Guardians of New Zealand Superannuation

ANNUAL REPORT 2008

NEW ZEALAND
SUPERANNUATION
FUND

2008 ANNUAL REPORT

CONTENTS

Over the first half of this century more New Zealanders than ever before will become entitled to New Zealand Superannuation.

The New Zealand Superannuation Fund exists to help future governments meet the cost of those entitlements.

www.nzsuperfund.co.nz

SECTION 1

Corporate Profile

New Zealand Superannuation and Retirement Income Act 2001 (Act):

Defines current entitlements to New Zealand Superannuation; establishes the New Zealand Superannuation Fund with sufficient resources to help meet the present and future cost of New Zealand Superannuation; provides for Crown contributions to the Fund; establishes a Crown entity to manage and administer the Fund called the Guardians of New Zealand Superannuation; establishes a process for signalling political agreement on parameters for New Zealand Superannuation entitlements and funding; and brings together in one Act all of the provisions for each of those matters.

Crown entity:

An organisation, forming part of the state sector, and managed consistent with the requirements of the Crown Entities Act 2004.

Guardians of New Zealand Superannuation (Guardians):

The Crown entity that manages, administers, and invests the New Zealand Superannuation Fund.

Board of the Guardians of New Zealand Superannuation (Board):

The Board responsible for setting the investment policies of the New Zealand Superannuation Fund and for overseeing the Guardians' operations. The Board must consist of at least five, but not more than seven, members appointed by the Governor-General on the recommendations of the Minister of Finance.

New Zealand Superannuation Fund (Fund):

A Crown fund financed by capital contributions from the Crown and established to assist future governments to meet the cost of providing retirement income to New Zealanders.

SECTION 2

2008 Highlights

Business Performance Overview

- Continued Fund growth and diversification
- Continued growth of the organisation
- Continued development of responsible investment framework

Financial Overview

- Fund assets continue to grow*
- Unrealised losses on investments in financial year 2007/08
- Gains on investments since inception ahead of risk-free rate**
- Positive value-add since inception***

Table 1 – Performance overview

Performance	Since inception (September 2003**–June 2008)	^FY2006/07	^FY2007/08
Fund assets*	$0–$14,128.4m	$13,128.1m	$14,128.4m
Net contribution from Crown	$12,390.1m	$2,049.0m	$2,103.0m
Return on investment net of costs and before NZ tax	$3,297.5m	$1,618.7m	($716.5m)
Annualised rate of return	10.34%	14.58%	(4.92%)
Annualised return in excess of risk-free (90-day Treasury bill rate)	3.49%	7.26%	(12.89%)
Annualised value-add***	0.55%	1.51%	(0.19%)

* Net assets after adjustment for deferred tax liabilities and tax receivables/payables.
** Investing began in September 2003.
*** See page 26 for definition of value-add.
^ FY = Financial Year (1 July to 30 June Financial Year).

Notes:

- All references to Dollars are New Zealand Dollars ($ or NZD), unless otherwise indicated.
- All references to Returns are post-overseas tax, and pre-New Zealand income tax expenses.
- FY2006/07 figures differ from those published in the Annual Report 2007 due to the conversion to International Financial Reporting Standards introduced in FY2007/08.

SECTION 3

Statement from the Board of the Guardians of New Zealand Superannuation

David May – Chairman

Sir Douglas Graham – Deputy Chairman

On behalf of the Guardians of New Zealand Superannuation we are pleased to present the Annual Report for the financial year ended 30 June 2008. This report outlines the Guardians' activities and Fund performance for the financial year.

The dominant activity for the Guardians has been managing the growth of the New Zealand Superannuation Fund and the organisational development to support it. Despite the significant headwind coming from investment markets, we are pleased with our progress in this area.

We are pleased, too, with the progress we have made in the challenging area of responsible investment. We now have a framework in place to consider responsible investment issues and have made decisions on a number of contentious investments.

During FY2007/08, global markets suffered a significant set-back affecting every institutional investor. The tough year ended the golden weather of exceptionally strong returns the Fund has experienced since we started investing in late 2003.

Our investment strategy anticipates that from time-to-time we will experience tough market environments such as that we are experiencing now. As we outline in this report, our long time horizon means that we are well placed to weather such periods. Indeed, at this early stage of the Fund's life, they present opportunity as well as threat as we have the chance to invest future cashflows at more attractive prices.

Organisational Growth

The Fund is designed to grow significantly into the future. As it grows, so too does the complexity of investing an increasingly large pool of assets. Having previously laid the foundations for future growth, our focus in this past year has been to build the organisation so it is both ready to face the investing challenges of today and be prepared for those of tomorrow.

We have developed clarity around our long run operational model and will build towards that over the next three years. This includes identifying the competitive advantages that are open to us, whether by virtue of the mandate we have been given or by the way we choose to fulfil that mandate.

We have put particular focus on building our intellectual capacity, adding senior staff across the organisation. Those staff are tasked with building the teams necessary to take the organisation forward in its next phase.

At the start of the year we commenced a relationship with the Northern Trust Company who, as the new custodian, has responsibility for safe-keeping of the Fund's assets and providing a variety of accounting and reporting services to the Guardians. We chose them specifically to assist us in managing the growing complexity of the Fund.

Responsible Investment

Responsible investment is an important focus for the Guardians. Our mandate requires us to invest in a manner consistent with best-practice portfolio management and with avoiding prejudice to New Zealand's reputation as a responsible member of the world community. The United Nations Principles for Responsible Investment, to which we are founding signatories, and on which we have been active at the board level since its inception, is our guide to best-practice. We are committed to embedding responsible investment in our investment practices.

Addressing responsible investment issues is usually a complex task: few lend themselves to black or white solutions. Our options in responding to those issues include engagement with companies or divestment and exclusion. While favouring the former we have been prepared to use the latter as specific circumstances require.

Over the past year we have, in collaboration with other like-minded investors, engaged with many companies on a wide variety of issues. We are participating in the Carbon Disclosure Project, the world's largest institutional investor collaboration on climate change. The project has seen significantly more companies reporting on greenhouse gas emissions, with the drive for disclosure leading to many companies putting management systems and targets in place.

We are encouraged that our management of responsible investment was recognised by Parliament's Commerce Committee and by the Office of the Auditor-General. We work closely with other Crown Financial Institutions and recognise that we are expected to take a leading role in that work.

Performance

Over the long term (rolling 20-year horizons) we expect the before-tax return on the Fund to exceed the risk-free rate of return by an average 2.5% per annum. Expressed differently, we expect that, over time, the Fund will be adequately rewarded for investing in assets that have higher risk than government debt securities.

It is important that we focus on the long term when making decisions about the Fund. We know that in the short-term performance will vary, often significantly, from the long-term average we expect. In the three and a half years up to the start of the year under review the Fund's returns were well above our expected long-term average. In the last financial year they were well below. While we can never know for certain when markets will over- or under-perform, we do know for certain that in some periods, they will.

The last financial year was one of the toughest market environments for some time. Problems originating in a previously somewhat obscure segment of the US mortgage market escalated into a deeper crisis exposing the fragility and interconnectedness of the global financial system. That crisis shook investor confidence around the world.

The sharp fall in equity markets contributed to the Fund suffering a negative return in a financial year for the first time in its history. While the return was well below our expected long-term average it was not outside the bounds of our expectations. We expect an event like this to occur perhaps once in every 15 years. For us, long-term returns are more meaningful and it is pleasing to note that, despite the setback last year, the Fund's average return in the nearly five years since it first started investing, was still comfortably ahead of the risk-free return over that period and ahead of the return if our Fund had been investing only passively.

Investment Strategy

Our investment objective is to maximise the contribution the Fund's returns make to the Crown's balance sheet over the long term. While we slightly modified our Strategic Asset Allocation during the year, it remains heavily skewed towards those assets that we believe will be best rewarded over the long term.

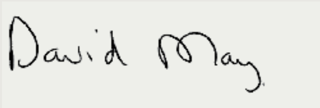
Over the past year, we continued the Fund's diversification into private markets in line with our objectives. As importantly, the investment we have put into our organisational capabilities makes us better placed to explore opportunities in those markets in the future. That is an important part of exploiting those competitive advantages with which we are endowed as long-term investors.

We see a silver lining in the clouds of last year's performance too. The Fund is still at an early stage of its life. Most of the capital contributions it is due to receive from the Crown are still to come. We welcome then the chance to invest those contributions at more attractive prices. Where less-focused investors may lose their nerve, tough market environments provide the opportunities that patient, long-term investors look forward to.

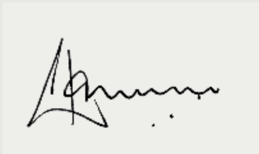
Acknowledgements

We take this opportunity to thank Board members for their support throughout the year. Oversight and governance in this period of organisational growth have demanded a significant amount of their skills and energy, to ensure we remain focused on the key issues.

Our thanks also go to the Guardians' staff for their continued initiative and determination in developing and implementing new ideas, strategies, and processes.



