid price on the relevant exchange as of the close of business at balance date.

ii) Highly liquid fixed income securities and equity-linked notes are valued at the last quoted bid price by a reputable pricing vendor or broker as of the close of business at balance date. Where the market for fixed income securities is illiquid, prices are determined by a reputable pricing vendor who uses models to value these securities. The models can utilise a variety of inputs including loan level data, prepayment and default assumptions and benchmark prices for similar securities. Because of the inherent uncertainty of valuation, it is possible that those values estimated for the illiquid securities may differ from those values that would have been used had a ready market for those securities existed and those differences may be significant.

iii) Fair value for derivatives is outlined under "Derivatives" below.

iv) Investments in collective investment funds (unlisted investment funds) are valued at the last price of the unit or security as provided by the administrators at balance date. The price is based on the fair value of the underlying net assets or securities of the relevant collective investment fund.

v) Certain private equity investments (unlisted investment funds and unlisted equity investments), which are designated at fair value through profit or loss, are valued at the last price of the unit or security as provided by the investment managers or administrators at balance date. The price is based on the fair value of underlying net assets of the private equity investment. Fair value is determined using a variety of methods, including independent valuations,

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investments (continued)

valuation models based on the price of recent investments, earnings multiples or discounted cash flows. Certain private equity investments are classified as available-for-sale. The accounting policy for these investments is outlined under ix).

vi) Investments in unlisted unit trusts are valued at the last bid price of the unit or security as provided by the administrators at balance date. The price is based on the fair value of the underlying net assets or securities of the relevant unlisted unit trust.

vii) Insurance-linked investments which are catastrophe bonds are valued using prices provided by reputable pricing vendors or brokers.

viii) Unlisted debt instruments including fixed and floating rate instruments that form part of an investment into a private equity investments may be designated at fair value through profit or loss. These assets are valued by a suitably qualified independent valuer who ascribes an enterprise value to the entire private equity investment and apportions that value across the instruments held, including the debt instruments. Any unlisted debt instruments that are not designated at fair value through profit or loss are classified as loans and receivables and are carried at amortised cost. Refer to xi) below.

AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS

ix) Certain private equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured using the valuation methods outlined in v) above are classified as available-for-sale and are measured at cost less impairment. Transaction costs are included in the cost of the investment. Management has determined that fair value for these investments cannot be reliably measured where the entity's financial statements have not been prepared under either IFRS or a recognised and reliable accounting basis such as US GAAP. Subsequently, where the fair value of these investments becomes able to be reliably measured, then the investment will be measured at fair value with gains or losses being recognised in other comprehensive income (reserves) until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in reserves is reclassified to profit or loss in the statement of comprehensive income.

x) Other available-for-sale investments include investments in cooperative and processing companies. The Group is required to hold these investments to facilitate farming investment operations. As such, the Group is normally unable to sell these investments without disrupting farming investment operations. These available-for-sale investments are valued at fair value with gains or losses being recognised in other comprehensive income (reserves) until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in reserves is reclassified to profit or loss in the statement of comprehensive income.

LOANS AND RECEIVABLES

xi) Unlisted debt instruments including fixed and floating rate notes and redeemable preference shares are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Where such assets are not designated at fair value through profit or loss, these assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired.

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

DERIVATIVES

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk, interest rate risk and achieve exposure to assets and asset classes. The use of derivatives is governed by the Fund's Statement of Investment Policies, Standards and Procedures as approved by the Guardians, which provides written principles on the use of derivatives by the Group.

The fair value of forward foreign exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The fair value of cross currency swaps is determined using a discounted cash flow model.

The fair value of asset swaps is determined using a model, with the key inputs being interest rates and the pricing of inflation futures.

The fair value of interest rate swaps is determined using a model, with the key input being interest rates.

The fair value of credit default swaps is determined using a discounted cash flow model which incorporates default rate and credit spread assumptions for the reference entity or index.

The fair value of volatility swaps is determined using a discounted cash flow model with the key input being the volatility curve.

The fair value of futures contracts is calculated as the present value of the difference between the contract price and the closing price reported on the primary exchange of the futures contract.

The fair value of index or total return swaps (commodity, equity, real estate and longevity contingent swaps) is provided by the counterparty and is calculated by reference to the movement in the underlying index or basket of securities or other contracts. Index swaps are settled net in cash.

The fair value of insurance-linked swaps is calculated using a model which incorporates the premium paid or received and a price provided by reputable pricing vendors or brokers. Premiums are recognised based on a risk dissipation schedule, derived from third party catastrophe models.

The fair value of exchange-traded insurance-linked options is the closing price as reported by the primary exchange of the contract.

The fair value of other 'over-the-counter' (OTC) swaps is determined using a model, with the key inputs being the expected future cash flows under the swap contract.

The fair value of options are calculated using a Black-Scholes option valuation model or, where the option is traded on exchange, the exchange price is used to value the option.

'DAY 1' GAINS AND LOSSES

When the transaction price is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' gain or loss) in profit or loss in the statement of comprehensive income. In cases where the fair value is determined using data which is not observable, the difference between the transaction price and the model value is recognised on a systematic basis over the expected life of the trade.

(f) Securities lending

Securities lending transactions are collateralised by securities or cash. The transfer of the securities to counterparties is only reflected in the statement of financial position if the risks and rewards of ownership are also transferred. Collateral advanced by the borrower in the form of readily marketable securities (non-cash) is held in escrow by a third-party agent. Recourse to those securities is only available in the event of default by the borrower and, as such, the non-cash collateral is not recognised in the statement of financial position. Collateral advanced by the borrower in the form of cash is recognised in the statement of financial position as an asset, along with a corresponding liability to repay the cash collateral to the borrower, once the securities have been returned.

(g) Repurchase and reverse repurchase agreements

Securities sold under agreement to repurchase at a specified future date are not derecognised from the statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Repurchase and reverse repurchase agreements (continued)

accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded separately in the statement of financial position as an investment, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement using the effective interest rate.

(h) Consolidation of subsidiaries

Subsidiaries are those entities that are controlled by the Fund.

The Group's financial statements incorporate the financial statements of the Fund and its subsidiaries, which have been consolidated. The results of any subsidiaries that become or cease to be part of the Group during the year are consolidated from the date that control commenced or until the date that control ceased.

All inter-entity transactions, balances and income and expenses are eliminated on consolidation.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

(i) Investments in associates

An associate is an entity over which the Fund is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the entity.

At inception, certain of the Fund's associates are designated at fair value through profit or loss under NZ IAS 39 Financial Instruments: Recognition and Measurement (in accordance with paragraph 1 of NZ IAS 28 Investments in Associates). All other associates are equity accounted in accordance with NZ IAS 28 Investments in Associates. The designation is made with reference to how the Guardians intend to manage the investment and the extent to which the Guardians will be involved in the management of the investment.

The results of associates which are accounted for under NZ IAS 28 Investments in Associates are incorporated in the financial statements using the equity method of accounting, except where the investment is classified as held for sale, in which case it is accounted for in accordance with NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried at cost as adjusted for post-acquisition changes in the Fund's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Fund's interest in that associate are not recognised, unless the Fund has incurred legal or constructive obligations or made payments on behalf of the associate.

(j) Investments in joint ventures

A joint venture is a contractual arrangement whereby the Guardians and other parties undertake an economic activity that is subject to joint control, which is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

At inception, certain of the Fund's joint ventures are designated at fair value through profit or loss under NZ IAS 39 Financial Instruments: Recognition and Measurement (in accordance with paragraph 1 of NZ IAS 31 Interests in Joint

Ventures). All other joint ventures are equity accounted in accordance with NZ IAS 31 Interests in Joint Ventures. The designation is made with reference to how the Guardians intend to manage the investment and the extent to which the Guardians will be involved in the management of the investment.

The results of joint ventures which are accounted for under NZ IAS 31 Interests in Joint Ventures are incorporated in the financial statements using the equity method of accounting, except where the investment is classified as held for sale, in which case it is accounted for in accordance with NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in joint ventures are carried at cost as adjusted for post-acquisition changes in the Fund's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of a joint venture in excess of the Fund's interest in that joint venture are not recognised, unless the Fund has incurred legal or constructive obligations or made payments on behalf of the joint venture.

(k) Forests

Forest assets are predominantly standing trees. These are recognised in the statement of financial position at fair value less estimated point-of-sale costs. The costs to establish and maintain the forest assets are included in profit or loss in the statement of comprehensive income together with the change in fair value for each accounting period.

The valuation of forest assets is based on discounted cash flow models. The annual harvest from forecast tree growth is multiplied by expected wood prices and the costs associated with forest management, harvesting and distribution are then deducted to derive annual cash flows.

The fair value of the forest assets is measured as the present value of cash flows from one growth cycle based on productive forest land, taking into consideration environmental, operational and market restrictions. Forests are valued separately from the underlying freehold land. Further details on the valuation basis are set out in note 6(g).

(l) Livestock

Livestock is recorded at fair value less estimated point-of-sale costs.

Changes in the value of livestock are recognised in profit or loss in the statement of comprehensive income.

(m) Inventory

All inventory items are stated at the lower of cost or net realisable value at balance date. The cost of agricultural produce transferred into inventory is measured at its fair value less estimated point-of-sale costs at the date of harvest. The net realisable value represents the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale.

(n) Receivables

Short-term receivables are initially recorded at fair value, then subsequently at amortised cost using the effective interest rate less any impairment.

(o) Property, plant and equipment

INITIAL RECORDING

All items of property, plant and equipment are initially recognised at cost. Cost includes the value of consideration exchanged, or fair value in the case of donated or subsidised assets, and those costs directly attributable to bringing the item to working condition for its intended use.

SUBSEQUENT MEASUREMENT

Subsequent to initial recognition, leasehold improvements, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

Land and buildings are measured at fair value less accumulated depreciation on buildings and any impairment losses recognised after the date of revaluation. Fair value is determined on the basis of an independent valuation prepared by external valuation experts, based on discounted cash flows or capitalisation of net income (as appropriate).

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Property, plant and equipment (continued)

expense in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged.

A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Independent valuations of land and buildings are performed with sufficient regularity (at least every three years) to ensure that the carrying amount does not differ materially from the asset's fair value at balance date.

DISPOSAL

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained surplus.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of an item) is included in profit or loss in the year the item is derecognised.

IMPAIRMENT

All items of property, plant and equipment are assessed for indicators of impairment at each balance date. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

Where the carrying amount is assessed to be greater than its recoverable amount, the item is written down to its recoverable amount. The write-down is recognised in profit or loss in the statement of comprehensive income unless it relates to land and buildings, in which case it is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the item is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the item in prior years. A reversal of an impairment loss is recognised in the statement of comprehensive income immediately unless it relates to land and buildings, in which case it is treated as a revaluation increase.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs.

In assessing value in use, the estimated pre-tax future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(p) Depreciation

Depreciation is provided on a straight-line basis at a rate that will write off the cost of the assets to their estimated residual value over their useful lives.

The useful lives of major classes of assets have been estimated as follows:

Land improvements	15–50 years
Buildings	25–50 years
Plant and machinery	3–17 years
Office equipment	3 years
Computer equipment	3 years
Motor vehicles	5–12 years
Office fitout	12 years

The cost of office fitout is capitalised and depreciated over the unexpired period of the lease (held by the Guardians) or the estimated remaining useful lives of the improvements, whichever is shorter.

(q) Intangible assets

SOFTWARE

Software and licences are finite life intangibles and are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives of 3 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

CARBON CREDITS

Allocations of New Zealand Units (NZU) and/or other carbon credits are initially recognised at fair value where they have been received, or the Group is reasonably certain that they will be received, and there is a market determined price. Other changes in the quantity of carbon credits are recognised as an operating gain or loss based on the fair value at the time of the transaction.

Subsequent to initial recognition, the carbon credits are measured at fair value at the date of revaluation less any subsequent accumulated impairment losses. Fair value for this purpose is determined by reference to an active market. If the carbon credits cannot be revalued because there is no active market, the carbon credits shall be carried at the amount initially recorded less any impairment losses. The carbon credits are assessed to have indefinite useful lives and as such are not amortised but are tested annually for impairment. An impairment loss is recognised when the carbon credits' carrying amount exceed their recoverable amount. Recoverable amount is the higher of the carbon credits fair value less costs to sell or value in use.

(r) Assets held for sale

Assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets and disposal groups are held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which is expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment are not depreciated once classified as held for sale.

(s) Operating leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Operating lease expenses are recognised on a straight-line basis over the period of the lease.

Where there are contingent lease payments, which are assessed to be closely related to the host lease contract, they are recognised as an expense as they arise.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as deferred income in the statement of financial position. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis over the period of the lease.

(t) Payables

Short-term payables are not interest bearing. They are initially recognised at fair value and subsequently at amortised cost.

(u) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(v) Income recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Income recognition (continued)

For financial instruments measured at fair value, interest income is recognised on an accruals basis, either daily or on a yield to maturity basis. Interest earned on cash balances is accrued at the effective interest rate.

Dividend income is recognised when the shareholder's rights to receive payment has been established, normally the ex-dividend date. Where the Group has elected to receive dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of shares received over the amount of cash dividend foregone is recognised as a gain in the statement of comprehensive income.

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.

(w) Foreign currency transactions

Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rate in effect at the date of the transaction.

Monetary assets and liabilities denominated in a foreign currency at balance date are translated at the rate of exchange ruling as at that date. The resulting exchange differences are recognised separately in profit or loss in the statement of comprehensive income.

(x) Translation of the financial statements of foreign operations

Assets and liabilities of foreign operations with functional currencies other than New Zealand dollars are translated at the closing rate. Revenue and expense items are translated at a weighted average of exchange rates over the year, as a surrogate for the spot rates at transaction dates. Exchange differences arising from the foregoing are taken to the foreign currency translation reserve and recognised in the statement of changes in public equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at exchange rates prevailing at the reporting date.

On disposal of a foreign operation, the accumulated amount of the exchange differences taken to the foreign currency translation reserve that relate to the foreign operation is transferred out of the foreign currency translation reserve and recognised as income or expense in the statement of comprehensive income.

(y) Statement of cash flows

The following are the definitions of the terms used in the statement of cash flows:

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and intangible assets.

Financing activities are those activities relating to capital contributions and to payments of superannuation entitlements (from 2020). As the current funding by the Crown of superannuation entitlements flows directly from the Treasury to the Ministry of Social Development it is not considered cash flow of the Group and is accordingly not recorded in the statement of cash flows.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments with an original maturity of three months or less, which have an insignificant risk of change in fair value.

(z) Goods and Services Tax (GST)

Revenues, expenses, assets and liabilities are recognised exclusive of GST, with the exception of receivables and payables which are stated with GST included. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(aa) Changes in accounting policies

There have been no changes in accounting policies. The accounting policies have been applied consistently throughout these financial statements.

Certain prior year comparatives have been restated to conform with current year presentation. These reclassifications have no impact on overall financial performance or financial position for the comparable year.

(ab) Significant estimates and judgements

In preparing these financial statements, estimates and judgements have been made concerning the future. These estimates and judgements may differ from the subsequent actual results. Estimates and judgements 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. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are detailed within the following accounting policies and notes:

– Note 1 (e) Investments. In particular: fixed income securities where the market is illiquid; private equity funds; unlisted unit trusts; derivatives; 'day 1' gains and losses.