DAVID MAY
Chairman



SIR DOUGLAS GRAHAM
Deputy Chairman

SECTION 4

Statement from the Chief Executive Officer

Adrian Orr – Chief Executive Officer

On behalf of management, I have pleasure in presenting our Annual Report for the 2007/08 financial year.

Prior to the start of the last financial year we set out a series of strategic objectives to guide us through the financial year then ahead of us. Those objectives, which we report against in detail in this report, were largely about ensuring that we built an organisation fit for the complexities of the investment challenges we face, both as the Fund grows and in the markets within which we invest.

I am pleased to report that we have made excellent progress against those objectives. In working towards achieving them we have overhauled our organisational structure, considerably enhancing our capacity to both support the Fund as it is now and, importantly, to grow with the Fund as it inevitably grows. A most pleasing aspect is that the senior management team is now complete and that they are focused on building their teams to ensure we can deliver on the objectives we aspire to.

While we have been strengthening our organisational structure we have also put considerable effort into refining our business practices to ensure that they best fit the task we have been given and also meet the high standards expected of a public entity. We can take considerable comfort that our business practices have been subject to an intense review by the Office of the Auditor-General and that the findings of that review were overwhelmingly positive.

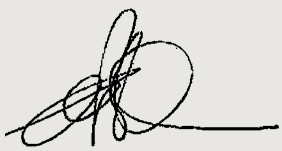
We have undertaken this organisational challenge amidst one of the toughest investment market environments investors have seen for some years – certainly a sharp contrast to the golden days we experienced in the Fund’s first few years. While it will never give us any satisfaction to report performance in a year when the headline number is negative we know that is an occasional reality we must face as a long-term investor. The tests we apply to ourselves are whether, over reasonable measurement periods, our investment strategy is adding value commensurate with the risk the Fund takes and whether our management decisions are adding further value. On both counts our results to date with the Fund are encouraging.

In this report we give a special feature to our progress in responsible investment. This is an enormously challenging area. Seemingly simple issues prove to hide complex policy decisions. It is incumbent on us to make decisions in this area that are well researched, durable, and compatible with our obligations to manage the Fund in a manner that is consistent with best practice. Others have pointed to the leadership mantle that we must inevitably adopt within New Zealand in this field. We accept that challenge. Fortunately, we find ourselves in the company of many of the world's largest institutional investors in confronting how to incorporate responsible investment practices into our day-to-day businesses. We don't all approach this from the same perspective but all benefit from sharing our collective expertise.

It would be easy after a tough year to become downcast about the future. In fact, it is a commonly observed behavioural characteristic that individuals' perceptions of the future are heavily shaped by their most recent experiences. What separates the truly long-term investor from the short-term reactionary is the ability to see through the short-term 'noise' of markets and identify the opportunities of the future. As investors we are particularly fortunate to be endowed with a long horizon and not encumbered with many of the short-term considerations that others must face. The Fund is still in its very early years, with significant growth ahead of it. Times of adversity can also be seen as times of great opportunity.

While we are proud of what we have achieved organisationally in the past year, we are far from resting on our laurels. We have set ourselves the challenges of building the most cost effective, fit for purpose Fund that we can while at the same time continuing to develop our organisation so that we maintain the public's confidence in our capabilities and integrity as we manage this important task with which we have been entrusted. In our most recent Statement of Intent we have set out a number of key activities we will undertake to meet those challenges and we must and will maintain a clear focus on those long-term goals.

Finally, I would like to thank my staff: they stayed dedicated to the tasks at hand throughout a challenging year and showed deep commitment to internal and external accountability. Their dedication, commitment, and enthusiasm are the pillars on which the success of our organisation will stand. I look forward to updating you on progress in our next Annual Report.



ADRIAN ORR
Chief Executive Officer

The Guardians' team.

SECTION 5

Report against the Statement of Intent

In this section we compare the performance of the Fund with the expectations set out in the Statement of Intent issued at the beginning of the year. We also report progress against the key organisational objectives we set for the 2007/08 year. A copy of our 2007/08 Statement of Intent (as well as our most recent Statement of Intent) can be found on our website (www.nzsuperfund.co.nz).

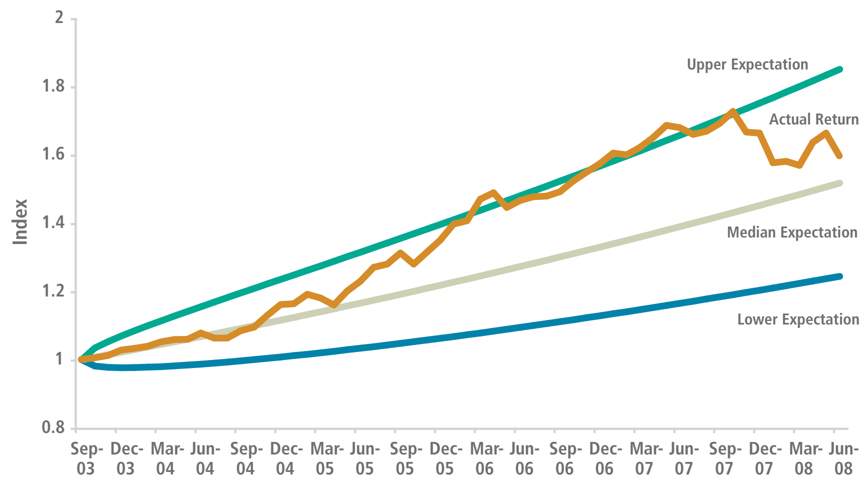
Fund Performance

Our governing legislation requires us to estimate, each year, the return on the Fund for the year ahead. We cannot do that with any great precision. We make no apologies for that: capital market returns are too volatile over the short term to forecast with any pretence of accuracy. Rather than attempt that, we base our estimate on our expectation for the Fund's average annual return over the long term.

In the Statement of Intent we estimated that the Fund return (after costs, but before tax) would be 8.1%. The actual return was -4.92%. While disappointing, this year's return came after four years of strong performance results and was within the range of our expectations. Based on our modelling of the Fund's risk and return characteristics, we would expect a performance like this perhaps one in every 15 years.

The financial modelling used in forming the Strategic Asset Allocation (SAA) highlights that in any given year the Fund's return is likely to be within a range of +/-10% around the estimated average approximately two-thirds of the time (i.e., 68% confidence intervals). This range narrows considerably as the time horizon for the forecast lengthens due to the 'trend-reverting' time series behaviour of asset prices.

Figure 1 – Actual versus expected cumulative returns (September 2003–June 2008)



Report Against Key Organisational Objectives

We outline below our key organisational objectives for the 2007/08 year together with an analysis of our progress towards achieving those objectives. In many cases we did not expect to fully achieve our objective in one year. Where that is the case we have indicated where the objective covers a period stretching beyond the year under review.

STRATEGIC OBJECTIVE	OPERATIONAL OBJECTIVE	PROGRESS
1. ENSURE THAT THE GUARDIANS' INVESTMENT ACTIVITIES ARE ABLE TO RESPOND APPROPRIATELY TO CHANGING OPPORTUNITIES.	Complete a business case assessing the net benefits of a more dynamic investment strategy. If viewed as appropriate, ensure that suitable disciplines are put in place to manage such a strategy.	☑ Strategic tilting rationale accepted by the Board. Operational aspects of implementation will be considered in calendar 2008.
	Complete a business case assessing the net benefits of in-house treasury capabilities, including foreign exchange, equities, and fixed interest.	☑ Completed an assessment of current and prospective treasury requirements. ☒ Business case for the establishment of a treasury operation deferred to later in calendar 2008.
2. CONTINUE TO BROADEN THE GUARDIANS' INVESTMENTS CONSISTENT WITH THE STRATEGIC ASSET ALLOCATION (MULTI-YEAR).	Board approved private equity strategy.	☒ A draft private equity strategy is under development.
	Additional staff appointments to the Private Markets team to allow both range of investments and depth of analysis to be expanded.	☑ Private Markets team increased to four staff, including the appointment of a General Manager Private Markets.
	Update property sector strategy document and appoint a property specialist.	☒ Property strategy under development in 2008/09 year. ☑ Head of Property appointed.
	Identify property sector business partners including a range of specialist advisors.	☒ Ongoing.
3. MAXIMISE THE GUARDIANS' ABILITY TO ATTRACT, RETAIN, MOTIVATE, AND MANAGE THEIR PEOPLE (MULTI- YEAR).	Complete the implementation of a human resources framework that appropriately rewards people, develops their skills and knowledge, and also makes explicit the responsibility and accountability expected of employees.	☑ New human resources policies completed and communicated to all staff. ☑ Job descriptions and staff development plans in place for all staff. ☑ Formal performance review process instituted. ☑ New health and safety procedures established. ☑ Succession and retention plan developed. ☑ Remuneration strategy confirmed.

Report Against Key Organisational Objectives – continued

STRATEGIC OBJECTIVE	OPERATIONAL OBJECTIVE	PROGRESS
4. COMPLETE THE CUSTODIAN TRANSITION PROJECT AND ASSESS NEW OPPORTUNITIES WITH THE CUSTODIAN FOR BUSINESS EFFICIENCIES.	Complete the custody transition. The objectives of the transition to a new custodian were to: 1. maximise the safety of assets held under custody; 2. minimise the Fund's exposure to the risk in the settlement and safekeeping; 3. enhance the existing arrangement wherever possible in order to meet best market practice and improve operational efficiencies; 4. improve on the range and quality of service, reporting, and communication methods; 5. ensure transparency and value for money for custodial services; 6. to develop a service level agreement; and 7. establish a clear service model.	☑ Transition of assets to new custodian successfully completed. ☑ The majority of the expected benefits from transitioning to a new custodian have been secured. ☑ The Fund's custodial services are now closer to best practice and the costs of those services are lower.
	Complete an analysis of whether the objectives identified in the custody review project have been satisfied.	☑ Benefits realisation analysis completed.
	Investigate and assess new opportunities with the custodian.	☒ This initiative was deferred until FY2008/09. However, we have identified a range of additional services that are provided by our custodian and will explore those opportunities.
5. REVIEW THE GUARDIANS' DELEGATIONS, ORGANISATION, STRUCTURE, POLICIES AND PROCEDURES, TO ENSURE THEY ARE BEST ALIGNED TO FACILITATE THE FUND'S ACTIVITIES (MULTI-YEAR).	Ensure that the delegations, policies, and processes are adequate and aligned to the needs of the Guardians.	☑ Developed comprehensive suite of policies covering all aspects of business. ☑ Completed overhaul of delegated authorities.
	Establish and introduce an organisation business model that is supported and controlled by formal policies and procedures that best facilitate the Guardians' business, including committees.	☑ Management structure reviewed and reporting lines to the Chief Executive Officer revised. ☑ Established new management committee structures – effectiveness of these has been reviewed and new procedures instituted.

STRATEGIC OBJECTIVE	OPERATIONAL OBJECTIVE	PROGRESS
6. DEVELOP AND BEGIN IMPLEMENTING A KNOWLEDGE MANAGEMENT FRAMEWORK THAT INCLUDES POLICIES, PROCEDURES, AND SYSTEMS, WHICH BEST MEETS THE GUARDIANS' BUSINESS (MULTI-YEAR).	Establish a knowledge management programme to ensure the Guardians are efficiently and effectively managing their knowledge content. The programme comprises five initiatives: 1. business process management; 2. business intelligence; 3. information management; 4. intranet; and 5. external relationship management.	☑ Appointed a new IT partner to provide ongoing support and development of the Guardians' IT infrastructure. ☑ Commenced work on all five initiatives, having developed a framework and work programme.
	Document key processes within the *Business Process Management* initiative to document and map all key processes, identify process improvement areas and better manage risk.	☑ Developed a Business Process Management framework for documenting and capturing business processes; developed an enterprise-wide business process model; and started development on a repository for storing and tracking processes. Work to complete all key business processes is expected to take up to two years.
	Business intelligence.	☑ Commenced development of a dashboard reporting framework and mandate pro forma document. Initial releases of these models are expected early in FY2008/09.
	Information management.	☑ Established a document classification system together with enhanced processes and controls for documents. The development of a full records management system will be considered in FY2008/09.
	Develop an *intranet* to enable simple, centralised access to key information and a portal for communication amongst staff.	☑ Launched an intranet ('NZ Super.Net') in April 2008 and developed an intranet governance plan to facilitate oversight and ongoing development.
	Initiate the development of an *External Relationship Management System* that improves the existing process for monitoring investment managers, to better enable tracking of current and potential investment/investment relationships, and collates investment information centrally.	☑ Implemented the first stage of a customised investment manager relationship application. The application will be enhanced in the next year with the addition of non- investment manager relationships.
7. UNDERTAKE A REVIEW OF THE GUARDIANS' VISION AND VALUES TO ENSURE THEY ARE CONSISTENT WITH THE GUARDIANS' STRATEGIC PLAN.	Complete a vision and values process that includes input from all Guardians' staff.	☒ Deferred pending the appointment of new senior staff. Now scheduled to take place in FY2008/09.
	Complete a comparative analysis study for the Guardians against other relevant international fund managers.	☒ Initiative started but not due to be completed until FY2008/09.

Report Against Key Organisational Objectives – continued

STRATEGIC OBJECTIVE	OPERATIONAL OBJECTIVE	PROGRESS
8. REVIEW AND REVISE WHERE NECESSARY THE GUARDIANS' RESPONSIBLE INVESTMENT FRAMEWORK TO ENSURE IT REMAINS CONSISTENT WITH THE GUARDIANS' MANDATE AND POLICY AND PROCEDURES.	Implement a communications strategy to explain any evolution in the Guardians' responsible investment strategy.	☑ Developed a responsible investments communication strategy including regular responsible investment reporting covering proxy voting, practice reports, and updates.
	Ensure relevant risk management systems are in place to monitor the portfolio and potential investments and undertake any necessary actions such as to engage with firms or divest.	☑ Refined our framework for assessing responsible investment matters including divestment criteria. ☑ Completed an assessment of highest (responsible investment) risk companies within the Morgan Stanley Capital Index. ☑ Developed a work plan to research and consider responsible investment issues.
9. ENHANCE THE MANAGEMENT AND FINANCIAL REPORTING FRAMEWORK FOR BOTH THE GUARDIANS' EXECUTIVE AND BOARD TO ENSURE THIS BEST ENABLES THESE PARTIES TO EFFECTIVELY DISCHARGE THEIR DUTIES.	Complete the development and implementation of management and financial reporting for the Guardians to provide improved visibility of financial performance.	☑ Implemented new business unit financial management reporting including improved financial forecasting. ☑ Enhanced Board financial reports to include more extensive financial reporting, variance analysis, and commentaries.
	Complete the analysis of the Cost Effective Management[1] benchmarking survey to ensure the Guardians' cost benchmarks are relevant and accurate (multi-year initiative).	☑ Completed analysis of the Cost Effective Management cost benchmarks and performance relative to peer benchmarks.
	Improve forecasting and analysis of costs for the Fund in order to provide better visibility of performance against peers and to better understand the impact of economies of scale.	☑ Financial modelling and analysis identifying key cost drivers were completed and reported to the Board.
10. REVIEW AND IMPLEMENT A COMMUNICATIONS STRATEGY.	Complete, communicate, and implement the communications strategy (both internal and external).	☑ Internal and external communications strategy and policies and implementation plans completed. ☑ Developed communication channels for staff communication, including an intranet.
	Complete a business continuity and crisis management communications strategy.	☑ Completed a business continuity policy and manual after conducting a business impact review. ☑ Developed a crisis management communications plan to support business continuity. ☑ Trained staff on business continuity. ☑ Conducted desktop simulations to test the effectiveness of business continuity planning.

1 CEM Benchmarking Inc. provides a service benchmarking costs and performance for institutional investors like the Guardians.

SECTION 6

Management Discussion and Analysis

a) Economic Overview and Background

The year to June 2008 proved to be a very difficult investment environment. A major factor was the emergence of a global 'credit crisis', initially triggered by rising default rates for 'sub-prime' mortgages in the United States. Banks, hedge funds, and other financial institutions became increasingly uncertain about the true market value of a range of complex credit instruments. Interest rates for corporate borrowers increased relative to government rates and obtaining credit became an increasingly difficult proposition for many borrowers.

The credit crisis prompted several other developments that had a bearing on the Fund's return over the period. A number of large financial institutions wrote down asset values and sought capital injections to repair balance sheets. Central banks announced new mechanisms for fostering easier credit creation. The US Federal Reserve backed efforts to rescue a large investment bank, Bear Stearns, which encountered financing difficulties. These 'circuit breaking' measures helped to alleviate some of the market impacts arising from the credit crisis.

Despite the efforts of the Federal Reserve, US economic growth slowed considerably due to the deteriorating credit environment and continued declines in house price and consumer confidence levels. The markets were influenced by fears of a recession in the US. Developed countries more generally were projected to face a period of substantially below-trend economic growth.

Beyond the credit crisis and its direct implications, the other major development in global financial markets over the year was an inexorable rise in prices for oil and other commodities. This is at least partly due to rising demand from China and other developing economies that continued to grow strongly.

By year's end, many commentators were concerned about the dual impact of rising inflation due to soaring commodity prices, combined with weak economic growth – the so-called stagflation environment.

The New Zealand economy was buffeted by competing influences. Strong dairy prices boosted farm incomes, but the poor global credit environment, a general weakening in the housing market, and the impact of rising fuel and food prices on consumers were expected to weigh on the economy more generally.

Implications for Fund Returns

Many of the listed growth assets in which the Fund invests had an unusually bad year. These include developed world equity and listed property markets which together comprise a large proportion of the Fund.

Some asset classes, such as emerging market equities and commodity investments, performed well over the year, but these constitute a smaller proportion of the Fund. As risk aversion rose in the wake of the credit crisis, there was some repricing of assets. In bond markets, this contributed to a fall in yields on sovereign bonds boosting global bond returns over the period.

The Fund had minimal direct exposure to 'sub-prime' mortgages or structured credit securities. However, Fund returns were impacted by the consequential weakness in developed market equities and global listed property.