– Note 1 (k) Timber investments – forests

– Note 1 (l) Livestock

– Note 1 (o) Property, plant and equipment – valuation of land and buildings

– Note 1 (q) Intangible assets

– Note 6 Investments

– Note 10 Property, plant and equipment

– Note 11 Intangible assets

– Note 20 Financial instruments

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

2. PROFIT/(LOSS) FROM OPERATIONS

(a) Interest income

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Interest income – financial instruments held at fair value through profit or loss		
Interest income – State-Owned Entities	12,024	14,996
Interest income – Other	152,224	139,692
	164,248	154,688
Interest income – financial instruments not at fair value through profit or loss		
Other interest	78,817	81,443
Total interest income	**243,065**	**236,131**

(b) Operating expenses

Profit/(loss) before income tax has been arrived at after charging/(crediting):

	2012	2011
Timber harvesting and operating expenses	24,766	21,416
Farm operating expenses	5,579	542
Interest expense	88	-
Depreciation of property, plant and equipment	1,206	1,329
(Gain)/loss on disposal of property, plant and equipment	(331)	407
Loss on revaluation of property, plant and equipment	2,423	-
Impairment loss on intangible assets	4,613	-
Amortisation of intangible assets	683	679
Managers' fees – base	38,349	34,651
Managers' fees – performance	(11,513)	35,102
Custody fees	4,526	4,829
Auditor's remuneration (note 4)	313	299
Reimbursement of Guardians' expenses (note 17)	23,819	21,317
Trade expenses	4,018	6,617
Other expenses	12,137	7,716
	110,676	**134,904**

3. FAIR VALUE CHANGES IN INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Financial assets or liabilities designated at fair value through profit or loss	(375,577)	1,799,106
Financial assets or liabilities held for trading recognised at fair value through profit or loss	(416,429)	1,790,767
	(792,006)	**3,589,873**

4. REMUNERATION OF AUDITOR

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Auditor of the parent entity		
Audit of the financial statements – Attest	284	277
Audit of Fund subsidiaries	2	2
Audit of Guardians subsidiaries	14	14
	300	**293**

The auditor of the Fund and its subsidiaries and the Guardians' subsidiaries is Brent Penrose of Ernst & Young, on behalf of the Auditor-General.

Other auditors in the Group		
Audit of Fund subsidiaries	13	6
Total audit fees	**313**	**299**

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

5. INCOME TAX

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Income tax expense		
Current tax – current year	167,782	811,861
Current tax – prior year	(11,769)	(5,366)
Deferred tax – current year	32,496	102,333
Deferred tax – prior year	(5,167)	(1,991)
Income tax expense	**183,342**	**906,837**
Reconciliation of income tax expense		
Profit/(loss) for the year before income tax	226,559	3,902,297
Income tax calculated at 28% (2011: 30%)	63,437	1,170,689
Fair Dividend Regime	130,862	(97,326)
PIE Regime	14,291	(152,835)
CFC Regime	3,175	5,429
Imputation credits	(20,563)	(7,090)
Reduction in tax rate to 28% (i)	-	(2,321)
Foreign tax credits	-	(6,960)
Prior period adjustments	(16,936)	(7,357)
Other items	9,076	4,608
Income tax expense	**183,342**	**906,837**
Deferred tax assets are attributed to the following:		
Unrealised loss on non-portfolio grey list FIF's	-	7,149
Other	1,448	461
Set off against deferred tax liability	(1,448)	(7,610)
Balance at the end of the year	**-**	**-**
Movements in deferred tax assets		
Balance at the beginning of the year	-	-
Prior year adjustments	75	7,098
Credited to profit or loss	(6,237)	(69,156)
Set off against deferred tax liability	6,162	62,058
Balance at the end of the year	**-**	**-**

(i) With effect from 1 July 2011, the applicable statutory tax rate for the Group changed from 30% to 28%. Deferred tax has been provided at 28% for temporary differences in accordance with NZ IAS 12 Income Taxes. This reduced income tax expense by $2,321,000 in 2011.

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Deferred tax liabilities are attributed to the following:		
Timber investments – forest revaluation	(151,830)	(129,786)
Amounts recognised directly in equity	(5,501)	(2,569)
Other	(4,071)	(5,132)
Set off against deferred tax asset	1,448	7,610
Balance at the end of the year	**(159,954)**	**(129,877)**
Movements in deferred tax liabilities		
Balance at the beginning of the year	(129,877)	(36,721)
Prior year adjustments	3,334	(5,107)
Amount recognised directly in asset revaluation reserve	1,502	260
Prior year transfer of losses to current tax	-	5,366
Devaluation for change in tax rates	-	2,321
Other movements	(2,491)	(761)
Set off against deferred tax asset	(6,162)	(62,058)
Credited to profit or loss	(26,260)	(33,177)
Balance at the end of the year	**(159,954)**	**(129,877)**

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

6. INVESTMENTS

(a) Investments by asset type

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Financial assets		
Derivative financial instrument assets:		
Forward foreign exchange contracts	247,547	643,918
Cross currency swaps	391,090	361,588
Asset swaps	-	6,255
Volatility swaps	203	-
Longevity contingent swaps	80,469	95,870
Futures contracts	-	-
Total return swaps – equity	208,191	69,873
Total return swaps – bonds	5,481	-
Credit default swaps	276,956	210,335
Insurance-linked swaps	3,654	3,535
Options	2,600	5,339
Interest rate swaps	883	170
Other OTC swaps	50	55
Total derivative financial instrument assets	**1,217,124**	**1,396,938**
Other financial assets:		
New Zealand equities – State-Owned Entities	5,751	11,718
New Zealand equities – Other	1,150,115	1,106,978
Global equities	4,589,217	5,341,243
Total equities	**5,745,083**	**6,459,939**
New Zealand fixed income – State-Owned Entities	3,042	22,291
Other fixed income	3,780,296	3,336,170
Total fixed income	**3,783,338**	**3,358,461**
Collective investment funds	2,073,661	1,517,411
Equity-linked notes	-	587,828
Reverse repurchase agreements	625,408	727,887
Insurance-linked investments – catastrophe bonds	260,962	257,276
Private equity (i)	1,331,837	887,137
Redeemable preference shares	57,500	57,500
Unlisted unit trusts	252,509	238,135
Total other financial assets	**14,130,298**	**14,091,574**
Other financial assets pledged as collateral	**199,018**	**116,226**
Total financial assets	**15,546,440**	**15,604,738**
Investments accounted for using the equity method	**953,989**	**907,883**

(i) Includes unlisted investment funds and unlisted equity investments.

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Agricultural assets		
Forests	63,770	135,650
Livestock and crops	14,107	3,007
Total agricultural assets	**77,877**	**138,657**
Total investments	**16,578,306**	**16,651,278**
Financial liabilities		
Derivative financial instrument liabilities:		
Forward foreign exchange contracts	58,634	100,066
Cross currency swaps	22,799	-
Asset swaps	147,337	88,761
Futures contracts	-	-
Total return swaps – equity	149,612	79,345
Total return swaps – bonds	1,117	-
Credit default swaps	331,865	219,247
Insurance-linked options	161	919
Insurance-linked swaps	9,770	8,596
Interest rate swaps	27,266	955
Options	440	1,594
Other OTC swaps	-	101,554
Total derivative financial instrument liabilities	**749,001**	**601,037**
Net investments	**15,829,305**	**16,050,241**

(b) Restrictions

For restrictions on those investment balances pledged as collateral, refer to note 21.

(c) Fair values

The basis of the fair value determination is set out in the summary of significant accounting policies.

(d) Illiquid securities

The Group holds asset-backed securities, medium-term notes and corporate bonds for which the market is illiquid. The fair value of these securities is $37,600,000 (2011: $51,200,000), which is included in the other fixed income asset category.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

6. INVESTMENTS (continued)

(e) Investments in subsidiaries

NAME OF SUBSIDIARY	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2012 %	OWNERSHIP INTEREST 2011 %
CNI Timber Operating Company Limited	(i)	30 June	New Zealand	0%	0%
Separate Account NZ0001 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	100%
Separate Account NZ0002 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	100%
Separate Account NZ0003 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	100%
Separate Account NZ0004 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	100%
Separate Account NZ0005 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	100%
Separate Account NZ0006 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account NZ0007 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	0%

(i) All of the shares in CNI Timber Operating Company Limited are legally owned by the Guardians. However, beneficial ownership of the shares remains with the Fund, and as such this company has been consolidated into these financial statements. Section 59 of the Act restricts the Fund from taking an enduring controlling interest in any other entity. From time to time, opportunities to purchase privately traded assets carry associated obligations to take over operating entities specific to that asset. There is a need to balance the benefit to the Fund of progressing with the transaction against the restriction on taking control of the operating entity. The acquisition of CNI Timber Operating Company Limited arose during the purchase of timberland estate. The Group has been restructured so that legal ownership of this entity sits with the Guardians. However, due to certain performance guarantee contracts that exist within the company which have not been transferred, the beneficial ownership of the shares has been retained by the Fund.

(ii) Horseshoe Re Limited acting for, and for the benefit of, the separate accounts enters into agreements relating to the Fund's investments in insurance-linked products. Section 59 of the Act restricts the Fund from taking an enduring controlling interest in any other entity. As a matter of Bermudan law, a segregated account is not a "legal person" and has no existence separate from the segregated account company. In addition, the Fund does not control the segregated account company. Therefore even though the separate accounts have been consolidated into these financial statements they are not "entities" for the purposes of section 59 of the Act and accordingly the interest held does not constitute a breach of that section. During the year, the Fund established additional separate accounts (NZ0006 and NZ0007) in the Bermudan segregated account company, Horseshoe Re Limited. NZ0006 was established on 1 October 2011 and NZ0007 was established on 1 January 2012.

The Fund holds investments in a number of entities where its ownership interest exceeds 50%. The Fund has no power to govern or participate in the financial and operating policy decisions of these entities, and therefore does not have control. As such, investments in these entities have been designated as at fair value through profit or loss in accordance with NZ IAS 39 Financial Instruments: Recognition and Measurement.

(f) Investments accounted for using the equity method

	GROUP ACTUAL 2012 NZ $000	2011 NZ $000
Investments in associates	**953,989**	**907,883**

NAME OF ENTITY	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2012 %	2011 %
Kaingaroa Timberlands Partnership	30 June	New Zealand	40%	40%

	GROUP ACTUAL 2012 NZ $000	2011 NZ $000
Summarised financial information of associate company:		
Current assets	89,178	86,910
Non-current assets	2,382,439	2,261,054
	2,471,617	2,347,964
Current liabilities	31,196	22,867
Non-current liabilities	8,554	2,296
	39,750	25,163
Net assets	**2,431,867**	**2,322,801**
Revenue	266,190	173,950
Net profit	250,347	265,222
Share of associate's profit	99,155	102,819

(g) Agricultural assets – forests

Forests are accounted for under NZ IAS 41 Agriculture and are carried at fair value less estimated point-of-sale costs.

	GROUP ACTUAL 2012 NZ $000	2011 NZ $000
Gross carrying amount – forests		
Carrying amount at beginning of the year	135,650	147,016
Additions	410	39
Disposals	(1,317)	(1,666)
Fair value changes due to harvesting	(21,305)	(21,351)
Other fair value changes	(6,019)	11,854
Other changes	112	(242)
Transfer to assets held for sale	(43,761)	-
Carrying amount at end of the year	**63,770**	**135,650**

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

6. INVESTMENTS (continued)

(g) Agricultural assets – forests (continued)

At 30 June 2012, the Group's forests measured approximately 12,166 hectares (2011: 13,732 hectares). During the year ended 30 June 2012, the Group harvested 0.71 million m^3 (2011: 0.65 million m^3).

The forests have been measured at fair value based on a net present value or discounted cash flow approach. The following methodology and assumptions were applied:

An estate-based approach was employed whereby the net cash flows for each geographically distinct area was forecast and discounted to provide a forest value. These cash flows reflect management's future harvesting and silvicultural intentions for the forest.

(a) The forests have been valued on the basis of a going concern and captures the value of the existing crop on a single rotation basis.

(b) Notional land rental costs have been included for freehold land based on current government valuations.

(c) The net present value is calculated using a pre-tax discount rate of 9.0 – 9.5% (2011: 8.6 – 9.5%).

(d) The cash flows do not take into account income tax.

(e) The impact of movement in prices is estimated by adjusting the starting prices for price forecasting by the quarter-on-quarter movement in market prices and maintaining a consistent price path to the long-run averages by grade category.

(f) Costs are current average costs. No allowance has been made for cost improvements in future operations.

(g) The net change in value arising from harvest, growth and change in prices by log grade category is taken as the change in fair market value of the crop and is included in profit or loss in the statement of comprehensive income.

(h) Estimated point-of-sale costs of 1% have been deducted from the fair valuation.

FOREST RISK MANAGEMENT

The Group is exposed to financial risks in respect of its forestry activities. The primary financial risk that these activities expose the Group to are pricing risks due to the global volatility of log prices, exchange rates and transportation costs. Management monitors these movements and adjusts harvest levels and marketing efforts to minimise the impacts of these changes.

EMISSIONS TRADING SCHEME

The New Zealand Emissions Trading Scheme (ETS) was established by the passing of the Climate Change Response Act 2002. The legal requirements relating to forestry in the ETS are set out in the Climate Change (Forestry Sector) Regulations 2008.

Participants in the ETS have three core obligations:

(1) monitor their emissions and/or removals of greenhouse gases;

(2) report these to the Government by periodically filing an emissions return;

(3) surrender units to cover their reported emissions, or to claim units for their removals.

The primary unit of trade in the ETS is the New Zealand Unit (NZU). One NZU represents one tonne of carbon dioxide either released to the atmosphere (emissions) or removed from the atmosphere (removals).

The forestry sector became a participant in the ETS from 1 January 2008. Participation in the ETS is mandatory for owners of pre-1990 forest land, while owners of post-1989 forest land/foresters may opt into the ETS voluntarily.

Post-1989 forest land is exotic or indigenous forest that is established after 31 December 1989 on land that was not forest land on 31 December 1989.

Pre-1990 forest land is an area of forest land covered by predominantly exotic forest species that was established on or before 31 December 1989 and that remained forest land on 31 December 2007.

The Group owns approximately 7,600 ha of pre-1990 forest land for which participation in the ETS is mandatory. The Group also owns approximately 4,500 ha of post-1989 forest land for which participation in the ETS is voluntary. The Group has elected to opt-in for all of its post-1989 forest land.

Owners of pre-1990 forest land receive a free allocation of NZU's in partial compensation for the loss in value of their land as a result of the introduction of the ETS. NZU's are being received in two tranches. The first tranche of 38% of the Group's overall entitlement has been received in the current year, with the second tranche of 62% to be received after 31 December 2012.

The Group classifies NZU's (carbon credits) as an intangible asset. Refer to Note 11.

(h) Agricultural assets – livestock

Livestock are accounted for under NZ IAS 41 Agriculture and carried at fair value less estimated point-of-sale costs.

The Group owns dairy cattle primarily held to produce milk. Young stock are held for replacement purposes. The quantity of livestock owned by the Group at 30 June is shown below.

	GROUP ACTUAL	
	2012	2011
	HEAD	HEAD
Livestock class		
R1 heifers	1,186	372
R2 heifers	1,612	295
Mixed age cows	6,752	1,230
Total head of cattle	**9,550**	**1,897**

The change in the value of livestock owned by the Group during the year was due to:

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Livestock reconciliation		
Carrying amount at beginning of the year	2,998	-
Purchases	11,747	2,926
Fair value changes in livestock – price changes	(138)	72
Growth of animals	390	-
Birth of animals	2,110	-
Livestock losses	(560)	-
Book value of livestock sold	(2,538)	-
Carrying amount at end of the year	**14,009**	**2,998**

During the year ended 30 June 2012, the Group produced 1,692,715 kilograms of milk solids (2011: nil).

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

6. INVESTMENTS (continued)

(h) Agricultural assets – livestock (continued)

LIVESTOCK RISK MANAGEMENT

The Group is exposed to financial risks in respect of its farming activities. The primary financial risk that these activities expose the Group to are pricing risks due to the global volatility of milk prices and the price of key inputs, for example feed and fertiliser. Historically, movements in dairy prices have tended to correlate to a reasonable degree with key inputs, and movements are monitored so that management can adapt operations as required. There are procedures in place to minimise and manage the risks that the land and livestock assets are exposed to that could lead to financial loss. All rural land investments, livestock and physical assets are inspected at least twice monthly to assess the condition of these assets, and to manage any identified risks.

(i) Investments in joint ventures

Investments in joint ventures that have been designated as at fair value through profit or loss are classified as private equity investments.

JOINTLY CONTROLLED ENTITIES DESIGNATED AT FAIR VALUE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2012 %	OWNERSHIP INTEREST 2011 %
Aotea Energy Holdings Limited	31 March	New Zealand	50%	50%

The Fund's share of the capital commitments of joint ventures was $33,000,000 (2011: $38,300,000).

(j) 'Day 1' gains and losses

	GROUP ACTUAL 2012 NZ $000	GROUP ACTUAL 2011 NZ $000
Other OTC swaps reconciliation of 'day 1' gains		
'Day 1' gain at beginning of the year	10,583	-
Gain arising during the year	-	11,902
Unwinding and discount rate adjustment	495	-
Effect of movement in foreign exchange rates	295	(734)
Gain recognised during the year	(2,183)	(585)
Remaining 'day 1' gain at the end of the year	**9,190**	**10,583**

The closing balance of the 'day 1' gain has not been recognised in the statement of financial position. It will be recognised on a systematic basis over the life of the trade to which it relates.

7. ASSETS HELD FOR SALE

In April 2012, the Group issued a Short Form Information Memorandum seeking offers from parties interested in acquiring a portion of the Group's land, forest crop and carbon credits ('Forest Estate'). Indicative bids were received in May 2012. As at 30 June 2012, due diligence was being conducted by a selection of parties invited to do so at the discretion of the Group. If an acceptable agreement is achieved, it is anticipated that settlement will occur at some yet to be determined date and will be dependent upon any regulatory approvals that may be required. As at 30 June 2012, the Forest Estate was classified as held for sale.

The major classes of assets classified as held for sale as at 30 June 2012 are as follows:

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Assets		
Forests	43,761	-
Property, plant and equipment	42,940	-
Intangible assets	4,374	-
Assets held for sale	**91,075**	**-**

No gains or losses have been recognised on reclassification of these assets.

8. TRADE AND OTHER RECEIVABLES

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Trade receivables	13,480	15,477
Accrued interest	51,537	50,689
Dividends receivable	23,153	25,722
Unsettled sales	28,332	73,631
GST receivable	225	-
	116,727	**165,519**

Trade receivables have standard 30-day credit terms.

The timing and amount of expected cashflows for accrued interest, dividends receivable and unsettled sales are certain as they are based on contractual terms and corporate actions. All receivables are expected to be settled within one year.

No allowance has been made for irrecoverable amounts as the Group has assessed that there is no evidence of impairment.

9. OTHER ASSETS

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Inventory (agricultural produce)	1,253	1,989
Prepayments	59	386
	1,312	**2,375**

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

10. PROPERTY, PLANT AND EQUIPMENT

	GROUP ACTUAL							
	LAND AND LAND IMPROVEMENTS	BUILDINGS	PLANT AND MACHINERY	OFFICE EQUIPMENT	COMPUTER EQUIPMENT	MOTOR VEHICLES	OFFICE FITOUT	TOTAL
	NZ $000	NZ $000	NZ $000	NZ $000	NZ $000	NZ $000	NZ $000	NZ $000
Gross carrying amount								
Balance at 1 July 2010	47,924	171	-	307	599	-	1,375	50,376
Additions	30,127	1,545	225	-	148	90	1,113	33,248
Disposals	-	-	-	(166)	(43)	-	(1,264)	(1,473)
Net revaluation increments/ (decrements)	921	6	-	-	-	-	-	927
Balance at 30 June 2011	**78,972**	**1,722**	**225**	**141**	**704**	**90**	**1,224**	**83,078**
Additions	36,232	6,091	1,995	-	71	656	98	45,143
Disposals	(730)	-	(46)	-	-	(6)	-	(782)
Transfer to assets held for sale	(45,394)	(173)	-	(40)	-	-	-	(45,607)
Net revaluation increments/ (decrements)	2,381	531	-	-	-	-	-	2,912
Balance at 30 June 2012	**71,461**	**8,171**	**2,174**	**101**	**775**	**740**	**1,322**	**84,744**
Accumulated depreciation								
Balance at 1 July 2010	1,525	21	-	143	386	-	372	2,447
Depreciation expense	536	10	2	32	177	1	571	1,329
Depreciation recovered	-	-	-	(102)	(41)	-	(860)	(1,003)
Balance at 30 June 2011	**2,061**	**31**	**2**	**73**	**522**	**1**	**83**	**2,773**
Depreciation expense	564	151	207	13	99	46	126	1,206
Transfer to assets held for sale	(2,614)	(33)	-	(20)	-	-	-	(2,667)
Depreciation reversed on revaluation	(11)	(149)	-	-	-	-	-	(160)
Balance at 30 June 2012	**-**	**-**	**209**	**66**	**621**	**47**	**209**	**1,152**
Net book value								
As at 30 June 2011	**76,911**	**1,691**	**223**	**68**	**182**	**89**	**1,141**	**80,305**
As at 30 June 2012	**71,461**	**8,171**	**1,965**	**35**	**154**	**693**	**1,113**	**83,592**

Land and buildings have been valued by Telfer Young (Northland) Ltd and Darroch Limited, both are independent registered valuers. The valuers use New Zealand Valuation and Property Standards as a reference, to determine the fair value of the land and buildings. Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions for land and buildings of comparable size and location as those held by the Group.

The valuations were obtained as at 30 June 2012. The revaluation surplus has been taken to the asset revaluation reserve.

Land and buildings purchased during the year have not been independently valued at balance date. The Group believes the purchase price paid reflects fair value at balance date.

The carrying amount of land and buildings that would have been recognised under the cost model is $73,272,000 (2011: $70,301,000).

11. INTANGIBLE ASSETS

	GROUP ACTUAL		
	COMPUTER SOFTWARE	CARBON CREDITS	TOTAL
	NZ $000	NZ $000	NZ $000
Gross carrying amount			
Balance at 1 July 2010	1,343	-	1,343
Additions	777	7,897	8,674
Disposals	(2)	-	(2)
Balance at 30 June 2011	**2,118**	**7,897**	**10,015**
Additions	1,122	1,619	2,741
Disposals	-	(529)	(529)
Impairment loss	-	(4,613)	(4,613)
Transfer to assets held for sale	-	(4,374)	(4,374)
Balance at 30 June 2012	**3,240**	**-**	**3,240**
Accumulated amortisation			
Balance at 1 July 2010	641	-	641
Amortisation expense	679	-	679
Amortisation recovered	(2)	-	(2)
Balance at 30 June 2011	**1,318**	**-**	**1,318**
Amortisation expense	683	-	683
Balance at 30 June 2012	**2,001**	**-**	**2,001**
Net book value			
As at 30 June 2011	**800**	**7,897**	**8,697**
As at 30 June 2012	**1,239**	**-**	**1,239**

Carbon credits have been written down to their estimated fair value.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

12. TRADE AND OTHER PAYABLES

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Trade payables	1,922	9,009
Accrued expenses	23,565	38,017
Unsettled purchases	151,346	111,766
Related party payable to the Guardians – current	6,031	6,398
Related party payable to the Guardians – non-current	264	260
GST payable	-	54
Deferred income	23	157
	183,151	**165,661**

The average credit period on purchases is 30 days. No interest is charged on overdue balances. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

The timing and amount of expected cash flows for unsettled purchases are certain as they are based on contractual terms and corporate actions. Other than the non-current portion of the related party payable, all payables are expected to settle within one year. The related party payable will settle progressively over four years.

13. PROVISION FOR PERFORMANCE-BASED FEES

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Balance brought forward	12,348	3,306
New provision during the year	32	11,332
Unused provision released during the year	(11,609)	-
Paid out during the year	-	(2,290)
Current portion transferred to accrued expenses	(771)	-
Closing provision	**-**	**12,348**
Represented by:		
Current	**-**	**-**
Non-current	**-**	**12,348**
	-	**12,348**

Certain external investment managers earn performance-based fees once agreed hurdles are reached. For some investment managers, the payout of the current year fee is capped, with the remainder of the fee being held by the Group for possible payout in future periods. For those managers, poor performance in the following years may lead to a reduction in the entitlement that is being held. Thus the amount and timing of the eventual payout is uncertain. The current portion of the performance-based fees are included in accrued expenses.

14. AMOUNTS EXPECTED TO BE RECOVERED OR SETTLED AFTER MORE THAN TWELVE MONTHS

The Group's statement of financial position is presented on a liquidity basis. Accordingly, certain line items combine amounts expected to be recovered or settled no more than twelve months after balance date and amounts expected to be recovered or settled more than twelve months after balance date. The following table sets out the amounts expected to be recovered or settled after more than twelve months:

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
ASSETS		
Investments		
Investments – derivative financial instrument assets	678,654	660,164
Investments – other financial assets	1,532,008	1,302,985
Investments accounted for using the equity method	953,989	907,883
Forests	63,770	135,650
Livestock and crops	14,107	3,007
Total investments	**3,242,528**	**3,009,689**
Property, plant and equipment	83,592	80,305
Intangible assets	1,239	8,697
Total assets	**3,327,359**	**3,098,691**
LIABILITIES		
Trade and other payables	264	260
Investments – derivative financial instrument liabilities	449,049	292,151
Provisions	-	12,348
Deferred tax liability	159,954	129,877
Total liabilities	**609,267**	**434,636**
Net assets	**2,718,092**	**2,664,055**

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

15. MANAGEMENT OF FUND CAPITAL AND RESERVES

OBJECTIVES, POLICIES AND PROCESSES FOR MANAGING THE FUND'S CAPITAL

The Fund's "capital" comprises the investments and all other assets of the Fund less any liabilities.

FUNDING – INVESTMENT CAPITAL

The Fund is the property of the Crown. Its purpose is to build a portfolio of financial assets to help reduce the impact of providing retirement income, in the form of New Zealand superannuation, to an ageing population. The Crown is required to make capital contributions to the Fund in accordance with Sections 42 to 44 inclusive of the Act. The Government announced in the 2009 Budget a reduction in contributions to the Fund. Full capital contributions are projected to resume from 2017/18 under current Treasury modelling, however this may change based on future Fiscal and Economic Updates.

FUNDING – NET COST OF SUPERANNUATION ENTITLEMENTS

Under Section 45 of the Act, the Minister of Finance must ensure that sufficient money is transferred into the Fund in each financial year to meet the net cost of the superannuation entitlements that are payable out of the Fund. As no capital withdrawals are permitted from the Fund in any financial year commencing before 1 July 2020, the Minister of Finance is obliged to provide funding to meet ongoing superannuation entitlements in addition to the capital contributions paid under Section 42 of the Act. The Treasury, through the New Zealand Debt Management Office, has facilitated the flow of funding for superannuation entitlements from the Minister of Finance to the Ministry of Social Development on behalf of the Fund. The Guardians have had no control over these transfers, with The Treasury acting as agent for the Fund.

MANAGEMENT OF THE FUND'S CAPITAL

The Fund is a profit-oriented entity, managed by the Guardians. The Guardians' mandate is to invest the Fund on a prudent, commercial basis, and in doing so, ensure that the Fund is managed and administered in a manner consistent with best-practice portfolio management, maximising return without undue risk to the Fund as a whole, and avoiding prejudice to New Zealand's reputation as a responsible member of the world community. The Fund invests the contributions from the Crown, in accordance with the Statement of Investments Policies, Standards and Procedures, which is available at www.nzsuperfund.co.nz

NATURE AND PURPOSE OF RESERVES

Asset revaluation reserve

The asset revaluation reserve is used to record increases and decreases in the fair value of land, land improvements and buildings.

Available-for-sale reserve

This reserve records movements in the fair value of available-for-sale financial assets.

16. COMMITMENTS AND CONTINGENT LIABILITIES

The Group has entered into two operating leases for the lease of dairy farm land. The leases have remaining terms of two years and 9 months, with an option to extend for a further three years and five years respectively. The Group does not have an option to purchase the leased assets at the expiry of the lease period and there are no restrictions placed upon the lessee by entering into the lease. The lease agreement stipulates that the rental rate for each year is contingent on the final milk price as announced by Fonterra.

In addition, the Group is party to a number of forestry right agreements. The forestry rights successively terminate as harvesting of the crop is completed or at expiry of the agreement.

The base future minimum amounts payable under non-cancellable operating leases and forestry rights agreements at balance date are as follows:

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Within 1 year	112	112
After one year but not more than five years	109	219
Greater than five years	21	21
	242	**352**

At year end, the Group had outstanding commitments to private equity funds totalling $730,122,000 (2011: $827,386,000), of which $6,235,000 has been called but not yet paid (2011: $38,513,000).

These commitments are denominated in the foreign currency of the respective fund and have been translated at the year-end rate.

The Group has a contingent liability in respect of both its pre-1990 and post-1989 forests which are part of the New Zealand Emissions Trading Scheme. Should the Group harvest, and not re-plant, all of its pre-1990 forests, it would have a liability under the ETS of approximately $28,064,000 determined at 30 June 2012 (2011: $81,036,000). Should the Group harvest, and not re-plant, all of its post-1989 forests, it would have a liability under the ETS of approximately $3,846,000 (2011: $7,099,000). The amount and timing of any liability is uncertain and is dependent on the intention of the Group with respect to re-establishing forests after harvesting and the price of carbon at the time of emission.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

17. RELATED PARTY DISCLOSURES

(a) Parent entities

The Fund is managed and administered by the Guardians which in turn is a wholly owned entity of the Crown. Both the Guardians and the Crown prepare financial statements which are available to the public.

(b) Equity interests in related parties

Details of the interests held in subsidiaries, associates and joint ventures are disclosed in notes 6(e), 6(f) and 6(i) (respectively) to the financial statements.

(c) Transactions with related parties

The Guardians have paid expenses relating to the Group, as they are required to do under the Act. A portion of these expenses is reimbursed by the Fund as is entitled under the Act. These expenses are included in the financial statements of the Guardians. The amount of the reimbursement to the Guardians for the financial year was $23,819,000 (2011: $21,317,000).

The related party payable to the Guardians at 30 June 2012 is $6,295,000 (2011: $6,658,000).

Related party transactions entered into with subsidiaries, associates and joint ventures during the financial year are as follows:

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Subsidiaries		
Expenses paid by the parent on behalf of subsidiaries	73	174
Joint ventures		
Dividend income	18,000	12,500
Preferred dividends	5,174	5,992
Interest income	8,455	10,471

Related party loans with Aotea Energy Holdings Limited comprise unsecured floating rate notes of $122,250,000 (2011: $122,250,000) and unsecured redeemable preference shares of $57,500,000 (2011: $57,500,000) repayable on 1 April 2013.

The Group and the New Zealand Debt Management Office (NZDMO) are consolidated into the Crown financial statements. The Group transacts with the NZDMO for a portion of its foreign exchange contracts and cross currency swaps. The rates at which the Group transacts are negotiated with the NZDMO. The fair value of outstanding contracts at year end was an asset of $374,858,000 (2011: asset $906,878,000). Gains on contracts with the NZDMO recognised in profit in the statement of comprehensive income for the year were $182,477,000 (2011: gains $1,214,287,000).

All other transactions with government-related entities are on an arm's length basis.

The Group has invested a proportion of its assets in fixed income securities and equities issued by the Government, Crown Entities and State-Owned Entities. These are detailed in note 6. The income earned from these investments is detailed in note 2.

18. SUBSEQUENT EVENTS

There were no reportable events subsequent to year end.

19. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Cash and cash equivalents	2,716,586	2,653,018

At balance date, cash of $171,291,000 (2011: $348,596,000) had been allocated and was held by Investment Managers awaiting investment.