The large asset write-offs in the financial sector hurt a number of financial stocks and the weakening economic outlook undermined company earnings more generally.

Overall, the economic environment over the past year has proved to be difficult for investors, including the Guardians, with a high exposure to growth assets. On a forward-looking basis some comfort can be gained from the tendency for markets to over-react to bad news, as this raises the likelihood that the negative developments over the past year are now 'in the price'. However, we cannot say whether the downward repricing of assets has come to an end.

Given the purpose for which the Fund was set up, it is long-term returns that are of paramount importance. In that regard, lower prices for financial assets provide an opportunity for us to invest future Fund inflows at better prices. Consistent with this picture, our indicators of future long-term expected returns suggest that the recent fall in prices for equities and listed properties has improved their prospective returns.

b) Investment Policy and Strategy

Objectives

The Fund's investments reflect the purpose for which it was established.

New Zealand Superannuation payments are made by the Crown. The primary purpose of the Fund is to act as a smoothing mechanism to help meet future superannuation payments. New Zealand's population will progressively age through the next few decades. The cost of superannuation payments will roughly double as a percentage of GDP. Establishment of the Fund means that fiscal cost will be borne more evenly through time, as opposed to being an increasing burden for future taxpayers.

Current projections suggest that the Crown will make capital contributions to the Fund for approximately the next 20 years. Thereafter, capital withdrawals will help finance the entitlements of retirees. Taking into account tax payments to the Crown, the Fund is projected to start returning capital to the Crown in around 15 years (The Treasury funding model can be found on the Fund's website www.nzsuperfund.co.nz).

Our governing legislation requires that the Fund's investments be made on a prudent, commercial basis and in a manner consistent with:

(a) best-practice portfolio management;

(b) maximising return without undue risk to the Fund as a whole; and

(c) avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

Our responsibility is to interpret those objectives – given the Fund's purpose – and translate them into an appropriate investment strategy.

Investment Strategy

Our investment strategy is designed to exploit our inherent investment strengths. These strengths include our long investment horizon, limited need for liquidity, and the wide range of investment assets and strategies acceptable to us.

The cornerstone of our investment strategy is our SAA, which specifies the proportions of the Fund to be invested in various broad asset classes, and consequently the Fund's exposure to the underlying markets. The other major component of our investment strategy relates to the manner in which these exposures are obtained. In some cases we acquire representative market exposures at relatively low cost, by 'passively' tracking a market index. We also seek to add gains from active management by engaging a variety of external investment managers.

The overall risk profile of the Fund is mainly determined by market exposures specified in the SAA, especially from the split between 'income' assets (bonds) and the various 'growth' assets (including equities). Growth assets tend to be more volatile than bonds, but offer higher expected returns over the long run. The extent to which the Fund's exposure to growth assets is well diversified also influences the overall risk profile. Though investments may appear risky when viewed in isolation, much of the volatility from the different asset classes tends to cancel out when these are combined in a broader portfolio. Although we primarily consider risk in terms of outcomes over the Fund's long investment horizon, we remain mindful of shorter-term risks along the way.

The Fund's income from its investment activities is taxed as corporate revenue. In principle, the Crown is indifferent between receiving returns from capital withdrawn from the Fund, from corporate tax paid by the Fund, or through accumulation of earnings within the Fund. Since tax paid to foreign jurisdictions is a loss to New Zealand, our focus is on maximising returns before New Zealand tax, but after meeting all expenses and foreign tax obligations. Returns of the Fund are reported on this basis.

Strategic Asset Allocation

Our third revision to the SAA came into effect on 1 November 2007. A main outcome from the review was our decision to maintain the Fund's existing risk profile.

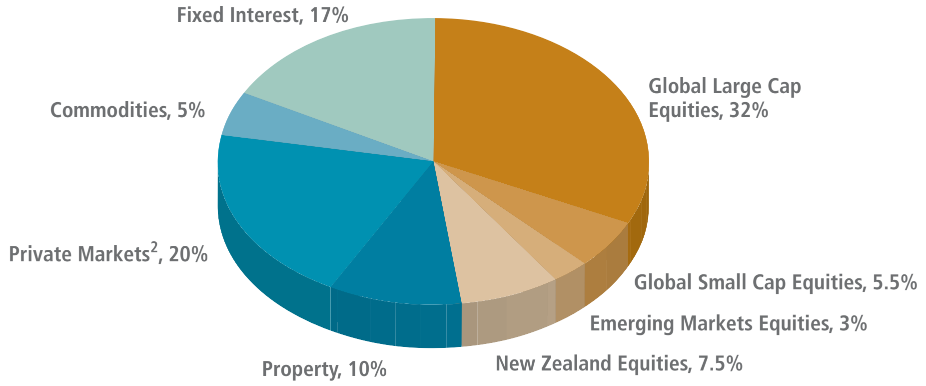
The revised SAA introduced a more flexible mechanism for taking advantage of private market opportunities (including those in private equity, infrastructure, and timber). We may vary private market exposures over time, but in a fashion that maintains the risk profile of the Fund as a whole.

Under this new approach, target levels for private market exposures are specified but we have flexibility to vary the Fund's actual private market exposures from those targets. The difference between the Fund's current and target allocations to private market holdings is made up through the use of specified investment proxies, such as listed equity and fixed income assets. These investment proxies are held in proportions that best mimic the overall risk characteristics of the targeted private market asset. As suitable private market assets are sourced, the investment proxies are adjusted.

The details of this approach, and the rationale behind the selection of assets in the SAA, are set out in the 2007 review, which is available on the Fund's website (www.nzsuperfund.co.nz).

The Fund's target SAA weights are as follows:

Figure 2 – Strategic Asset Allocation



c) Asset Growth and Fund Performance

Asset Growth

In FY2007/08, total assets grew from $13,128.1 million to $14,128.4 million (net of current and deferred tax). The Fund received $2,103.0 million in Crown contributions. That growth was partially offset by a loss before tax of $716.5 million.

Since 30 September 2003, when the Fund's investment programme commenced, $12,390.1 million has been received in Crown contributions. During the same period, the Fund's return on investments has generated some $3,297.5 million.

Performance

One of the key investment objectives set out in Section 58(2) of the Act is to maximise returns without undue risk to the Fund as a whole.

To measure achievement against this objective we look at two performance metrics:

- The Fund's excess return[3] over the risk-free rate (defined as the New Zealand Treasury bill return). This measure tells us how well the Fund is being rewarded in compensation for the risk it takes. The risk-free rate can be thought of as the Crown's opportunity cost of investing.

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2 Private markets typically include those assets that are either not traded on public exchanges or that are large, lumpy transactions requiring extensive due diligence. Examples include timber, infrastructure, and private equity.

3 When we refer to the Fund's return we are measuring it after deducting expenses and foreign taxes but before deducting New Zealand taxes.

- Our value add. This measure is the difference between the Fund's total return and the return on a passively managed benchmark that mimics the Fund's SAA. This measure tells us whether we are adding value to the Fund through engaging in active management and private markets strategies.

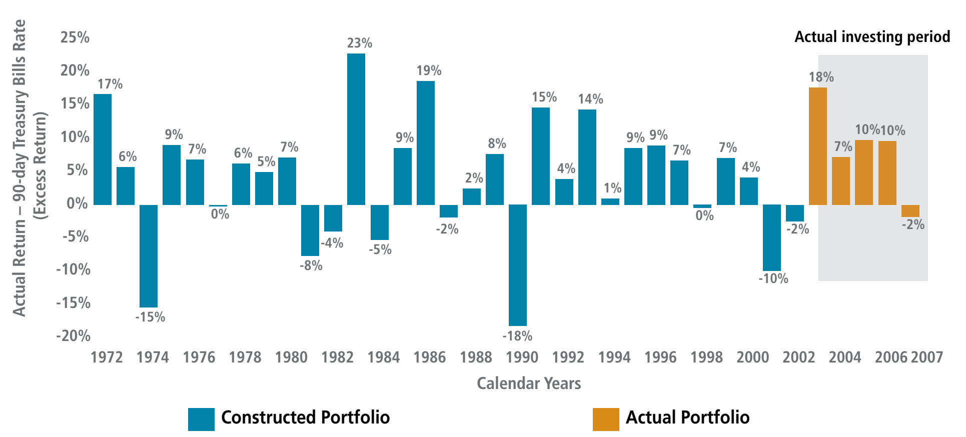
Excess Return

Our expectation is that the Fund will, over the very long term (rolling 20-year periods), exceed the risk-free rate of return (measured as the return on New Zealand Treasury bills) by an average of at least 2.5% p.a.

While 20 years is an appropriate horizon for a genuinely long-term investor, such as we are for the Fund, we recognise that the public will look to shorter periods to gauge our progress. While we report on annual performance, we do not consider that a particularly useful measurement period. Indeed, in any one year we would expect considerable variability around our long-term expectation. That variability diminishes as we consider returns over longer periods. We think five-year periods represent reasonable shorter-term milestones against which to measure performance. As at the end of June 2008 we had been investing the Fund just under five years.