(b) Restrictions

For restrictions on cash balances pledged as collateral, refer to note 21.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

19. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(c) Reconciliation of profit/(loss) for the year to net cash flows from operating activities

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Profit/(loss) for the year after income tax expense	43,217	2,995,460
Add/(deduct) non-cash items:		
Share of profit of investments accounted for using the equity method	(99,155)	(102,819)
Depreciation and amortisation of non-current assets	1,889	2,008
Loss on revaluation of property, plant and equipment	2,423	-
Impairment loss on intangible assets	4,613	-
Fair value changes in forests	27,253	9,497
Fair value changes in livestock	622	(72)
Fair value changes in investments	792,006	(3,589,873)
Net foreign exchange (gain)/loss	(508,136)	179,239
Other non-cash items	(4,958)	1,269
Add items classified as investing activities:		
Gain/loss on disposal of property, plant and equipment	(331)	407
Changes in net assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other receivables	48,792	418,833
Other assets	1,063	(2,312)
Increase/(decrease) in liabilities:		
Trade and other payables	17,490	(326,956)
Provisions	(12,348)	9,042
Increase/(decrease) in current tax balances	(117,505)	320,108
Increase/(decrease) in deferred tax balances	30,077	93,156
Add/(deduct) changes in net assets and liabilities related to operating cash flows not included in net profit/(loss):		
Unsettled sales	(45,299)	(402,324)
Capital support agreements receivable	-	(20,708)
Unsettled purchases	(39,580)	363,956
Add/(deduct) net operating cashflows not included in net profit/(loss)	18,920	982,617
Net cash provided by/(used in) operating activities	**161,053**	**930,528**

20. FINANCIAL INSTRUMENTS

(a) Financial assets and financial liabilities by category

Key: **H4T:** At fair value through profit or loss – Held for trading
Designated at FVTPL: Designated at fair value through profit or loss
L&R: Loans and receivables at amortised cost
A4S: Available-for-sale
AC: Amortised cost

2012	H4T	DESIGNATED AT FVTPL	L&R	A4S	AC	TOTAL
	NZ $000	NZ $000	NZ $000	NZ $000	NZ $000	NZ $000
Financial assets						
Cash and cash equivalents			2,716,586			2,716,586
Cash pledged as collateral			502,171			502,171
Trade and other receivables			116,727			116,727
Investments						
Investments – derivative financial instrument assets:						
Forward foreign exchange contracts	247,547					247,547
Cross currency swaps	391,090					391,090
Volatility swaps	203					203
Longevity contingent swaps	80,469					80,469
Futures contracts	-					-
Total return swaps – equity	208,191					208,191
Total return swaps – bonds	5,481					5,481
Credit default swaps	276,956					276,956
Insurance-linked swaps	3,654					3,654
Interest rate swaps	883					883
Options	2,600					2,600
Other OTC swaps	50					50
	1,217,124	-	-	-	-	1,217,124
Investments – other financial assets:						
Equities						
New Zealand equities – State-Owned Entities		5,751				5,751
New Zealand equities – Other		1,150,115				1,150,115
Global equities		4,589,217				4,589,217
Total equities	-	5,745,083	-	-	-	5,745,083
Fixed income						
New Zealand fixed income – State-Owned Entities		3,042				3,042
Other fixed income		3,583,215	197,081			3,780,296
Total fixed income	-	3,586,257	197,081	-	-	3,783,338
Collective investment funds		2,073,661				2,073,661
Reverse repurchase agreements			625,408			625,408
Insurance-linked investments – catastrophe bonds		260,962				260,962
Private equity		1,245,100		86,737		1,331,837
Redeemable preference shares			57,500			57,500
Unlisted unit trusts		252,509				252,509
	-	3,832,232	682,908	86,737	-	4,601,877
Total investments	1,217,124	13,163,572	879,989	86,737	-	15,347,422
Other financial assets pledged as collateral		199,018				199,018
Total financial assets	**1,217,124**	**13,362,590**	**4,215,473**	**86,737**	**-**	**18,881,924**

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

20. FINANCIAL INSTRUMENTS (continued)

(a) Financial assets and financial liabilities by category (continued)

2012	H4T	DESIGNATED AT FVTPL	L&R	A4S	AC	TOTAL
	NZ $000	NZ $000	NZ $000	NZ $000	NZ $000	NZ $000
Financial liabilities						
Cash collateral received					162,646	162,646
Trade and other payables					183,151	183,151
Derivative financial instrument liabilities:						
Forward foreign exchange contracts	58,634					58,634
Cross currency swaps	22,799					22,799
Asset swaps	147,337					147,337
Total return swaps – equity	149,612					149,612
Total return swaps – bonds	1,117					1,117
Credit default swaps	331,865					331,865
Insurance-linked options	161					161
Insurance-linked swaps	9,770					9,770
Interest rate swaps	27,266					27,266
Options	440					440
Total derivative financial instrument liabilities	749,001	-	-	-	-	749,001
Total financial liabilities	**749,001**	**-**	**-**	**-**	**345,797**	**1,094,798**

2011	H4T	DESIGNATED AT FVTPL	L&R	A4S	AC	TOTAL
	NZ $000	NZ $000	NZ $000	NZ $000	NZ $000	NZ $000
Financial assets						
Cash and cash equivalents			2,653,018			2,653,018
Cash pledged as collateral			338,040			338,040
Trade and other receivables			165,519			165,519
Investments						
Investments – derivative financial instrument assets:						
Forward foreign exchange contracts	643,918					643,918
Cross currency swaps	361,588					361,588
Asset swaps	6,255					6,255
Longevity contingent swaps	95,870					95,870
Futures contracts	-					-
Equity swaps	69,873					69,873
Credit default swaps	210,335					210,335
Insurance-linked swaps	3,535					3,535
Interest rate swaps	170					170
Options	5,339					5,339
Other OTC swaps	55					55
	1,396,938	-	-	-	-	1,396,938
Investments – other financial assets:						
Equities						
New Zealand equities – State-Owned Entities		11,718				11,718
New Zealand equities – Other		1,106,978				1,106,978
Global equities		5,341,243				5,341,243
Total equities	-	6,459,939	-	-	-	6,459,939
Fixed income						
New Zealand fixed income – State-Owned Entities		22,291				22,291
Other fixed income		3,032,574	303,596			3,336,170
Total fixed income	-	3,054,865	303,596	-	-	3,358,461
Collective investment funds		1,517,411				1,517,411
Equity-linked notes		587,828				587,828
Reverse repurchase agreements			727,887			727,887
Insurance-linked investments – catastrophe bonds		257,276				257,276
Private equity		833,275		53,862		887,137
Redeemable preference shares			57,500			57,500
Unlisted unit trusts		238,135				238,135
	-	3,433,925	785,387	53,862	-	4,273,174
Total investments	1,396,938	12,948,729	1,088,983	53,862	-	15,488,512
Other financial assets pledged as collateral		116,226				116,226
Total financial assets	**1,396,938**	**13,064,955**	**4,245,560**	**53,862**	**-**	**18,761,315**

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

20. FINANCIAL INSTRUMENTS (continued)

(a) Financial assets and financial liabilities by category (continued)

2011	H4T	DESIGNATED AT FVTPL	L&R	A4S	AC	TOTAL
	NZ $000	NZ $000	NZ $000	NZ $000	NZ $000	NZ $000
Financial liabilities						
Cash collateral received					87,964	87,964
Trade and other payables					165,661	165,661
Derivative financial instrument liabilities:						
Forward foreign exchange contracts	100,066					100,066
Asset swaps	88,761					88,761
Equity swaps	79,345					79,345
Credit default swaps	219,247					219,247
Insurance-linked options	919					919
Insurance-linked swaps	8,596					8,596
Interest rate swaps	955					955
Options	1,594					1,594
Other OTC swaps	101,554					101,554
Total derivative financial instrument liabilities	601,037	-	-	-	-	601,037
Total financial liabilities	**601,037**	**-**	**-**	**-**	**253,625**	**854,662**

(b) Fair value

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate fair value are summarised in the table below.

2012	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE – MARKET OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE – NON MARKET OBSERVABLE INPUTS (LEVEL 3)	TOTAL
		NZ $000	NZ $000	NZ $000	NZ $000
Financial assets					
Investments					
Investments – derivative financial instrument assets:					
Forward foreign exchange contracts			247,547		247,547
Cross currency swaps			391,090		391,090
Volatility swaps			203		203
Longevity contingent swaps	(i)			80,469	80,469
Futures contracts			-		-
Total return swaps – equity			208,191		208,191
Total return swaps – bonds			5,481		5,481
Credit default swaps			276,956		276,956
Insurance-linked swaps			3,654		3,654
Other OTC swaps	(ii)			50	50
Interest rate swaps			883		883
Options			2,600		2,600
		-	1,136,605	80,519	1,217,124
Investments – other financial assets:					
Equities					
New Zealand equities – State-Owned Entities		5,751			5,751
New Zealand equities – Other		1,150,115			1,150,115
Global equities	(iii)	4,589,167		50	4,589,217
Total equities		5,745,033	-	50	5,745,083
Fixed income					
New Zealand fixed income – State-Owned Entities			3,042		3,042
Other fixed income	(iv)		3,484,352	98,863	3,583,215
Total fixed income		-	3,487,394	98,863	3,586,257
Collective investment funds	(v)	62,703	1,896,029	114,929	2,073,661
Insurance-linked investments – catastrophe bonds			260,962		260,962
Private equity	(vi)			1,331,837	1,331,837
Unlisted unit trusts	(vi)			252,509	252,509
		62,703	2,156,991	1,699,275	3,918,969
Other financial assets pledged as collateral			199,018		199,018
Total financial assets at fair value		**5,807,736**	**6,980,008**	**1,878,707**	**14,666,451**

For the year ended 30 June 2012

20. FINANCIAL INSTRUMENTS (continued)

(b) Fair value (continued)

2012	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE – MARKET OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE – NON MARKET OBSERVABLE INPUTS (LEVEL 3)	TOTAL
	NOTE	NZ $000	NZ $000	NZ $000	NZ $000
Financial liabilities					
Derivative financial instrument liabilities:					
Forward foreign exchange contracts			58,634		58,634
Cross currency swaps			22,799		22,799
Asset swaps			147,337		147,337
Total return swaps – equity			149,612		149,612
Total return swaps – bonds			1,117		1,117
Credit default swaps			331,865		331,865
Insurance-linked swaps			9,770		9,770
Insurance-linked options		161			161
Interest rate swaps			27,266		27,266
Options			440		440
Total financial liabilities at fair value		**161**	**748,840**	**-**	**749,001**

(i) The fair value of longevity contingent swaps is provided by the counterparty and is calculated by reference to movements in the underlying basket of contracts. The price provided by the counterparties is a non-binding bid price based on a valuation model which uses a discount rate. If a 2% movement in discount rate is applied, the fair value of the swap would increase by $5,363,000 or decrease by $4,730,000.

(ii) For level 3 other OTC swaps, the fair value is determined using an internally-generated model, with the key input being interest rates. The other OTC swaps are market-neutral, and the interest rate is fixed. A reasonably likely movement in the fair value in a one year period has been determined to be 0% based on internal risk modelling, which would increase or decrease the fair value of these securities by $nil.

(iii) The fair value of listed equities is determined based on the last quoted bid price on the relevant exchange as of the close of business at balance date. In some instances, where the market on which the security is traded is not highly liquid (for example the security may be listed on an emerging market stock exchange), the price is determined using non-binding broker quotes. These securities have been classified as Level 3. A reasonably likely movement in the fair value in a one year period has been determined to be 20% based on internal risk modelling, which would increase or decrease the fair value of these securities by $9,800.

(iv) The fair value of other fixed income investments is determined by a reputable pricing vendor who uses models to value the securities or by an independent valuer if the fixed income instrument forms part of a private equity investment. A reasonably likely movement in the fair value in a one year period has been determined to be 4% based on internal risk modelling, which would increase or decrease the fair value of these securities by $2,491,000.

(v) The fair value of collective investment funds are provided by the investment manager or administrators. The price is based on the fair value of the underlying net assets of the investment. A reasonably likely movement in the fair value in a one year period has been determined to be 13% based on internal risk modelling, which would increase or decrease the fair value of these securities by $14,732,000.

(vi) The fair value of private equity funds, unlisted equity investments and unlisted unit trusts are provided by the investment manager or administrators. The price is based on the underlying net assets of the investment. Fair value is determined using a variety of methods, including independent valuations, valuation models based on the price of recent investments, earnings multiples or discounted cash flows. The Group does not have access to the underlying valuation models to disclose sensitivities to assumptions. However a reasonably likely movement in the fair value in a one year period has been determined to be 20% for private equity funds, 16% for private timber funds, 12% for private infrastructure funds and 6% for life settlements investments based on internal risk modelling. Applying these movements would increase or decrease the fair value of these investments by $228,838,000.

2011		QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE – MARKET OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE – NON MARKET OBSERVABLE INPUTS (LEVEL 3)	TOTAL
	NOTE	NZ $000	NZ $000	NZ $000	NZ $000
Financial assets					
Investments					
Investments – derivative financial instrument assets					
Forward foreign exchange contracts			643,918		643,918
Cross currency swaps			361,588		361,588
Asset swaps			6,255		6,255
Longevity contingent swaps	(i)			95,870	95,870
Futures contracts			-		-
Total return swaps – equity			69,873		69,873
Credit default swaps			210,335		210,335
Insurance-linked swaps			3,535		3,535
Other OTC swaps	(ii)		-	55	55
Interest rate swaps			170		170
Options			5,339		5,339
		-	1,301,013	95,925	1,396,938
Investments – other financial assets:					
Equities					
New Zealand equities – State-Owned Entities		11,718			11,718
New Zealand equities – Other		1,106,978			1,106,978
Global equities	(iii)	5,341,192		51	5,341,243
Total equities		6,459,888	-	51	6,459,939
Fixed income					
New Zealand fixed income – State-Owned Entities			22,291		22,291
Other fixed income			3,032,574		3,032,574
Total fixed income		-	3,054,865	-	3,054,865
Collective investment funds	(iv)	60,886	1,374,714	81,811	1,517,411
Equity-linked notes		587,828			587,828
Insurance-linked investments – catastrophe bonds			257,276		257,276
Private equity	(v)			887,137	887,137
Unlisted unit trusts	(v)			238,135	238,135
		648,714	1,631,990	1,207,083	3,487,787
Other financial assets pledged as collateral			116,226		116,226
Total financial assets at fair value		**7,108,602**	**6,104,094**	**1,303,059**	**14,515,755**

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

20. FINANCIAL INSTRUMENTS (continued)

(b) Fair value (continued)

2011	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE – MARKET OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE – NON MARKET OBSERVABLE INPUTS (LEVEL 3)	TOTAL
		NZ $000	NZ $000	NZ $000	NZ $000
Financial liabilities					
Derivative financial instrument liabilities					
Forward foreign exchange contracts			100,066		100,066
Asset swaps			88,761		88,761
Total return swaps – equity			79,345		79,345
Credit default swaps			219,247		219,247
Insurance-linked swaps			8,596		8,596
Insurance-linked options		919			919
Interest rate swaps			955		955
Options			1,594		1,594
Other OTC swaps			101,554		101,554
Total financial liabilities at fair value		**919**	**600,118**	**-**	**601,037**

(i) The fair value of longevity contingent swaps is provided by the counterparty and is calculated by reference to movements in the underlying basket of contracts. The price provided by the counterparties is a non-binding bid price based on a valuation model which uses a discount rate. If a 2% movement in the discount rate is applied, the fair value of the swap would increase by $9,387,000 or decrease by $5,884,000.

(ii) For level 3 other OTC swaps, the fair value is determined using an internally-generated model, with the key input being interest rates. The other OTC swaps are market-neutral, and the interest rate is fixed. A reasonably likely movement in the fair value in a one year period has been determined to be 0% based on internal risk modelling, which would increase or decrease the fair value of these securities by $nil.

(iii) The fair value of listed equities is determined based on the last quoted bid price on the relevant exchange as of the close of business at balance date. In some instances, where the market on which the security is traded is not highly liquid (for example the security may be listed on an emerging market stock exchange), the price is determined using non-binding broker quotes. These securities have been classified as Level 3. A reasonably likely movement in the fair value in a one year period has been determined to be 20% based on internal risk modelling, which would increase or decrease the fair value of these securities by $9,000.

(iv) The fair value of collective investment funds are provided by the investment manager or administrators. The price is based on the fair value of the underlying net assets of the investment. A reasonably likely movement in the fair value in a one year period has been determined to be 13% based on internal risk modelling, which would increase or decrease the fair value of these securities by $7,658,000.

(v) The fair value of private equity funds, unlisted equity investments and unlisted unit trusts are provided by the investment manager or administrators. The price is based on the underlying net assets of the investment. Fair value is determined using a variety of methods, including independent valuations, valuation models based on the price of recent investments, earnings multiples or discounted cash flows. The Group does not have access to the underlying valuation models to disclose sensitivities to assumptions. However a reasonably likely movement in the fair value in a one year period has been determined to be 20% for private equity funds, 16% for private timber funds and 12% for private infrastructure funds based on internal risk modelling. Applying these movements would increase or decrease the fair value of these investments by $156,291,000.

TRANSFERS BETWEEN CATEGORIES

There were no significant transfers between Level 1 and Level 2 during the year.

RECONCILIATION OF LEVEL 3 FAIR VALUE MOVEMENTS

The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the reporting period.

	2012 NZ $000	2011 NZ $000
Opening balance	1,303,059	809,030
Gains and losses – profit or loss	(53,476)	358,062
Gains and losses – other comprehensive income	4,575	(584)
Purchases	690,739	284,917
Sales	(4,123)	(45,453)
Settlements	(62,067)	(92,412)
Transfers from other categories	-	13
Transfers to other categories	-	(10,514)
Closing balance	**1,878,707**	**1,303,059**

Total gain or loss stated in the table above for assets held at the end of the period:		
– Profit/(loss)	(61,403)	343,415
– Other comprehensive income	3,896	(5,984)

The transfers out of level 3 in the prior year related to listed equities for which the markets became more liquid.

(c) Financial risk management objectives

Through its activities the Group is exposed to the financial risks of market risk, credit risk and liquidity risk.

The Guardians have established investment policies, standards and procedures to manage the Group's exposure to financial risks. The Guardians manage the risks by adopting an appropriate risk profile that is commensurate with the return objective and time horizon of the Fund, avoiding concentration of risk by ensuring there is adequate diversification between and within asset classes and geographically; careful selection and monitoring of managers to ensure the Guardians have sufficient conviction that each manager will maximise the probability that return expectations for each asset class will be met and to ensure that there are no unintended biases away from the intended investment strategy; and rigorous measurement and management of market and manager risk.

Management monitors and manages the financial risks relating to the Group's operations through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (which includes currency risk, interest rate risk, commodity risk and equity price risk), credit risk and liquidity risk. Management report regularly to the Board of the Guardians and the Audit Committee.

(d) Derivatives

The use of derivatives is governed by the Group's investment policies which provide written principles on the use of derivatives. Compliance with policies and exposure limits is reviewed by the Guardians on a continuous basis.

Derivatives may be used to manage risk or hedge against movements in interest rates, values or prices in relation to permitted investments and movements in foreign currency exposures held within the Group; to achieve or reduce exposure to assets, all or part of any asset class and foreign currency; and to achieve transactional efficiency or reduce the transactional cost of achieving required exposures.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

20. FINANCIAL INSTRUMENTS (continued)

(d) Derivatives (continued)

The contract maturities, notional and fair values for all derivatives is set out below:

FORWARD FOREIGN EXCHANGE CONTRACTS

	NOTIONAL VALUE – BUY/(SELL) FOREIGN CURRENCY	FAIR VALUE	NOTIONAL VALUE – BUY/(SELL) FOREIGN CURRENCY	FAIR VALUE
	2012	2012	2011	2011
	NZ $000	NZ $000	NZ $000	NZ $000
Less than 3 months	(4,573,494)	122,934	(4,040,337)	247,513
3 to 12 months	(2,741,635)	65,979	(5,116,261)	296,339
	(7,315,129)	**188,913**	**(9,156,598)**	**543,852**

All forward foreign exchange contracts are settled gross.

CROSS CURRENCY SWAPS

2012	BUY/SELL	NOTIONAL VALUE	FAIR VALUE
		NZ $000	NZ $000
Less than 1 year	NZD/AUD	353,268	(4,659)
	USD/AUD	21,834	(453)
	USD/GBP	188,639	(6,029)
	USD/JPY	41,381	(944)
1 to 2 years	NZD/EUR	157,891	41,488
	NZD/GBP	154,982	22,865
	NZD/USD	319,269	55,926
2 to 5 years	NZD/EUR	558,935	90,610
	NZD/GBP	122,554	9,630
	NZD/JPY	933,243	(4,267)
	NZD/USD	2,397,328	157,610
	USD/EUR	286,415	6,514
		5,535,739	**368,291**

2011	BUY/SELL	NOTIONAL VALUE	FAIR VALUE
		NZ $000	NZ $000
Less than 1 year	NZD/JPY	44,978	2,783
2 to 5 years	NZD/USD	1,246,234	226,032
	NZD/JPY	622,192	4,225
	NZD/EUR	588,085	59,279
	NZD/GBP	154,383	25,185
5 to 10 years	NZD/USD	131,977	19,848
	NZD/EUR	87,774	11,864
	NZD/GBP	122,081	12,372
		2,997,704	**361,588**

All cross currency swaps are settled gross.

ASSET SWAPS

	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2012	2012	2011	2011
	NZ $000	NZ $000	NZ $000	NZ $000
Less than 1 year	-	-	30,270	(1,194)
2 to 5 years	87,814	(17,517)	205,791	(3,737)
5 to 10 years	236,837	(84,944)	382,739	(78,429)
Over 10 years	379,261	(44,876)	67,876	854
	703,912	**(147,337)**	**686,676**	**(82,506)**

All asset swaps are settled net.

VOLATILITY SWAPS

	VEGA NOTIONAL VALUE	FAIR VALUE	VEGA NOTIONAL VALUE	FAIR VALUE
	2012	2012	2011	2011
	NZ $000	NZ $000	NZ $000	NZ $000
Over 10 years	**1,244**	**203**	-	-

All volatility swaps are settled net.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

20. FINANCIAL INSTRUMENTS (continued)

(d) Derivatives (continued)

LONGEVITY CONTINGENT SWAPS

	NOTIONAL VALUE 2012 NZ $000	FAIR VALUE 2012 NZ $000	NOTIONAL VALUE 2011 NZ $000	FAIR VALUE 2011 NZ $000
Over 10 years	**359,565**	**80,469**	**355,975**	**95,870**

All longevity contingent swaps are settled net.

CREDIT DEFAULT SWAPS

		NOTIONAL VALUE 2012 NZ $000	FAIR VALUE 2012 NZ $000	NOTIONAL VALUE 2011 NZ $000	FAIR VALUE 2011 NZ $000
Buy protection	Less than 1 year	2,923,795	(65,281)	949,267	(1,196)
	1 to 2 years	497,667	(10,846)	312,386	(12,685)
	2 to 5 years	5,012,753	(25,777)	2,936,191	(89,438)
	5 to 10 years	622,084	22,794	1,172,055	40,936
		9,056,299	**(79,110)**	**5,369,899**	**(62,383)**
Sell protection	Less than 1 year	2,416,174	58,513	1,035,234	4,708
	1 to 2 years	497,667	10,222	312,386	8,625
	2 to 5 years	6,656,309	(22,295)	3,349,354	89,709
	5 to 10 years	607,154	(22,239)	1,172,055	(49,571)
		10,177,304	**24,201**	**5,869,029**	**53,471**

The notional values of the credit default swap contracts represent the original notional values. Any subsequent reduction in the notional values due to the default of underlying reference entities has not been reflected in the notional value.

All credit default swaps are settled net.

INSURANCE-LINKED SWAPS

		NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
		2012	2012	2011	2011
		NZ $000	NZ $000	NZ $000	NZ $000
Buy protection	Less than 1 year	62,880	3,654	44,007	3,535
Sell protection	Less than 1 year	127,061	(9,770)	78,278	(8,596)
		189,941	**(6,116)**	**122,285**	**(5,061)**

All insurance-linked swaps are settled net.

OTHER OTC SWAPS

Credit default arbitrage swaps	2 to 5 years	62,208	23	-	-
	5 to 10 years	62,208	27	121,080	55
Cross currency total return swaps	Less than 1 year	-	-	524,388	(101,554)
		124,416	**50**	**645,468**	**(101,499)**

All other OTC swaps are settled net.

OPTIONS

Insurance-linked options	-	(161)	-	(919)
Equity options	118,622	2,160	120,571	3,745
	118,622	**1,999**	**120,571**	**2,826**

INTEREST RATE SWAPS

1 to 2 years	122,693	(1,973)	-	-
2 to 5 years	233,431	(4,720)	63,888	(615)
5 to 10 years	126,353	(3,770)	20,000	(170)
Over 10 years	49,767	(15,920)	-	-
	532,244	**(26,383)**	**83,888**	**(785)**

All interest rate swaps are settled net.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

20. FINANCIAL INSTRUMENTS (continued)

(d) Derivatives (continued)

TOTAL RETURN SWAPS – EQUITY

	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2012	2012	2011	2011
	NZ $000	NZ $000	NZ $000	NZ $000
Less than 1 year	7,752,928	61,079	7,784,667	(9,472)
1 to 2 years	8,263	(2,500)	-	-
	7,761,191	**58,579**	**7,784,667**	**(9,472)**

All equity total return swaps are settled net.

TOTAL RETURN SWAPS – BONDS

Less than 1 year	278,907	4,364	-	-
	278,907	**4,364**	**-**	**-**

All bond total return swaps are settled net.

FUTURES

Equity futures	3,490,674	-	1,118,253	-
Fixed interest futures	3,070,085	-	217,189	-
Insurance-linked futures	-	-	671	-
	6,560,759	**-**	**1,336,113**	**-**

The margin on futures contracts is settled daily.

MATURITY PROFILE OF DERIVATIVE FINANCIAL LIABILITIES

2012	LESS THAN 1 YEAR	1 – 2 YEARS	2 – 5 YEARS	5 – 10 YEARS	10+YEARS
	NZ $000	NZ $000	NZ $000	NZ $000	NZ $000
Net settled derivatives	(229,233)	(15,751)	(246,861)	(114,926)	(60,797)
Gross settled derivatives – cash inflow	4,291,929	-	420,969	-	-
Gross settled derivatives – cash outflow	(4,362,649)	-	(431,682)	-	-
	(299,953)	**(15,751)**	**(257,574)**	**(114,926)**	**(60,797)**
2011					
Net settled derivatives	(195,003)	(14,509)	(159,192)	(130,968)	(1,299)
Gross settled derivatives – cash inflow	2,518,846	-	-	-	-
Gross settled derivatives – cash outflow	(2,618,912)	-	-	-	-
	(295,069)	**(14,509)**	**(159,192)**	**(130,968)**	**(1,299)**

(e) Market risk

The market risks that the Group is primarily exposed to are: equity price risk, both globally and in New Zealand; interest rate risk (primarily to changes in New Zealand and United States interest rates); currency risk (primarily to changes in the New Zealand dollar versus the US dollar); and commodity price risk (primarily to changes in commodity price indices).

Market risk is managed for the Group as a whole as noted in Note 20(c) under financial risk management objectives, policies and processes. Market risk is further managed by requiring investment managers to manage their portfolios by tracking a benchmark index, within a defined tolerance for tracking error. The tolerance for tracking error imposes certain restrictions on the manager. Those restrictions will include limits on percentage weight of any particular company in the portfolio relative to its benchmark weight; limits on aggregate investment in companies not represented in the benchmark; limits on investment in any individual company not represented in the benchmark; limits on the maximum investment in any individual company; duration limits relative to the duration of the benchmark; and maximum limits on exposure to single entities.

(i) Equity price risk

The Group is exposed to changes in the price of equities listed on both New Zealand and international stock exchanges, as well as derivatives or unlisted equities where value is determined with reference to an equity market index or comparable transactions in a listed equity market. The following table details the Group's sensitivity to a change of price with all other variables held constant. The analysis has been performed on the same basis as 2011. The percentages used represent management's assessment of a reasonably possible change in equity prices based on internal risk modelling.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

20. FINANCIAL INSTRUMENTS (continued)

(e) Market risk (continued)

2012	%	PROFIT AFTER TAX		OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE	DECREASE	INCREASE	DECREASE
		NZ $000	NZ $000	NZ $000	NZ $000
New Zealand equities	18%	179,524	(179,524)	-	-
Global large cap equities	16%	1,520,344	(1,520,344)	-	-
Global small cap equities	20%	426,454	(426,454)	-	-
Emerging markets equities	26%	331,221	(331,221)	-	-
Private equity	20%	66,399	(66,399)	10,826	(10,826)
2011					
New Zealand equities	18%	178,798	(178,798)	-	-
Global large cap equities	16%	1,443,187	(1,443,187)	-	-
Global small cap equities	20%	550,827	(550,827)	-	-
Emerging markets equities	26%	371,670	(371,670)	-	-
Private equity	20%	48,357	(48,357)	4,183	(4,183)

(ii) Foreign currency exchange rate risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk through its investments in offshore assets and actively manages its risk by taking out forward foreign exchange contracts.

Currency risk is managed by:

(a) establishing a foreign currency hedging policy at a total fund level;

(b) specifying the bounds within which each manager may take on currency exposures relative to their benchmark; and

(c) engaging one or more counterparties to transact the Group's foreign exchange transactions, including both spot and forward transactions, at the most favourable rate.

The instruments managers may use, and the credit worthiness of the counterparties, are detailed in the investment management agreements with respective managers. Any forward contracts entered into must be with entities that have an appropriate minimum credit rating as determined by an international credit rating agency for counterparty risk and appropriate contractual arrangements must be in place between the currency manager and the counterparty.

Exposures are mainly economically hedged with derivative financial instruments such as forward foreign exchange contracts and cross currency swaps.

	2012 ASSETS	2011 ASSETS
	NZ $000	NZ $000
Foreign currency exposure		
Australian Dollars	14,407	187,806
Brazilian Real	176,626	205,730
Canadian Dollars	212,983	194,361
Swiss Francs	1,750	139,785
Chilean Pesos	26,804	26,052
Colombian Pesos	17,255	10,002
Czech Koruny	4,896	8,009
Danish Kroner	1,928	18,728
Egyptian Pounds	4,607	5,137
European Union Euros	601,057	595,394
British Pounds	770,664	400,120
Hong Kong Dollars	205,456	467,858
Hungarian Forints	3,928	8,389
Indonesian Rupiahs	36,688	35,031
Israeli New Shekels	25,130	28,533
Indian Rupees	87,113	103,388
Japanese Yen	59,272	373,723
South Korean Won	-	231,490
Moroccan Dirhams	1,280	1,779
Mexican Pesos	69,249	64,250
Malaysian Ringgits	57,129	44,000
Norwegian Krone	796	20,742
Peruvian Nuevo Sol	9,370	-
Philippines Pesos	12,671	10,160
Polish Zloty	20,885	28,522
Russian Rubles	80,343	25,949
Swedish Kronor	1,222	64,369
Singaporean Dollars	2,734	103,576
Thai Baht	30,598	28,475
Turkish New Lira	22,548	23,201
Taiwanese New Dollars	-	173,572
United States of America Dollars	2,787,560	520,440
South African Rand	109,170	115,171
	5,456,119	**4,263,742**

This table shows effective foreign currency exposure after forward foreign exchange contracts have been taken into account.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

20. FINANCIAL INSTRUMENTS (continued)

(e) Market risk (continued)

FOREIGN CURRENCY SENSITIVITY

The following table details the Group's sensitivity to a change in the New Zealand dollar against the major foreign currencies, with all other variables remaining constant. The analysis has been performed only on the effective foreign currency exposure after allowing for the impact of forward foreign exchange contracts. The analysis has been performed on the same basis as 2011. The percentages used represent management's assessment of a reasonably possible change in foreign currency rates.

2012	%	PROFIT AFTER TAX		OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE NZ $000	DECREASE NZ $000	INCREASE NZ $000	DECREASE NZ $000
NZD/USD	10%	(201,064)	201,064	(3,953)	3,953
NZD/EUR	10%	(43,276)	43,276	-	-
NZD/GBP	10%	(55,488)	55,488	-	-
NZD/JPY	10%	(4,268)	4,268	-	-
NZD/Others	10%	(88,745)	88,745	-	-
2011					
NZD/USD	10%	(37,472)	37,472	(2,091)	2,091
NZD/EUR	10%	(42,868)	42,868	-	-
NZD/GBP	10%	(28,809)	28,809	-	-
NZD/JPY	10%	(26,908)	26,908	-	-
NZD/Others	10%	(170,933)	170,933	-	-

(iii) Interest rate risk

Interest rate risk is the risk that the value of the Group's investments in fixed interest securities and cash and cash equivalents will fluctuate due to changes in market interest rates. Interest rate risk management activities are undertaken by investment managers in accordance with their mandates. The intention of the Group is not necessarily to hold these assets to maturity, but to realise and purchase similar assets as part of the ongoing management of the investments of the Group.