The Fund's return for the year to 30 June 2008 was -4.92%. The risk-free return over the same period was 7.97%. The excess return was therefore -12.89%. We have said that we can expect considerable variability in year-to-year returns. While never pleasing to experience, and based on our chosen risk profile, we can expect a negative excess return of this magnitude or worse about once in every 15 years. As a way of illustrating this expected variability, we have constructed annual returns on the Fund as if it had been set up in 1970 (refer to Figure 3). Because not all of the asset classes within which we invest have full and comparable data back to 1970 we have made some simplifying assumptions in constructing this picture. Notwithstanding that, we think the chart provides some useful context around year-to-year variability of returns.

Figure 3 – Actual and Constructed Portfolio Excess of Returns



What can also be seen from the above chart is how periods of sustained performance are eventually punctuated by a (typically much briefer) market reversal.

Since the Fund started investing on 30 September 2003 through 30 June 2008, the Fund's annualised return was 10.34% p.a. The risk free return over the same period was 6.85%p.a. The excess return was therefore 3.49% p.a. On that measure we are well on track towards our longer-term objectives. Expressed in dollar terms, the excess return over that period represents approximately $400 million dividend to the Crown.

Figure 4 – Cumulative Fund Return Compared to Treasury Bills and Treasury Bills +2.5%

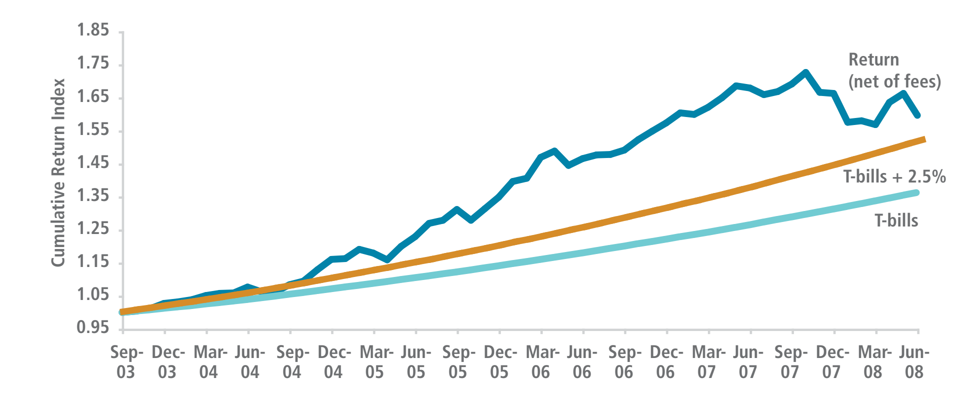


Table 2 highlights the returns for each major asset class in our portfolio and compares this to the benchmark index where applicable. Alpha is calculated as the difference between our portfolio return and the benchmark index return. Return on investments in Private Markets and Property are benchmarked against absolute return objectives. Their investment performance is typically monitored against risk-free returns plus a margin for the investment risks incurred.

Table 2 – Asset Class Performance FY2007/08

Asset class	Proportion of Fund as at 30 June 2008	Portfolio return* (after fees)	Benchmark Index return*	Alpha from active management	Alpha from active management since inception
New Zealand Equities *Weighted average of NZSX 50/NZSX mid cap/small cap in NZD*	6.8%	(23.39%)	(23.53%)	0.14%	2.41%
Global Large Cap Equities *MSCI World in NZD*	36.8%	(14.07%)	(11.22%)	(2.85%)	0.18%
Global Small Cap Equities *MSCI small cap in NZD*	6.0%	(13.86%)	(17.74%)	3.88%	2.61%
Emerging Markets Equities *MSCI emerging markets in NZD*	3.3%	7.60%	7.16%	0.44%	(0.71%)
Property *No benchmark*	9.2%	(11.25%)	N/A	N/A	N/A
Private Markets *No benchmark*	13.2%	(6.14%)	N/A	N/A	N/A
Commodities *S&P GSCI + 90-day NZD bank bill*	5.3%	83.06%	85.52%	(2.46%)	0.02%
Fixed Interest *(Includes Cash)*	19.4%	10.68%	9.38%	1.30%	(0.37%)
Total Fund	100.0%	(4.92%)	(3.91%)	(1.01%)**	0.33%

* To reduce the volatility of returns due to exchange rate fluctuations, the majority of non-New Zealand exposure is hedged back to New Zealand dollars. Our targeted currency exposure for the total Fund is achieved by partially hedging global equities and global property and fully hedging all remaining foreign assets in the Fund. At 30 June 2008 global equities and global property were 71% hedged. For comparison purposes, the fully hedged and unhedged global asset class benchmark returns for FY2007/08 were respectively: Global Large Cap Equities (11.95%) and (9.33%); Global Small Cap Equities (18.52%) and (15.71%); and Emerging Markets Equities 7.65% and 6.21%.

Returns on investments in Private Markets include timber, infrastructure, private equities, and other non-listed investments. Return on investments in Private Markets and Property have no reliable external benchmark. We invest in these assets for absolute return objectives and monitor them against the risk-free rate of return (New Zealand Treasury bills) plus a margin for the investment risk incurred.

**The Total Fund Alpha is measured by comparing the total portfolio return against the benchmark index return (i.e., weighted average asset group index return). This index includes the actual portfolio returns for Private Markets and Property.

Fund Composition and Performance

New Zealand Equities

6.8% of the Fund

	FY2007/08	Since inception
Return	(23.39%)	11.26%

The New Zealand equity index was one of the weakest performing developed equity markets, generating a -23.53% return in the year ended 30 June 2008. The Fund's exposure to New Zealand equities is obtained through exposure to three actively managed mandates and one passively managed mandate.

The Fund's active managers, in aggregate, outperformed the New Zealand equity benchmark in the year ended 30 June 2008.

Note that the active New Zealand equities mandates allow our managers to take a constrained allocation to Australian stocks. Any such allocation will be included in the share of Fund recorded above.

Global Small Cap Equities

6.0% of the Fund

	FY2007/08	Since inception
Return	(13.86%)	13.36%

The global small cap equity benchmark returned -17.74% for the year ended 30 June 2008, significantly underperforming the global large cap benchmark.

The Fund's global small cap exposure is obtained through five actively managed mandates.

The Fund's active managers performed well over the review period, outperforming the benchmark by 3.88%.

Global Large Cap Equities

36.8% of the Fund

	FY2007/08	Since inception
Return	(14.07%)	10.73%

The global large cap equity index posted a -11.22% return (expressed in NZD) for the year ended 30 June 2008.

The Fund obtains its exposure to global large cap equities using a combination of traditional active managers together with multi-strategy fund managers who overlay market exposures onto their active returns using derivatives.

The majority of active managers in the Fund's global equity allocation underperformed their benchmarks during the review period.

Emerging Markets Equities

3.3% of the Fund

	FY2007/08	Since inception
Return	7.60%	29.49%

Emerging market equities bucked the general trend of weakening equity markets in the year ended 30 June 2008, with the benchmark rising 7.16% in NZD.

The Fund's exposure to emerging market equities is obtained through two active managers.

In aggregate, the Fund's emerging equity managers outperformed the benchmark during the review period.

Property

9.2% of the Fund

	FY2007/08	Since inception
Return	(11.25%)	10.12%

Our property exposure is obtained through a portfolio that tracks the UBS Global REIT Index and exposure to unlisted New Zealand property investments.

We made no new manager appointments in the year ended 30 June 2008.

Listed property securities globally were affected by the same factors that affected global equity markets. Our global REIT manager performed slightly ahead of its benchmark. This together with positive returns on our New Zealand unlisted property exposure helped to somewhat offset the poor return on global REITs.

Commodities

5.3% of the Fund

	FY2007/08	Since inception
Return	83.06%	17.31%

The Fund's exposure to commodity markets is obtained through a basket of commodity derivatives fully backed by New Zealand cash. The total return includes both the return on the commodity futures and the return on cash held as collateral.

The spectacular commodity returns for the year under review reflect very large increases in commodity prices such as oil and other petroleum products.

Part of the investment rationale for having a commodities exposure in the Fund is that commodities historically have offered portfolio diversification benefits.

Private Markets

13.2% of the Fund

	FY2007/08	Since inception
Return	(6.14%)	12.02%

During the year ended 30 June 2008, we funded our first commitments to two new private equity funds, the KKR 2006 fund and the KKR Asian fund. This takes our total number of private equity fund commitments to eight. Further drawdowns under our various fund commitments took our private equity investments to just under 1% of the Fund at year end.

In the timber portfolio, we exercised an option to acquire a further 10% of the Kaingaroa Forest estate, taking our ownership to 30%. Harvard Management Company retains ownership of the remaining 70% of the estate. Our timber portfolio represented approximately 7% of the Fund at year end.

Our infrastructure investments are managed by two external managers. During the year ended 30 June 2008 we accumulated a stake of just over 9% in Auckland International Airport. Our negative performance in the infrastructure portolio was largely the result of the decline in the Auckland International Airport's share price.

Overall the private markets returned -6.14% for the year ended 30 June 2008, as positive returns in our timber and private equity portfolios were more than offset by negative returns in our infrastructure portfolio.