The Group is primarily exposed to changes in New Zealand and US dollar short-term interest rates.

INTEREST RATE EXPOSURE – MATURITY PROFILE OF FINANCIAL INSTRUMENTS

The following tables are based on the earlier of contractual repricing or maturity period and exclude accrued interest.

2012

			FIXED MATURITY DATES					
	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	VARIABLE INTEREST RATE	LESS THAN 1 YEAR	1 – 2 YEARS	2 – 5 YEARS	5 – 10 YEARS	10+ YEARS	NON-INTEREST BEARING
	%	NZ $000	NZ $000	NZ $000	NZ $000	NZ $000	NZ $000	NZ $000
Financial assets								
Cash and cash equivalents	2.39%	2,646,471						70,115
Cash pledged as collateral	0.00%							502,171
New Zealand State-Owned Entities	4.61%					3,042		
Redeemable preference shares	8.95%		57,500					
Other fixed income investments	3.00%		281,097	193,674	1,126,083	964,576	1,214,866	
		2,646,471	**338,597**	**193,674**	**1,126,083**	**967,618**	**1,214,866**	**572,286**

2011

Financial assets								
Cash and cash equivalents	2.77%	2,181,167						471,851
Cash pledged as collateral	0.00%							338,040
New Zealand State-Owned Entities	6.79%		19,255				3,036	
Redeemable preference shares	8.94%			57,500				
Other fixed income investments	3.70%		249,533	290,837	672,474	1,342,726	780,600	
		2,181,167	**268,788**	**348,337**	**672,474**	**1,342,726**	**783,636**	**809,891**

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

20. FINANCIAL INSTRUMENTS (continued)

(e) Market risk (continued)

INTEREST RATE SENSITIVITY

The sensitivity analysis in the table below of the effect on profit after tax and other comprehensive income has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, with all other variables remaining constant. The analysis has been performed on the same basis as 2011. The percentages used represent management's assessment of a reasonably possible change in interest rates.

2012	BASIS POINTS	PROFIT AFTER TAX		OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE	DECREASE	INCREASE	DECREASE
		NZ $000	NZ $000	NZ $000	NZ $000
Cash and cash equivalents	50	9,780	(9,780)	-	-
Fixed income	50	40,676	(40,676)	-	-
2011					
Cash and cash equivalents	50	15,460	(15,460)	-	-
Fixed income	50	(48,369)	48,369	-	-

(f) Credit risk management

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a loss. Financial instruments which potentially subject the Group to risk consist principally of cash, investments and receivables.

The Group invests in a wide range of assets in New Zealand and overseas in accordance with its Statement of Investment Policies, Standards and Procedures. This contains credit and exposure policies to limit credit risk from the Group's investments.

SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Concentration of credit risk exists if a single counterparty, or group of counterparties, is engaged in similar activities, operate within similar industries, geographies, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. The maximum amount of credit risk for each class is the carrying amount in the statement of financial position.

The Group seeks to mitigate credit risk by applying policies as follows:

(1) Any investment that represents exposure to a single sector within one geography or is a listed security that is over 2% of the net asset value of the Fund requires Board approval; and

(2) Total direct exposure to a counterparty is capped at 2% or 5% of the Fund's net asset value.

At balance date, the Group has industry concentration risk in respect of its investments. The table below sets out the exposures by industry for all of the Group's investments based on fair value.

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
By industry		
Basic materials	1,571,432	1,610,546
Communications	34,283	102,112
Consumer – Cyclical	71,167	18,118
Consumer – Non-cyclical	730,556	937,417
Diversified	5,578	35,352
Energy	861,264	1,106,707
Financial	2,902,859	3,333,364
Funds	2,990,694	2,168,098
Government	1,757,118	1,267,406
Healthcare	361,205	347,401
Industrial	1,260,408	1,714,614
Mortgage securities	725,523	608,322
Technology	370,954	420,608
Utilities	711,513	757,682
Other	1,474,751	1,622,494
Net investments	**15,829,305**	**16,050,241**

At balance date, the Group has geographic concentration risk in respect of its investments. The table below sets out the exposures by geography for all of the Group's investments based on fair value.

	GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
By geography		
New Zealand	4,413,539	4,002,533
Australia	1,239,197	984,768
Japan	442,931	408,745
United States	5,103,848	5,257,237
Canada	146,684	197,268
Europe	3,356,639	3,291,456
Asia (excluding Japan)	803,716	1,355,162
Central & South America	224,735	459,178
Africa	89,341	86,760
Middle East	8,675	7,134
Net investments	**15,829,305**	**16,050,241**

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

20. FINANCIAL INSTRUMENTS (continued)

(f) Credit risk management (continued)

At 30 June 2012 the Group had entered into credit default swaps where there is a risk of losing the notional in the event of any default of the underlying asset. There are no swaps (2011: two swaps with a notional value of $90,800,000) which are exposed to large corporations. There are 8 swaps with a notional value of $1,841,379,000 (2011: 5 swaps with a notional value of $419,200,000) which are exposed to synthetic credit default swap indices which comprise many different companies.

At balance date, the Group has counterparty exposure in respect of its forward foreign exchange contracts, cross currency swaps, asset swaps, volatility swaps, longevity contingent swaps, total return swaps, credit default swaps, insurance-linked swaps, interest rate swaps and other OTC swaps. The table below sets out the gross exposures by individual counterparty where an instrument has a positive fair value and excludes collateral held against these exposures:

2012	GROUP ACTUAL	
	NOTIONAL VALUE	FAIR VALUE
	NZ $000	NZ $000
Amlin Bermuda	9,020	505
ANZ National Bank Limited	1,291,674	33,584
Aon Benfield	12,442	-
Bank of New Zealand	1,620,820	55,167
Barclays Bank PLC, London Branch	498,332	36,235
Barclays Bank PLC, New York Branch	795,023	22,571
BNP Paribas, London Branch	906,803	38,994
Citibank N.A., London Branch	408,736	10,552
Citibank N.A., New York Branch	1,600,000	45,085
Commonwealth Bank of Australia, Sydney Branch	767,804	15,521
Credit Suisse Securities (Europe) Limited	359,565	80,469
Deutsche Bank AG, London Branch	2,744,850	108,644
Goldman Sachs International	1,228,705	44,418
Hannover Ruckversicherung, AG	5,288	171
Hardy Bermuda Limited	5,524	132
Her Majesty the Queen In Right of New Zealand (New Zealand Debt Management Office)	2,204,847	377,444
JP Morgan Chase Bank N.A., London Branch	741,889	28,052
Morgan Stanley & Co. International PLC	6,055,121	168,755
Nomura International PLC	935,886	44,092
The Hong Kong and Shanghai Banking Corporation Limited	444,015	16,517
The Northern Trust Company	278	2
Tokio Millennium Re. Limited	43,048	2,846
UBS AG, Australia Branch	126,159	2,287
UBS AG, London Branch	427,078	20,929
UBS AG, Singapore Branch	125,354	1,060
Westpac Banking Corporation, Wellington Branch	1,697,492	60,492
	25,055,753	**1,214,524**

2011	GROUP ACTUAL	
	NOTIONAL VALUE	FAIR VALUE
	NZ $000	NZ $000
ANZ National Bank Limited	38,941	233
Aon Benfield	6,054	380
Barclays Bank PLC, London Branch	1,829,704	83,845
Barclays Bank PLC, New York Branch	565,444	21,332
BNP Paribas, London Branch	484,318	9,049
BNP Paribas, Paris Branch	400,139	5,750
Citibank N.A., London Branch	697,713	13,165
Citibank N.A., New York Branch	121,080	55
Credit Suisse Securities (Europe) Limited	355,975	95,870
Deutsche Bank AG, London Branch	2,151,345	24,389
Goldman Sachs International	752,662	18,135
Her Majesty the Queen In Right of New Zealand (New Zealand Debt Management Office)	9,489,451	987,721
JP Morgan Chase Bank N.A., London Branch	552,062	14,467
Morgan Stanley & Co. International PLC	3,775,155	102,026
Nomura International PLC	214,273	8,902
The Hong Kong and Shanghai Banking Corporation Limited	6,505	101
The Northern Trust Company	1,048	3
The Royal Bank of Scotland Group	11,380	187
Tokio Millennium Re. Limited	6,266	1,252
UBS AG, London Branch	31,487	235
UBS AG, New York Branch	481	2
Wells Fargo Bank N.A.	31,687	1,903
Westpac Banking Corporation, Wellington Branch	198,288	2,597
	21,721,458	**1,391,599**

The Group monitors the credit worthiness of counterparties on a regular basis.

(g) Liquidity risk management

The Group's liquidity management framework is designed to ensure that the Group has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

The Fund is long-term by nature (no capital withdrawals are permitted prior to 30 June 2020 and, on current assumptions, none are expected before 2029/30).

Liquidity risk is managed by:

(i) forecasting liquidity requirements;

(ii) requiring managers, within the terms of their individual contracts, to hold diversified portfolios;

(iii) requiring managers to invest primarily in securities traded on recognised exchanges with specified maximums for unlisted securities;

(iv) maintaining a buffer of cash and highly liquid securities to meet short-term liquidity requirements.

(v) regular review of the liquidity available by senior management; and

(vi) periodic 'stress tests' of the liquidity framework using theoretical scenarios.

Information about the contractual maturity periods of financial assets and liabilities is included in notes 20(d) & (e)(iii).

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

20. FINANCIAL INSTRUMENTS (continued)

(h) Fair values

The majority of the Group's assets and liabilities are carried at fair value. For all financial assets and liabilities, carrying value is not materially different from fair value.

21. COLLATERAL

(a) Collateral pledged

The cash balance pledged as collateral to meet obligations under Credit Support Agreements for derivative positions is $295,060,000 (2011: $251,319,000). The counterparties are not permitted to sell or repledge the collateral balances. The pledged assets will be returned to the Group when the underlying transaction is terminated, but in the event of default the counterparty is entitled to apply the collateral in order to settle the liability.

$207,111,000 of cash balances (2011: $86,721,000) are held in separate bank accounts lodged with the relevant futures exchange. Fixed income securities with a fair value of $199,018,000 (2011: $116,226,000) have been lodged with a broker. The cash and fixed income securities have been pledged as collateral for potential margin calls on futures with a fair value of $nil (2011: $nil) held by the Group.

(b) Collateral received

The cash balance received as collateral to meet obligations under Credit Support Agreements for derivative positions is $162,646,000 (2011: $87,964,000). The Group is not permitted to sell or repledge the collateral cash balances. The pledged assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the Group is entitled to apply the collateral in order to settle the liability.

The fair value of fixed income securities received as collateral to meet obligations under Global Master Repurchase Agreements is $625,248,000 (2011: $813,609,000). The Group is not permitted to sell or repledge the collateral. The assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the Group is entitled to apply the collateral in order to settle the liability.

22. COMPARISON TO BUDGET (UNAUDITED)

During the year ended 30 June 2012 market returns were lower than the medium-term return expectations on which the budget is based. Given the weight of growth assets in the Fund, we expect significant year to year variations in the Fund's returns. It is not possible to accurately predict these variations and incorporate them into our budget.

Independent Auditor's Report

TO THE READERS OF THE NEW ZEALAND SUPERANNUATION FUND AND GROUP'S FINANCIAL STATEMENTS

For the year ended 30 June 2012

The Auditor-General is the auditor of the New Zealand Superannuation Fund (the Fund) and group. The Auditor-General has appointed me, Brent Penrose, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Fund and group on her behalf.

We have audited the financial statements of the Fund and group on pages 65 to 128, that comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in public equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

OPINION

In our opinion the financial statements of the Fund and group on pages 65 to 128:

– comply with generally accepted accounting practice in New Zealand; and

– fairly reflect the Fund and group's:

  • financial position as at 30 June 2012; and

  • financial performance and cash flows for the year ended on that date.

Our audit was completed on 25 September 2012. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Guardians of New Zealand Superannuation (the Guardians) and our responsibilities, and we explain our independence.

BASIS OF OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Fund and group's financial statements that fairly reflect the matters to which they relate. We consider internal control 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 Fund and group's internal control.

An audit also involves evaluating:

– the appropriateness of accounting policies used and whether they have been consistently applied;

– the reasonableness of the significant accounting estimates and judgements made by the Guardians;

– the adequacy of all disclosures in the financial statements; and

– the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Independent Auditor's Report (continued)

RESPONSIBILITIES OF THE GUARDIANS

The Guardians are responsible for preparing financial statements that:

– comply with generally accepted accounting practice in New Zealand; and

– fairly reflect the Fund and group's financial position, financial performance and cash flows.

The Guardians are also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Guardians' responsibilities arise from the New Zealand Superannuation and Retirement Income Act 2001.

RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the New Zealand Superannuation and Retirement Income Act 2001.

INDEPENDENCE

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the Fund, or any of its subsidiaries.

BR Penrose

Brent Penrose
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE

This audit report relates to the financial statements of the Fund and group for the year ended 30 June 2012 included on the Guardians' website. The Guardians' Board is responsible for the maintenance and integrity of Guardians' website. We have not been engaged to report on the integrity of Guardians' website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements as well as the related audit report dated 25 September 2012 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Financial Statements

GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP

Statement of Responsibility

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements and the statement of service performance of the Guardians of New Zealand Superannuation and Group and the judgements used in them.

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting of the Guardians of New Zealand Superannuation and Group.

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements and the statement of service performance for the year ended 30 June 2012 fairly reflect the financial position, operations and cash flows of the Guardians of New Zealand Superannuation and Group.

GAVIN WALKER, CHAIRMAN
25 September 2012

MARK TUME, BOARD MEMBER
25 September 2012

Statement of Comprehensive Income

For the year ended 30 June 2012		PARENT AND GROUP ACTUAL		BUDGET (UNAUDITED)
		2012	2011	2012
	NOTE	NZ $000	NZ $000	NZ $000
Revenue	2(a)	24,242	21,767	26,193
Expenses	2(b)	24,242	21,767	26,193
Profit/(Loss) for the year		-	-	-
Other comprehensive income		-	-	-
Total comprehensive income for the year		**-**	**-**	**-**

The attached notes form part of, and should be read in conjunction with, these financial statements.

Statement of Financial Position

As at 30 June 2012		PARENT AND GROUP ACTUAL		BUDGET (UNAUDITED)
		2012	2011	2012
	NOTE	NZ $000	NZ $000	NZ $000
Current assets				
Cash and cash equivalents	15	637	891	2,562
Trade and other receivables	4	244	196	140
Related party receivables	4, 11	6,098	6,450	3,579
Total current assets		**6,979**	**7,537**	**6,281**
Non-current assets				
Related party receivables	4, 11	264	260	-
Investments in subsidiaries	10	-	-	-
Intangible assets	5	-	-	-
Property, plant and equipment	6	-	-	2
Total non-current assets		**264**	**260**	**2**
Total assets		**7,243**	**7,797**	**6,283**
Current liabilities				
Trade and other payables	7, 11	5,658	6,141	5,783
Deferred lease incentive	9	75	75	-
Total current liabilities		**5,733**	**6,216**	**5,783**
Non-current liabilities				
Trade and other payables	7, 11	264	260	-
Deferred lease incentive	9	746	821	-
Total non-current liabilities		**1,010**	**1,081**	**-**
Total liabilities		**6,743**	**7,297**	**5,783**
Net assets		**500**	**500**	**500**
Public equity				
Retained surplus		-	-	-
General equity reserve	8	500	500	500
Total public equity		**500**	**500**	**500**

The attached notes form part of, and should be read in conjunction with, these financial statements.

Statement of Changes in Public Equity

For the year ended 30 June 2012	PARENT AND GROUP ACTUAL		
	GENERAL EQUITY RESERVE	RETAINED SURPLUS	TOTAL
	NZ $000	NZ $000	NZ $000
Balance at 1 July 2010	500	-	500
Profit/(Loss) for the year	-	-	-
Total comprehensive income for the year	-	-	-
Balance at 30 June 2011	**500**	**-**	**500**
Profit/(Loss) for the year	-	-	-
Total comprehensive income for the year	-	-	-
Balance at 30 June 2012	**500**	**-**	**500**

The attached notes form part of, and should be read in conjunction with, these financial statements.

Statement of Cash Flows

For the year ended 30 June 2012	NOTE	PARENT AND GROUP ACTUAL 2012 NZ $000	PARENT AND GROUP ACTUAL 2011 NZ $000	BUDGET (UNAUDITED) 2012 NZ $000
Cash flows from operating activities				
Cash was provided from:				
Receipts from the Crown		254	320	528
Receipts from New Zealand Superannuation Fund		24,182	17,502	24,079
Interest received		34	37	14
Other receipts		120	131	90
Total cash inflow from operating activities		**24,590**	**17,990**	**24,711**
Cash was applied to:				
Payments to suppliers		(5,678)	(4,682)	(3,768)
Payments to employees		(19,153)	(13,543)	(20,115)
Goods and Services Tax		(13)	(6)	616
Total cash outflow from operating activities		**(24,844)**	**(18,231)**	**(23,267)**
Net cash provided by/(used in) operating activities	15	**(254)**	**(241)**	**1,444**
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		-	2	-
Total cash inflow from investing activities		**-**	**2**	**-**
Net cash provided by investing activities		**-**	**2**	**-**
Net cash provided by financing activities		**-**	**-**	**-**
Net increase/(decrease) in cash and cash equivalents		**(254)**	**(239)**	**1,444**
Cash and cash equivalents at the beginning of the financial year		891	1,130	1,118
Cash and cash equivalents at the end of the financial year	15	**637**	**891**	**2,562**

The attached notes form part of, and should be read in conjunction with, these financial statements.

Statement of Commitments

As at 30 June 2012	PARENT AND GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Non-cancellable operating lease commitments payable		
No later than 1 year	535	554
1–2 years	507	535
2–5 years	1,522	1,522
Later than 5 years	3,045	3,552
	5,609	**6,163**

Statement of Contingent Liabilities

As at 30 June 2012

There were no contingent liabilities as at 30 June 2012 (2011:nil).

Notes to the Financial Statements

For the year ended 30 June 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

These are the financial statements of the Guardians of New Zealand Superannuation (the Guardians), a Crown entity in terms of the Crown Entities Act 2004.

The Guardians are domiciled in New Zealand and the address of their principal place of business is set out in the Corporate Directory on page 160.

STATEMENT OF COMPLIANCE

The Guardians are a public benefit entity, as the primary purpose is to manage and administer the New Zealand Superannuation Fund (Fund). The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for public benefit entities.

The financial statements of the Guardians of New Zealand Superannuation and Subsidiaries (Group) for the year ended 30 June 2012 were authorised for issue in accordance with a resolution of the Board of Guardians of New Zealand Superannuation on 25 September 2012.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Crown Entities Act 2004 and the Public Finance Act 1989.

The financial statements have been prepared on a historical cost basis, are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (NZ$000).

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The Group has adopted the following new and amended New Zealand Equivalents to International Financial Reporting Standards and interpretations as of 1 July 2011:

(i) Amendments to NZ IFRSs arising from the Annual Improvements Project (2010)

(ii) NZ IAS 24 Related Party Disclosures (Revised 2009)

(iii) FRS-44 New Zealand Additional Disclosures

(iv) Amendments to NZ IFRS to Harmonise with IFRS and Australian Accounting Standards

The adoption of the above standards and interpretations has resulted in minor amendments to disclosures in the financial statements.

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the Guardians are classified as a Tier 2 reporting entity and will be required to apply reduced disclosure Public Benefit Entity Accounting Standards (PAS). These standards are being developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July 2014. This means the Guardians expects to transition to the new standards in preparing their 30 June 2015 financial statements. As the PAS are still under development, the Guardians are unable to assess the implications of the new Accounting Standards Framework at this time.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

Standards and interpretations that have recently been issued or amended but are not yet effective, have not been adopted for the annual reporting period ending 30 June 2012. These are outlined in the table below:

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
NZ IFRS 7	Amendments to NZ IFRS 7 Financial Instruments: Disclosures – Transition Disclosures	These amendments to NZ IFRS 7 remove the requirement for the restatement of comparative period financial statements upon initial application of the classification and measurement requirements of NZ IFRS 9. Instead, the amendments introduce additional disclosures on transition from the classification and measurement requirements of NZ IAS 39 Financial Instruments: Recognition and Measurement to those of NZ IFRS 9. For entities adopting NZ IFRS 9 from 2013 onwards, these disclosures are required even if they choose to restate the comparative figures for the effect of applying NZ IFRS 9.	1 January 2013	These amendments will require additional disclosures in the financial statements.	1 July 2013
NZ IFRS 9 (2009)	Financial Instruments	NZ IFRS 9 (2009) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace NZ IAS 39. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39. The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: • Two categories for financial assets being amortised cost or fair value • Removal of the requirement to separate embedded derivatives in financial assets • Strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows • An option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition • Reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes • Changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income.	1 January 2015	This standard will impact the classification and measurement of financial instruments.	1 July 2015
NZ IFRS 9 (2010)	Financial Instruments	NZ IFRS 9 (2010) supersedes NZ IFRS 9 (2009). The requirements for classifying and measuring financial liabilities were added to NZ IFRS 9 as issued in 2009. The existing NZ IAS 39 Financial Instruments: Recognition and Measurement requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows: The change attributable to changes in credit risk are presented in other comprehensive income (OCI). The remaining change is presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2015	The new standard will impact disclosures in the financial statements.	1 July 2015

* Designates the beginning of the applicable annual reporting period.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following particular accounting policies which materially affect the measurement of comprehensive income and financial position have been applied:

(a) Budget figures

The budget was approved by the Board of Guardians of New Zealand Superannuation for the year. The budget figures are unaudited.

(b) Consolidation of subsidiaries

The Group financial statements comprise the Guardians of New Zealand Superannuation and their subsidiaries.

Subsidiaries are those entities that are controlled by the Guardians. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of any subsidiaries that become or cease to be part of the Group during the year are consolidated from the date that control commenced or until the date that control ceased.

All inter-entity transactions, balances and unrealised profits are eliminated on consolidation.

(c) Revenue and income

The Group primarily derives revenue through the provision of outputs to the Crown and to the Fund, and also derives income from its investments. Revenue and income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

RENDERING OF SERVICES

Revenue from the rendering of services is recognised by reference to the stage of completion.

New Zealand Superannuation Fund reimbursement of costs:

Stage of completion is measured by the proportion of costs incurred to date, compared to the total costs of the outputs.

Crown appropriations:

Revenue is recognised on a straight-line basis over the period to which the appropriations relate, because the services are performed by an indeterminate number of acts over a specified period of time.

Other service revenue:

Where outputs cannot be measured reliably, revenue is recognised only to the extent that the expenses recognised are recoverable.

INTEREST

Interest revenue is recognised as the interest accrues (using the effective interest method which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

(d) Goods and Services Tax (GST)

Revenues, expenses, assets and liabilities are recognised exclusive of GST, with the exception of receivables and payables which are stated with GST included. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(e) Taxation

The Guardians are a public authority in terms of the Income Tax Act 2007 and consequently are exempt from income tax.

(f) Receivables

Short-term receivables are stated at their estimated realisable value net of impairment allowance.

Collectibility of receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(g) Subsidiaries

Subsequent to initial recognition, investments in subsidiaries are measured at cost.

(h) Property, plant and equipment

INITIAL RECORDING

All items of property, plant and equipment are initially recognised at cost. Cost includes the value of consideration exchanged, or fair value in the case of donated or subsidised assets, and those costs directly attributable to bringing the item to working condition for its intended use.

SUBSEQUENT EXPENDITURE

Subsequent expenditure relating to an item of property, plant and equipment is capitalised to the initial cost of the item when the expenditure increases the economic benefits over the life of the item or where that expenditure was necessarily incurred to enable the future economic benefits to be obtained and the expenditure would have been included in the initial cost of the item had the expenditure been incurred at the time of acquisition.

All other subsequent expenditure is expensed in the period in which it is incurred.

SUBSEQUENT MEASUREMENT

Subsequent to initial recognition, property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

DISPOSAL

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of an item) is included in the statement of comprehensive income in the year the item is disposed of.

IMPAIRMENT

All items of property, plant and equipment are assessed for indications of impairment at each balance date. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

Where the carrying amount is assessed to be greater than its recoverable amount, the item is written down to its recoverable amount. The write-down is recognised in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the item is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the item in prior years. A reversal of an impairment loss is recognised in the statement of comprehensive income immediately.

Recoverable amount is the greater of fair value less costs to sell and value in use. The recoverable amount is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs.

In assessing value in use, the estimated pre-tax future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

HELD FOR SALE

Items of property, plant and equipment classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Items of property, plant and equipment are classified as 'held for sale' if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The sale of the asset is expected to be completed within one year from the date of classification.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at a rate which will write off the cost of the assets to their estimated residual value over their useful lives.

The useful lives of major classes of assets have been estimated as follows:

Office equipment	3 years
Computer equipment	1 – 3 years

(j) Intangible assets

Software and licences are finite life intangibles and are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives of 3 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

(k) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, incentives and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

(l) Operating leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Operating lease expenses are recognised on a straight-line basis over the period of the lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as deferred income in the statement of financial position. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis over the period of the lease.

(m) Foreign currency transactions

Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rate in effect at the date of the transaction.

Monetary assets and liabilities denominated in a foreign currency at balance date are translated at the rate of exchange ruling as at that date. The resulting exchange differences are recognised in the statement of comprehensive income. Foreign exchange gains and losses for fair value through profit or loss investments are included within the change in their fair value.

(n) Financial instruments

The Group is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, receivables and payables. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of comprehensive income.

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group offsets financial assets and financial liabilities when the Group has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

Except for items covered by a separate accounting policy, all financial instruments are shown at their amortised cost.

(o) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(p) Payables

Short-term payables are not interest bearing and are stated at their nominal value.

(q) Equity

Equity is the Crown's interest in the Guardians and is measured as the difference between total assets and total liabilities.

(r) Statement of cash flows

The following are the definitions of the terms used in the statement of cash flows:

Operating activities include all activities other than investing and financing activities. The cash inflows include all receipts from the sale of goods and services, interest and other sources of revenue that support the Group's operating activities. Cash outflows include payments made to employees, suppliers and for taxes.

Investing activities are those activities relating to the acquisition, holding and disposal of current and non-current securities and any other non-current assets.

Financing activities are those activities relating to changes in equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity capital.

Cash and cash equivalents includes cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments with an original maturity of three months or less.

(s) Changes in accounting policies

There have been no changes in accounting policies. The accounting policies have been applied consistently throughout these financial statements.

Certain prior year comparatives have been restated to conform with current year presentation. These reclassifications have no impact on overall financial performance or financial position for the comparable year.

(t) Critical accounting estimates and assumptions

In preparing these financial statements the Group has made estimates and assumptions concerning the future. 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. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Employee entitlements – long-term portion of incentive

A component of the incentive scheme is based on the long-term performance of the Fund. The calculation of this portion of the incentive liability utilises assumptions regarding the future performance of the Fund, the employee's average salary over the vesting period and the percentage of service rendered. The key variable is the performance of the Fund. Should the performance of the Fund differ from the assumption utilised in the calculation of the long-term portion of the incentive liability, this will impact the employee benefits expense in the statement of comprehensive income and the carrying amount of the incentive liability in the statement of financial position. The Group manages this risk by using a medium-term expectation of Fund performance.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

2. PROFIT/(LOSS) FROM OPERATIONS

	PARENT AND GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
(a) Revenue		
Revenue from operations consisted of the following items:		
Revenue from the Crown	266	294
Cost reimbursement from New Zealand Superannuation Fund	23,819	21,316
Other revenue	123	120
Interest revenue	34	37
	24,242	**21,767**

	2012	2011
(b) Expenses		
Profit/(Loss) has been arrived at after charging for/(crediting):		
Depreciation and amortisation of non-current assets (note 5 and note 6)	-	-
Auditors' remuneration (note 3)	39	38
Finance charge – provision discount adjustment	-	19
Reversal of provision for refurbishment	-	(406)
Board members' fees (note 11)	198	216
Employee benefit expense*:		
Employee remuneration and related expenses	15,408	12,959
Employee incentives	3,958	5,138
Employer contributions to Kiwisaver	278	198
Operating lease rental expenses:		
Minimum lease payments	479	436
Professional fees	144	85
Other expenses	3,738	3,084
	24,242	**21,767**

* Compensation of key management personnel of the entity is specifically disclosed in note 11.

3. REMUNERATION OF AUDITOR

	PARENT AND GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Auditor of the parent entity		
Audit of the financial statements – Attest current year	39	38
	39	**38**
Auditor of entities in the Group (not including the parent entity)		
Audit of the financial statements	-	-
	-	**-**

The audit fees of other entities in the Group are paid by the Fund.

The auditor of all entities in the Group is Brent Penrose of Ernst & Young, on behalf of the Auditor-General.

4. TRADE AND OTHER RECEIVABLES

	PARENT AND GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Current receivables		
Trade receivables	-	4
Goods and Services Tax (GST) receivable	77	63
Prepayments	167	129
	244	**196**
Related party receivables:		
Accident Compensation Corporation	11	11
The Treasury	56	41
New Zealand Superannuation Fund	6,031	6,398
	6,098	**6,450**
Non-current receivables		
Related party receivables:		
New Zealand Superannuation Fund	264	260
	264	**260**

Trade receivables have standard 30-day credit terms.

Related party receivables classified as current consist of amounts payable by the Fund or other Crown Entities to the Guardians on standard 30-day credit terms.

The Group does not have a history of default on receivables. Accordingly, no allowance has been made for impairment.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

5. INTANGIBLE ASSETS

	PARENT AND GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Gross carrying amount	**21**	**21**
Accumulated amortisation		
Opening balance	21	21
Amortisation	-	-
Closing balance	**21**	**21**
Net book value	**-**	**-**

Intangible assets are software licences and applications used by the Group in day-to-day operations.

6. PROPERTY, PLANT AND EQUIPMENT

	PARENT AND GROUP ACTUAL		
	OFFICE EQUIPMENT	COMPUTER EQUIPMENT	TOTAL
	NZ $000	NZ $000	NZ $000
Gross carrying amount			
Balance at 1 July 2010	246	58	304
Disposals	(90)	(12)	(102)
Balance at 30 June 2011	**156**	**46**	**202**
Balance at 30 June 2012	**156**	**46**	**202**
Accumulated depreciation			
Balance at 1 July 2010	244	58	302
Accumulated depreciation reversed on disposals	(88)	(12)	(100)
Balance at 30 June 2011	**156**	**46**	**202**
Depreciation expense	-	-	-
Balance at 30 June 2012	**156**	**46**	**202**
Net book value			
As at 30 June 2011	-	-	-
As at 30 June 2012	**-**	**-**	**-**

7. TRADE AND OTHER PAYABLES

	PARENT AND GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Current payables and accruals		
Trade payables (i)	294	314
Employee entitlements – annual leave (key management personnel)	169	133
Employee entitlements – annual leave (other)	563	444
Employee entitlements – accrued salary (key management personnel)	48	38
Employee entitlements – accrued salary (other)	378	151
Employee entitlements – incentives (key management personnel) (ii)	1,015	1,325
Employee entitlements – incentives (other) (ii)	2,999	3,554
Accrued expenses	192	182
	5,658	**6,141**
Non-current payables and accruals		
Employee entitlements – incentives (key management personnel) (ii)	68	64
Employee entitlements – incentives (other) (ii)	196	196
	264	**260**

(i) The average credit period on purchases is 30 days. No interest is charged on overdue balances. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

(ii) The Guardians have an incentive scheme for all employees. A component of the scheme is based on the performance of the Fund. This part of the incentive vests progressively over a rolling four-year performance period. During the first three years of the four-year calculation period, the value of the accrual is dependent on the outcome of future periods. The liability reflected in the statement of financial position reflects the present value of the Guardians obligations in respect of that liability. The liability has been calculated based on a medium-term expectation of Fund performance.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

8. MANAGEMENT OF CAPITAL

As a public benefit entity which is fully funded by Crown appropriations (for budgeted Board and audit costs) and by Fund reimbursements (for all other operating costs), the Group has no specific liquidity policies, procedures or targets. Operating budgets are set on an annual basis, with an emphasis upon cost control. The Group is not permitted to borrow and ensures a positive cash position at all times through collection of appropriations and reimbursements.