Fixed Interest

19.4% of the Fund

	FY2007/08	Since inception
Return	10.68%	6.40%

Fixed interest markets performed strongly during the review period. The Fund's benchmark, a combination of New Zealand global sovereign and investment grade bonds, posted a 9.38% return in the year ended 30 June 2008.

There was considerable variation in the returns to the broad universe of global fixed income during the review period. High-quality bonds, particularly sovereign bonds, performed strongly whereas riskier bonds, such as high-yield debt and securitised products, performed poorly.

The Fund obtains its exposure to fixed income using a combination of traditional passive managers together with multi-strategy fund managers who overlay market exposure onto their active returns using derivatives. Most of the excess return relative to the benchmark can be attributed to the latter group.

Our Value Add

We could build a portfolio that closely mimics the one envisioned in the Fund's SAA but that invests only in asset classes that can be purchased in low-cost 'passive' form. To do so would be relatively cheap – we estimate it would cost no more than 30 basis points per annum (0.3%). We haven't invested the Fund solely in that manner because we think we can add value in a number of ways:

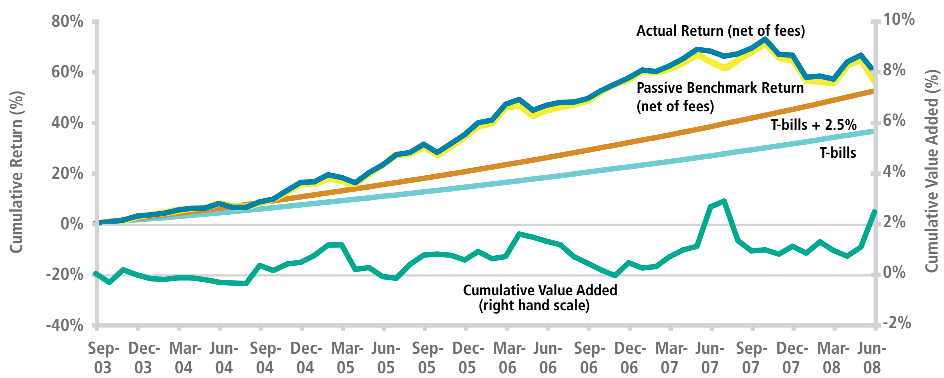
- by investing in more complex strategies such as are involved with private markets investing (e.g., timber or infrastructure);
- by identifying managers, in both public and private markets, who can add value through security selection skill;
- by using the Fund's balance sheet: for example, enhancing returns through a programme lending securities to other market participants; and
- through operational efficiencies.

Having made the claim to be able to add such value it is reasonable that our results should be tested against the passive alternative. Once again, the measurement period is important. One-year periods are too volatile to provide meaningful results – we don't expect that our strategies will outperform in each and every year. That volatility is substantially reduced over five-year periods and, again, we consider that a reasonable measurement period. Once again, the period since we started investing the Fund is near enough.

Over the four years and nine months between 30 September 2003, when the first contribution to the Fund was received, through 30 June 2008, the Fund's return was 10.34% p.a. The low-cost passive alternative return over the same period was 9.78% p.a. The value added was therefore 0.55% p.a. (in time-weighted terms) allowing for rounding. We are satisfied with that result in this first part of the Fund's life. Expressed in dollar terms the value added over that period represents an approximate $300 million contribution to the excess return described above.

The following chart repeats Figure 4 but adds in the cumulative return of the low-cost passive alternative. Readers will note a close correlation between the passive benchmark return and the Fund's actual return. That is to be expected: by and large the two will move in tandem. We first introduced this measure at the start of FY2006/07, but to give a fuller picture, we have estimated the passive alternative for earlier years.

Figure 5 – Cumulative Fund Return Compared to Passive Benchmark, Treasury Bills and Treasury Bills +2.5% to 30 June 2008



d) Investment Group Activities

During the year we increased the staff complement in the investment area. The Private Markets team has taken shape with the appointment of a General Manager Private Markets, Head of Property, and Senior Research Analyst. The Public Markets team has been bolstered by two new Senior Research Analysts. The Portfolio Research team has benefited with the addition of two senior analysts. We plan to add more staff to each of these teams in the coming year.

Our investment model continues to be one of outsourcing securities selection to external managers. Our focus remains on determining the best mix of asset class exposures (the work of the Portfolio Research team) and then selecting external managers we think are best placed to manage security selection within those asset classes (the work of the Public and Private Markets teams). In the following commentary we describe our activities in manager selection and investment mandate reconfiguration.

Public Markets

We awarded a new mandate to incumbent manager, Barclays Global Investors. Unlike their earlier mandate, which focuses purely on stock selection within global equity markets, the new mandate combines a number of different active management strategies across asset classes. We awarded a new mandate similar in concept, although quite different in execution, to AQR Capital Management.

We terminated four long-only active equity mandates in the year under review. Those terminations each came out of our ongoing reviews of managers. As we have described in previous annual reports, we set a threshold for our conviction in managers. That conviction comes from evaluating the manager across a wide range of factors. As our stable of managers grows (we now have some 41 separate mandates) we expect that we will replace some managers as we either lose conviction in the process they follow or we see better opportunities elsewhere. We must add here that despite the year under review being a very difficult one performance-wise for many of our managers, performance was not the reason behind any of the terminations. While performance matters, and we monitor it closely, short-term performance tells us very little about a manager.

In the fixed income portfolio we converted the global sovereign bond mandate managed by Vanguard to a global investment grade credit mandate with the same manager. Various credit securities attracted much attention in the year under review with particular focus on 'sub-prime' mortgage backed securities. The new portfolio allows only 'investment grade' securities issued by corporates or government agencies. It does not allow mortgage backed securities. The timing of our transition missed the worst of the sharp increase in yields on credit securities relative to government securities.

Our desired SAA exposure to commodities is achieved by entering into derivative contracts that mimic the performance of the S&P GSCI Commodity Index. While we added new counterparties to our roster of available partners with whom to conduct these derivative contracts the actual counterparties used have not changed from a year earlier.

Private Markets

Private markets deal with asset classes that are not easily traded on public exchanges or are large, lumpy transactions that require intensive due diligence. The areas that we have identified include private equity, property, infrastructure, timber, distressed debt, and insurance products, though the list could go on. Some pension funds refer to these as 'alternatives'.

We invest in private assets because they help diversify our portfolio and give us exposure to industries or asset types that are hard to access through publicly listed companies. It can sometimes be easier to find good risk adjusted returns in this area as well.

We do not make a hard distinction between listed and unlisted assets. Similar assets may be held in listed or unlisted investment vehicles, and assets can move back and forth as entities list and de-list from stock exchanges. What matters is the nature of the underlying asset.

Our long-term SAA allocates between 10% and 30% of the Fund to private markets, including private equity, plus another 10% for property. Within that 10% to 30% range there are wide bands for each sub-class such as infrastructure and timber. The amount we invest in each area depends on opportunities and relative values at each point in time.

This year we made significant progress in our ability to invest in private markets by creating a specialised Private Markets team. Three experienced staff have been recruited, and the team is likely to grow further in the next year or two. Our total exposure to private markets increased from $2,324 million (or 17.8% of the Fund) to $3,171 million (or 22.42% of the Fund) over the course of the year.

We finalised two new mandates in private equity adding the KKR Asia and KKR 2006 funds to our portfolio. Our private equity programme remains in its infancy and in fact we have deliberately curtailed more activity while we reconsider the best approach to this asset class. We expect to complete that work in the year ahead.

The main activity in the timber portfolio was increasing our stake in the Kaingaroa Forest estate. Kaingaroa is one of the world's premier plantation forests and occupies approximately 170,000 hectares in the central North Island. We are in a partnership with Harvard University's endowment fund, with Harvard being the majority owner. The partnership holds cutting rights to Kaingaroa – essentially we own the trees – while the New Zealand Government owns the land underneath. In June 2008 a Collective of Central North Island iwi reached a Treaty of Waitangi settlement with the Crown that will see the ownership of the land transferred to the iwi. Along with Harvard, we have been in discussions with our new landlords about how to maximise the long-term value of the forest for all stakeholders.

We also made a small commitment to a forestry fund run by Global Forest Partners, a US-based timberland manager. This fund has a mandate to invest anywhere outside the US. Our US timberland manager, Hancock Natural Resources Group, also acquired for us an interest in a plantation forest in the Southern United States.

At year end the total value of timber investments was $966.5 million, or 6.8% of the Fund.

In the infrastructure portfolio, we are looking for assets that deliver steady cash flows over the long term. Infrastructure is a medium-risk asset, with risk-return characteristics somewhere between equity and debt. Our infrastructure portfolio continues to be managed by Morrison and Co. Funds Management, which is based in Wellington, and CP2 (formerly Capital Partners), based in Sydney.

Along with CP2 and its other clients, we made a commitment this year to an unlisted fund that owns toll roads in the US. CP2 has also bought for us interests in listed toll road and airport companies.