9. LEASES

OPERATING LEASES

Non-cancellable operating lease commitments payable have been disclosed under the statement of commitments.

Operating leases relate to office premises in two locations with remaining terms of 11 years and 6 months. The Group does not have an option to purchase any of the leased assets at the expiry of the lease periods.

DEFERRED LEASE INCENTIVE

The deferred lease incentive relates to the lease of office premises. The lease incentive is recognised as a reduction of rental expense on a straight-line basis over the period of the lease. The remaining term is 11 years.

10. SUBSIDIARIES

			OWNERSHIP INTEREST AND VOTING RIGHTS	
NAME OF SUBSIDIARY	BALANCE DATE	COUNTRY OF INCORPORATION	2012 %	2011 %
New Zealand Superannuation Fund Nominees Limited	30 June	New Zealand	100	100
NZSF Timber Investments (No 1) Limited	30 June	New Zealand	100	100
NZSF Timber Investments (No 2) Limited	30 June	New Zealand	100	100
NZSF Timber Investments (No 3) Limited	30 June	New Zealand	100	100
NZSF Timber Investments (No 4) Limited	30 June	New Zealand	100	100
NZSF Private Equity Investments (No 1) Limited	30 June	New Zealand	100	100
CNI Timber Operating Company Limited	30 June	New Zealand	100	100
NZSF Rural Investments (No 1) Limited	30 June	New Zealand	100	100

The principal activity of each subsidiary (with the exception of CNI Timber Operating Company Limited) is to act as a nominee company holding assets and liabilities on behalf of the New Zealand Superannuation Fund. These assets and liabilities are recognised in the financial statements of the New Zealand Superannuation Fund and accordingly are not presented in these financial statements.

The share in CNI Timber Operating Company Limited, together with the rights and benefits arising from that share, is held for and on behalf of the New Zealand Superannuation Fund. As such, this company is consolidated into the financial statements of the Fund rather than these financial statements.

11. RELATED PARTY DISCLOSURES

(a) Parent entities

The parent entity in the Group is the Guardians, which is 100% owned by the ultimate parent entity, the Crown.

(b) Equity interests in related parties

Details of the interests held in subsidiaries are disclosed in note 10 to the financial statements.

(c) Transactions with related parties

The Guardians have paid expenses relating to the Fund during the year, as they are required to do under the Act. Crown appropriations (for budgeted Board and audit costs) and reimbursement of costs from the Fund are the main sources of revenue.

	PARENT AND GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Appropriations from the Crown	266	294
Cost reimbursement from New Zealand Superannuation Fund	23,819	21,316
Other income from related parties:		
The Treasury	13	-
Accident Compensation Corporation	40	40
Government Superannuation Fund Authority	40	40
Earthquake Commission	30	40
	24,208	**21,730**

In conducting its activities, the Group is required to pay various taxes and levies (such as GST, FBT, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Group is exempt from paying income tax.

The Group has entered into a number of other transactions with other government-related entities. These transactions relate to the purchase of goods and services from Air New Zealand and New Zealand Post. In addition the Group has utilised the services of Crown Law and provided sponsorship to the Auckland University of Technology. For the year ended 30 June 2012 these purchases totalled $1,062,925 (2011:$931,686).

Amounts receivable from or payable to related parties at balance date are disclosed in notes 4 and 7 of these financial statements, along with terms and conditions around settlement. Outstanding balances at year end are unsecured and subordinate to other liabilities. Interest is not charged on outstanding balances. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 June 2012, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2011: $nil).

All related party transactions have been entered into on an arm's length basis.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

11. RELATED PARTY DISCLOSURES (continued)

(d) Compensation of key management personnel

EMPLOYEE BENEFITS

The compensation of the Board, executives and other key management personnel is set out below:

	PARENT AND GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Employee benefits (including salaries, and Board member fees)	2,715	2,611
Employee incentive scheme	1,083	1,388
	3,798	**3,999**

Board members' fees

	2012	2011
Board members earned the following fees during the year:		
D May (Chairman)	54	54
D Newman (Deputy Chairman, Retired) (i)	8	34
G Walker (Deputy Chairman) (ii)	28	27
M Tume	27	27
J Evans (iii)	-	20
C Savage	27	27
S Moir	27	27
C Ansley (iv)	23	-
P Dunphy (v)	4	-
	198	**216**

(i) David Newman retired from the Board in September 2011

(ii) Gavin Walker was appointed Deputy Chairman in May 2012

(iii) John Evans retired from the Board in March 2011

(iv) Craig Ansley was appointed to the Board in September 2011

(v) Philippa Dunphy was appointed to the Board in May 2012

BOARD MEMBERS' INDEMNITY AND INSURANCE

The Guardians have indemnified Board members in respect of any liability incurred where that Board member has breached one of the individual duties set out in Sections 53 to 57 of the Crown Entities Act 2004 (subject to certain limitations). Liability in respect of a breach of these duties is excluded from the scope of the statutory immunity provided in Section 121 of the Crown Entities Act 2004. Each Board member is also indemnified in respect of costs incurred by that Board member in defending or settling any claim or proceeding.

The Guardians have effected Directors and Officers Liability insurance cover in respect of the liability or costs of Board members and employees.

12. EMPLOYEES' REMUNERATION OVER $100,000 PER ANNUM

For a full discussion of the Guardians remuneration framework, please refer to page 55 of the Annual Report.

The total remuneration figures in this table consist of both an employee's gross base salary and the proportion of their incentive entitlement that will be paid out after this financial year end.

The total remuneration bands and benefits listed below are annual amounts. As some employees commenced part way through the year, the actual remuneration they received during the year is less than the amount shown. For employees who left during the year, the actual remuneration paid has been reported, rather than annual remuneration.

The employee incentive has both individual performance and financial performance targets of the Fund. The financial performance component is based on rolling four-year periods of returns against thresholds and benchmarks.

TOTAL REMUNERATION AND BENEFITS

PARENT AND GROUP ACTUAL					
BASE REMUNERATION RANGE	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES	TOTAL REMUNERATION RANGE	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES
NZ $000	2012	**2011**	NZ $000	2012	**2011**
100 – 110	3	5	100 – 110	4	-
110 – 120	4	3	110 – 120	4	7
120 – 130	3	4	120 – 130	1	-
130 – 140	1	1	130 – 140	3	1
140 – 150	2	2	140 – 150	1	5
150 – 160	5	3	150 – 160	3	1
160 – 170	3	2	160 – 170	4	3
170 – 180	4	1	170 – 180	2	1
180 – 190	2	3	180 – 190	1	1
190 – 200	3	2	190 – 200	1	-
200 – 210	5	4	200 – 210	1	2
210 – 220	1	3	210 – 220	3	4
220 – 230	3	4	220 – 230	3	4
230 – 240	4	3	230 – 240	3	3
240 – 250	3	1	240 – 250	3	1
250 – 260	3	-	250 – 260	3	-
260 – 270	-	1	260 – 270	3	1
270 – 280	1	4	270 – 280	1	-
280 – 290	2	-	280 – 290	1	1
290 – 300	2	-	290 – 300	1	1
300 – 310	-	3	300 – 310	4	2
310 – 320	2	1	310 – 320	-	2
320 – 330	1	-	320 – 330	2	-
330 – 340	1	-	330 – 340	3	3
340 – 350	-	-	340 – 350	-	2
350 – 360	-	-	350 – 360	1	3
360 – 370	-	1	360 – 370	1	1
370 – 380	1	-	370 – 380	1	2
380 – 390	-	-	380 – 390	1	-

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

12. EMPLOYEES' REMUNERATION OVER $100,000 PER ANNUM (continued)

PARENT AND GROUP ACTUAL

BASE REMUNERATION RANGE	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES	TOTAL REMUNERATION RANGE	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES
NZ $000	2012	**2011**	NZ $000	2012	**2011**
390 – 400	-	-	390 – 400	1	1
400 – 410	-	-	400 – 410	2	1
410 – 420	-	2	410 – 420	-	1
430 – 440	1	-	430 – 440	-	-
440 – 450	1	-	440 – 450	1	-
450 – 460	-	-	450 – 460	1	-
460 – 470	-	-	460 – 470	-	1
470 – 480	1	1	470 – 480	-	1
			490 – 500	1	-
			620 – 630	-	1
			630 – 640	-	1
			640 – 650	3	-
			650 – 660	-	1
			710 – 720	-	1
	62	54		68	60

13. REDUNDANCY PAYMENTS

There were four payments made in respect of employees whose positions were made redundant during the year. These payments totalled $426,133 (2011: two payments totalling $165,337).

14. SUBSEQUENT EVENTS

There were no reportable events subsequent to year end (2011: nil).

15. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	PARENT AND GROUP ACTUAL	
	2012	2011
	NZ $000	NZ $000
Cash and cash equivalents	637	891
	637	**891**

(b) Reconciliation of profit/(loss) for the year to net cash flows from operating activities

Profit/(Loss) for the year	-	-
Add/(Deduct) non-cash items:		
Depreciation and amortisation of non-current assets	-	-
Changes in working capital:		
(Increase)/Decrease in assets:		
Receivables	300	(4,732)
Increase/(Decrease) in liabilities:		
Payables and accruals	(479)	3,999
Deferred lease incentive	(75)	896
Provisions	-	(404)
Net cash provided by/(used in) operating activities	**(254)**	**(241)**

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

16. FINANCIAL INSTRUMENTS

(a) Financial assets and financial liabilities by category

Key: **L&R:** Loans and receivables **AC:** Financial liabilities at amortised cost

2012	L&R	AC	TOTAL
	NZ $000	NZ $000	NZ $000
Financial assets			
Cash and cash equivalents	637	-	637
Related party receivables	6,362	-	6,362
Total financial assets	**6,999**	**-**	**6,999**
Financial liabilities			
Trade payables and accruals	-	4,924	4,924
Total financial liabilities	**-**	**4,924**	**4,924**

2011			
Financial assets			
Cash and cash equivalents	891	-	891
Trade receivables	4	-	4
Related party receivables	6,710	-	6,710
Total financial assets	**7,605**	**-**	**7,605**
Financial liabilities			
Trade payables and accruals	-	5,563	5,563
Total financial liabilities	**-**	**5,563**	**5,563**

(b) Financial risk management objectives

Through their activities, the Guardians are exposed to the financial risks of market risk, credit risk and liquidity risk.

The Guardians do not hold significant financial assets or liabilities. Cash and cash equivalents are held with creditworthy institutions. Market risk, credit risk and liquidity risk are not considered significant for these reasons. Policies do not allow any transactions which are speculative in nature to be entered into.

(c) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis of measurement applied in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(d) Market risk

The market risk that the Guardians are primarily exposed to is interest rate risk (primarily to changes in New Zealand interest rates).

The Guardians do not hold significant interest-bearing assets and have no interest-bearing liabilities. The Guardians invest cash and cash equivalents with The National Bank of New Zealand, ensuring a fair market return on any cash position, but do not seek to speculate on interest returns and do not specifically monitor exposure to interest rates or interest rate returns.

INTEREST RATE RISK

Interest rate risk is the risk that the future cash flows of the Guardians' investments in cash and cash equivalents will fluctuate due to changes in market interest rates. There are no interest rate options or interest rate swap options in place as at 30 June 2012 (30 June 2011: $nil). The Board does not consider that there is any significant interest exposure on the Group's investments.

INTEREST RATE EXPOSURE – MATURITY PROFILE OF FINANCIAL INSTRUMENTS

The following tables are based on the earlier of contractual repricing or maturity period.

2012	PARENT AND GROUP ACTUAL	
	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	CASH AT VARIABLE INTEREST RATE
	%	NZ $000
Financial assets		
Cash and cash equivalents	2.27	637
	2.27	**637**

2011		
Financial assets		
Cash and cash equivalents	2.60	891
	2.60	**891**

INTEREST RATE SENSITIVITY

The sensitivity analysis in the table below of the effect on net surplus has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis point change is used when reporting interest rate risk internally to key management personnel and represents the Guardians' assessment of a reasonably possible change in interest rates.

		PROFIT/(LOSS) AND EQUITY	
		2012	**2011**
	BASIS POINTS	NZ $000	NZ $000
Cash and cash equivalents	+ 100 bps	6	9
Cash and cash equivalents	- 100 bps	(6)	(9)

The Guardians' sensitivity to interest rate changes has not changed significantly from the prior year.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

16. FINANCIAL INSTRUMENTS (continued)

(e) Credit risk management

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a loss. Financial instruments which potentially subject the Group to risk consist principally of cash and cash equivalents.

The Group places its investments with institutions that have a high credit rating. The Group believes that this policy reduces the risk of any loss which could arise from its investment activities. The Group does not require any collateral or security to support financial instruments.

SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Group primarily invests cash balances with The National Bank of New Zealand, which is considered to be a low credit risk institution. The maximum amount of credit risk for each class is the carrying amount in the statement of financial position.

(f) Liquidity risk management

Liquidity management is designed to ensure that the Group has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

Because the Guardians recover all expenditure from the Crown or the New Zealand Superannuation Fund and, as the Guardians have a positive cash position, no specific liquidity policies have been developed.

Information about the contractual maturity periods of financial assets and financial liabilities is included above.

(g) Fair value

The fair value of financial instruments is equivalent to the carrying amount disclosed in the statement of financial position.

17. COMPARISON TO BUDGET

	ACTUAL	BUDGET (UNAUDITED)	FAVOURABLE (UNFAVOURABLE) VARIANCE
	2012	2012	2012
	NZ $000	NZ $000	NZ $000
Statement of Comprehensive Income – expenses (i)	24,242	26,193	1,951
Statement of Changes in Public Equity	500	500	-
Statement of Financial Position	500	500	-

(i) Expenses were lower than budget predominantly due to lower remuneration and travel costs. This was a result of an internal restructuring that occurred during the year, and headcount being under budget.

Independent Auditor's Report

TO THE READERS OF THE GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP'S FINANCIAL STATEMENTS AND NON-FINANCIAL PERFORMANCE INFORMATION

For the year ended 30 June 2012

The Auditor-General is the auditor of the Guardians of New Zealand Superannuation (the Guardians) and group. The Auditor-General has appointed me, Brent Penrose, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and non-financial performance information of the Guardians and group on her behalf.

We have audited:

- the financial statements of the Guardians and group on pages 133 to 156, that comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in public equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the Guardians on pages 57 to 59 that comprises the statement of service performance, and which includes outcomes.

OPINION

Financial statements and non-financial performance information

In our opinion:

- the financial statements of the Guardians and group on pages 133 to 156:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Guardians and group's:
    - financial position as at 30 June 2012; and
    - financial performance and cash flows for the year ended on that date.
- the non-financial performance information of the Guardians and group on pages 57 to 59:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Guardians and group's service performance and outcomes for the year ended 30 June 2012, including for each class of outputs:
    - the service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
    - the actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 25 September 2012. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and we explain our independence.

BASIS OF OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and non-financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and non-financial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Guardians and group's financial statements and non-financial performance information that fairly reflect the matters to which they relate. We consider internal control 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 Guardians' internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported service performance within the Guardians and group's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and non-financial performance information; and
- the overall presentation of the financial statements and non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. In accordance with the Financial Reporting Act 1993 we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for preparing financial statements and non-financial performance information that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Guardians and group's financial position, financial performance and cash flows; and
- fairly reflect the Guardians and group's service performance and outcomes.

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error.

The Board's responsibilities arise from the Crown Entities Act 2004, and the New Zealand Superannuation and Retirement Income Act 2001.

RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

INDEPENDENCE

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the Guardians or any of its subsidiaries.

BR Penrose

Brent Penrose
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE

This audit report relates to the financial statements and statement of service performance of the Guardians and group for the year ended 30 June 2012 included on the Guardians' website. The Guardians' Board is responsible for the maintenance and integrity of Guardians' website. We have not been engaged to report on the integrity of Guardians' website. We accept no responsibility for any changes that may have occurred to the financial statements and statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and statement of service performance as well as the related audit report dated 25 September 2012 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

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