Over the past year we steadily acquired a substantial minority stake in Auckland International Airport Ltd. We currently own around 9% of the company. We also hold stakes in Vienna, Copenhagen, and Zurich airports.

At year end the total value of infrastructure investments was $779.6 million, or 5.5% of the Fund.

This year we appointed a Head of Property to oversee the property portfolio and develop a long-term strategy for the sector. As we expand our capabilities and capacities, we will continue establishing investment relationships in the US, Europe, and Asia.

At year end the total value of investments within the Fund's property allocation was $1,300.3 million, or 9.2% of the Fund.

Global property has been a particularly challenging market this past year and we need to ensure the Fund is fairly compensated for risk. In this sense, we adhered to our disciplined investment process and believe the success of the Fund's investment programme is determined not only by the investments we make but also by those we pass up.

e) Risk Management

Risk is the chance of something happening that will have a negative impact on our business objectives. Achieving the long-term objectives of the Fund to maximise return entails us taking appropriate investment risks. Achieving the organisational objectives we set ourselves exposes us to a broader set of risks. Our approach to risk management involves our Board, our staff, and our external partners working together with clearly identified responsibilities. Using an industry accepted risk management standard we have established an acceptable risk tolerance and an approach to identify, analyse, evaluate and appropriately treat risk.

Risk Management Roles and Responsibilities

Our Board is responsible for reviewing and approving our risk management strategy. The Board delegates day-to-day management of risk to our Chief Executive Officer and his staff.

The Board's responsibility is to ensure that management has adequate resources to manage the risks inherent in the organisation, has identified the principal risks to the organisation, and has established an appropriate risk control environment. The Audit and Risk Committee (ARC), a committee of the Board, is responsible for overseeing the internal and external audit of the Fund and the internal risk management framework.

Risk Monitoring and Evaluation

We have developed risk management policies, procedures, and other internal controls for application by our staff, external investment managers, and other expert service providers. We monitor compliance with the relevant policies and procedures as well as compliance by external managers.

The ARC reviews reports of management and the external and internal auditors on the effectiveness of systems for internal control, financial reporting, and risk management. To assist in discharging this responsibility, the Board has in place a number of strategies designed to safeguard the assets and interests of both the Fund and the Guardians and to ensure the integrity of our external reporting. The ARC receives regular reports regarding the effectiveness of policies and processes to manage risk. Those reports include an annual strategic risk assessment of key risks and risk mitigation strategies and quarterly reports from our internal auditors.

We further support risk management through a Code of Conduct for staff and Board members and through conflict of interest procedures, defined roles and responsibilities, and individual and collective accountability processes. Much of the daily work of managing risk is done at the business unit level or is managed by outsourced partners and managers under our oversight.

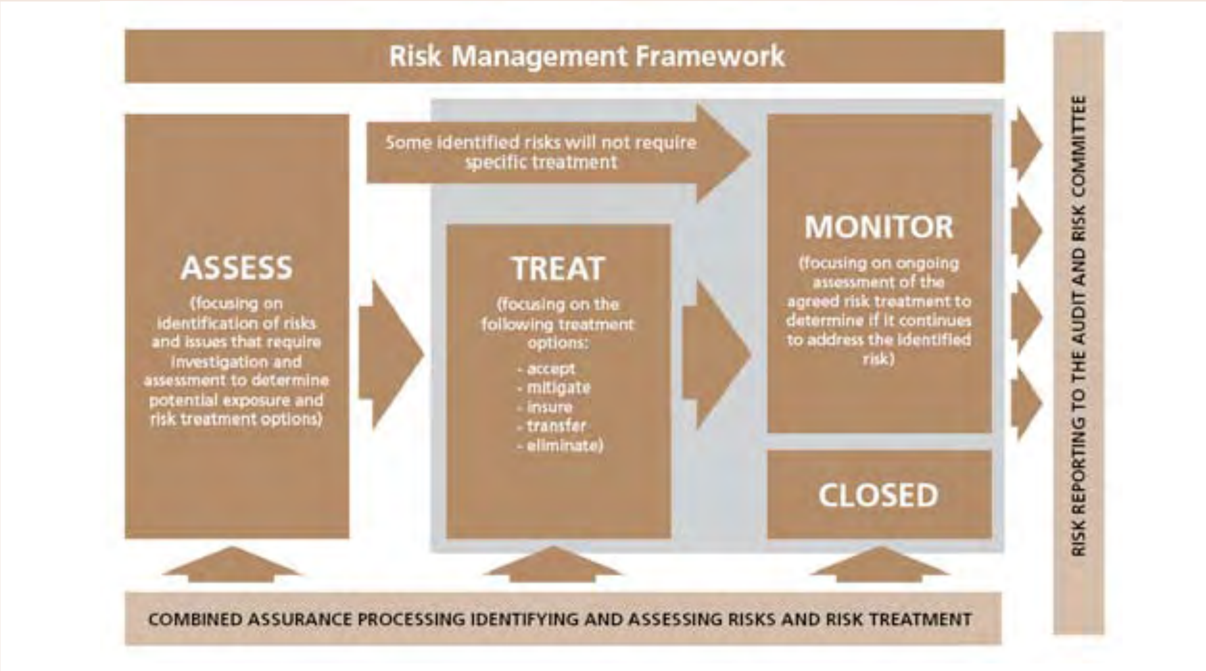
Key Risks

Our five major risk categories are:

- **Investment risk:** is the risk inherent in achieving the investment objectives we set for the Fund. Included within this are market, credit, and liquidity risks.
- **Strategic risk:** is the risk that we make inappropriate strategic choices or are unable to successfully implement selected strategies.
- **Legislative and regulatory risk:** is the risk of loss due to non-compliance with actual or proposed laws, rules and regulations, and prescribed industry practices.
- **Operational risk:** is the risk of loss from inadequate or failed internal processes or systems, or from the same in our external partners.
- **Reputation risk:** is the risk of loss of reputation or credibility due to internal or external factors.

We have developed a risk management framework to assess these five risk categories. The purpose of the risk management framework is to:

- identify the major risks that could prevent us from realising our objectives;
- determine the adequacy of the activity we apply to manage these risks;
- ensure the risk management activity is properly linked to our business processes;
- provide ongoing measurement of the effectiveness of the risk management activity; and
- ensure that risk assurance, from management and independent assurance providers, is properly aligned with risk controls.



The diagram above provides an outline of the risk management framework.

f) Responsible Investment

Responsible investment has been an area of considerable focus for us over the past year and we feel satisfied that, despite the complexities of the issues involved, we have made substantial progress.

Our Responsible Investment framework

We have a new responsible investment framework which outlines how we integrate Responsible Investment into the business of the Fund. We are guided by United Nations (UN) standards, the UN Principles for Responsible Investment (UNPRI), to which we are founding signatories. The UNPRI is considered the leading international authority on responsible investment and provides a benchmark for best practice.

One of our core investment beliefs is that environmental, social, and corporate governance issues can affect long-term financial performance, and therefore we will encourage the companies in which we invest to meet international standards in these areas. Our responsible investment policy helps us to integrate this investment belief into our management of the Fund.

Much of our day-to-day business is conducted through internal executive committees and responsible investment is incorporated into their terms of reference. For example, the Management Committee recommends to the Board the responsible investment objectives to be included in our annual Statement of Intent. The Investment Committee provides a forum to discuss responsible investment recommendations, and ensures responsible investment is included in the approval of new investment mandates. Public reporting on responsible investment is part of the remit of the Communications Committee.

The Board has a dedicated sub-committee (Responsible Investment Committee) to consider responsible investment issues. The role of the Responsible Investment Committee is to develop, for Board consideration, responsible investment policies, standards and procedures and to monitor our organisation's compliance with those. The Responsible Investment Committee may request guidance on specific responsible investment issues as they arise and make recommendations to the Board about those issues.

Whilst we decide on the Fund's SAA, the day-to-day buying of securities is done by external investment managers we engage. As is typical of large institutional investors, we hold shares in a great number of companies across global markets. Many of these companies give rise to complex social, environmental or governance issues.

We monitor the Fund's holdings against internationally agreed standards for responsible corporate behaviour, in particular, the UN Global Compact principles. This process identifies companies which may be in breach of international standards on human rights, environmental protection, anti-corruption, or labour conditions. We use this information to set priorities for further research and as a basis for shareholder dialogue with companies.

Collaboration with Other Investors

We actively participate in international initiatives to maintain and develop best practice in the responsible investment field. We continue to support the UNPRI and are active participants on the UNPRI Board and underpinning working groups. We are taking an active role in developing the UNPRI Asia-Pacific working group to focus on specific regional issues given the increasing importance of Asia-Pacific markets to global investors.

We are now a member of the Investor Group on Climate Change (IGCC). The IGCC is a collaboration of Australian and New Zealand investors focusing on the impact that climate change has on the financial value of investments. We are also signatories to the Carbon Disclosure Project (CDP), the world's largest investor initiative on climate change. The IGCC is the secretariat for CDP in the Australian and New Zealand market.

We participate in UNPRI working groups to develop best practice across our other asset classes such as property and private equity. For example, we have significant investments in New Zealand forestry assets. Our New Zealand timber managers apply good environmental practices to the forests they manage on our behalf, including achieving the Forestry Stewardship Council certification for sustainable forestry.

Regionally, we are also a member of the Responsible Investment Association Australasia. We have established regular contact with other Crown Financial Institutions to share knowledge and resources on responsible investment.

Engagement with Companies

We have a well-developed engagement programme. We have concentrated on collaborating with fellow signatories to the UNPRI. This has been an efficient way to address some of the most challenging issues arising from our investments.

Although we are realistic in the face of what are often multi-faceted and complex issues, dialogue between shareholders and companies can prove effective in contributing to positive changes (see case study below).

Engagement with a company is most effective through developing dialogue with their board or senior management. Establishing such a dialogue requires a degree of confidentiality, and detailed or premature disclosure of discussions may be counter productive to progress. However, within these constraints, we are committed to reporting on our engagement activities, taking into account the long timeframe over which corporate change may occur. See Table 3 for examples of some of the engagement activities in which we have been involved over the last year.

Exercising our Voting Rights

One of the most important factors in the long-term success of companies, and returns to shareholders, is proper governance. We exercise our voting rights across the Fund's portfolio to promote good corporate governance in the long-term interests of the Fund. We base our voting decisions on international standards used by our proxy voting agency and, locally, on New Zealand corporate governance guidelines.

We publish summaries of our voting activities twice yearly on our website (www.nzsuperfund.co.nz).

Divestment

While our preference is to engage with investee companies on contentious issues, there are times when divestment or exclusion is the most suitable action. We take such decisions only after detailed consideration of the issue including the impact on the Fund; the guidance we receive from law and international conventions; and the effectiveness of engagement. Decisions to divest from, or exclude, a company are reserved to our Board.

During 2007/08 we divested from tobacco stocks having concluded that continued investment was contrary to clear government policy, including New Zealand's participation in international conventions aimed at curbing tobacco consumption, and that engagement with the companies involved would not lead to changed business practices.

We also announced our intention to divest from companies involved in cluster munitions when New Zealand signs the Oslo Convention on the elimination of such weapons. Between now and then we will engage with some companies involved in their production to see whether we can help influence them to quit this part of their business.

External Review

During the year, our management of responsible investment was independently reviewed by both the Office of the Auditor-General and Parliament's Commerce Committee. The Commerce Committee reported it was impressed with our activities in this area. The Office of the Auditor-General recognised our leadership on responsible investment in New Zealand and recommended that we build broader understanding of our policy through our public communications.

Responsible investment is integrated into our formal audit processes and we undergo an annual independent assessment by the UNPRI to help benchmark our performance against those principles.

Looking Ahead

Our future focus is on better integrating responsible investment into our investment process, broadening our portfolio monitoring, and expanding our engagement programme. We face a number of challenges in determining how to best integrate environmental and social factors into our investment mandates. We will increasingly rely on our external investment managers to assist us in meeting our UNPRI goals. To this end we will be developing guidelines to include responsible investment criteria in our assessment of investment managers, selection of new investment products, and due diligence of mandates.

We are committed to public reporting and knowledge sharing on responsible investment criteria issues. We work with other investors and participate in seminars and conferences on this subject. We publish our segregated portfolio holdings, a level of transparency which is rare amongst investment funds, and will continue to develop and improve our responsible investment reports and updates on our website.

CASE STUDY

UNPRI collaborative engagement action: labour conditions in steel production supply chain

In 2006, concerns over labour conditions amongst Brazilian charcoal producers feeding the pig-iron industry were brought to investors' attention. The steel industry and large steel users, such as car manufacturers, were potentially exposed to these practices, not directly, but through their supply chains. The Guardians joined a group of other UNPRI signatories to engage with a list of companies whose reputation, and potentially that of their brands, could be negatively affected due to sourcing from the Brazilian pig-iron industry. During the year, investors from this group have written to, spoken, and met with companies at all levels in the supply chain. There was a wide range of responses. Some were already aware of the risks and auditing their suppliers; others had not considered the issue at all but have now committed to improve management of their wider supplier network.

The fact that these concerns were raised by shareholders sent a clear message to the companies that investors value effective management of broader business risks: in this case, the risk posed by poor labour practices in supply chains.

Table 3 – Engagement activities

Company and issue	Progress
Steel industry*	30 companies contacted through letters, teleconferences and meetings. Improvement in supplier management and commitments to address labour conditions.
UN Global Compact*	103 companies contacted regarding the UN Global Compact reporting requirements. Around 20% have responded positively to date.
SEC and corporate governance*	Submission relating to shareholder proposals on social and environmental issues.
Supply chain and retailer*	Meetings on supply chain labour conditions and environmental management.
Human rights*	Contact with companies operating in countries with poor human rights records. Encouraging companies to adopt international standards of good practice such as the Voluntary Principles for Security and Human Rights or the UN Global Compact.
CDP & IGCC	CDP contacts 2,300 companies globally; IGCC focuses on ASX 100 and NZX 50.

* Engagement in collaboration with other UNPRI signatories.

SECTION 7

Governance

The Securities Commission has published *Corporate Governance in New Zealand – Principles and Guidelines, 2004.* The guidelines set out principles to help New Zealand directors and boards to achieve high standards in their corporate governance duties and responsibilities.

We report on how the Guardians observed each of these corporate governance principles in the year to 30 June 2008.

Principle 1 Directors should observe and foster high ethical standards

The Board has adopted Codes of Conduct for Board members and employees.

The Codes provide Board members and employees with clear expectations of ethical standards expected at the Guardians. The Codes of Conduct 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
- whistle blowing.

For Board members, actual or potential conflicts of interest are managed in accordance with the requirements of the Guardians' governing legislation.

Copies of both Codes are available on the Fund's website (www.nzsuperfund.co.nz).

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 an independent nominating committee 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.

BOARD OF THE GUARDIANS

From left to right: David Newman, John Evans, Glen Saunders, David May (Chairman), Bridget Liddell, Sir Douglas Graham (Deputy Chairman), Mark Tume.

The Board must comprise of 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 2008 with details of individual Board members' background is set out in the table below.

Name	David May, Chairman
Term of office	Appointed August 2002 for five years and reappointed September 2007 for five years
External directorships	Deputy Chairman, Government Superannuation Fund Authority and Director of Southern Cross Medical Care Society and Annuitas Management Limited
Skills, experience, and expertise	David has 35 years' experience in the financial services, superannuation, and insurance industries, including 27 years with Colonial Group, most recently as Managing Director of Colonial Life NZ Ltd (1995–2000)
Standing Board committee membership	Chairman of the Guardians' Employee Policy and Remuneration Committee and member of the Responsible Investment Committee

Name	Sir Douglas Graham, Deputy Chairman
Term of office	Appointed August 2002 for five years and reappointed September 2007 for one year
External directorships	Director of OTPP NZ Forest Investments Ltd and the Commonwealth Special Envoy to the Kingdom of Tonga
Skills, experience, and expertise	Sir Douglas was a Member of Parliament from 1984 until his retirement from politics in 1999. Sir Douglas was Minister of Justice from 1990–1998, and prior to his distinguished political career, practised law from 1965–1984
Standing Board Committee Membership	Chairman of the Guardians' Audit and Risk Committee and member of the Guardians' Responsible Investment Committee and Employee Policy and Remuneration Committee
Name	**Bridget Liddell, CFA**
Term of office	Appointed August 2002 for three years and reappointed June 2005 for five years
External directorships	Chairman of the US Beachhead Programme, a programme run by New Zealand Trade and Enterprise to assist New Zealand companies with entry to the US market, and a Director of the New Zealand Institute, a privately funded non-partisan think-tank, and of BioVittoria, a New Zealand biotechnology company
Skills, experience, and expertise	Before moving to the US in 2003, Bridget was Chief Executive Officer of University of Auckland Development Ltd. Bridget has been a Director of several New Zealand companies, including Sky City Entertainment Group, Fisher & Paykel Appliances Holdings Ltd, and Uniservices Ltd. Bridget has held senior executive positions at Carter Holt Harvey and was a Director of CS First Boston NZ Limited
Standing Board committee membership	Member of the Guardians' Responsible Investment Committee and Private Markets Committee

Name	David Newman
Term of office	Appointed September 2004 for five years
External directorships	Chairman of Infratil Limited and its subsidiary Wellington International Airport Limited and a Director of Infratil Airports Europe Limited. David is also Chairman of Loyalty New Zealand Limited, operator of Fly Buys loyalty card programme, of Austral Pacific Energy Ltd, and of the Centre for Biodiversity and Restoration Ecology at Victoria University of Wellington
Skills, experience, and expertise	David was previously Chief Executive Officer of the Institute of Directors in New Zealand. Prior to this, David spent 22 years with BP, culminating in four years as Chief Executive and Managing Director of BP New Zealand Limited
Standing Board committee membership	Chairman of the Guardians' Private Markets Committee and member of the Audit and Risk Committee
Name	**Glen Saunders**
Term of office	Appointed September 2004 for five years
External directorships	Board member of UNPRI, a non-exectutive Director of Sustainable Investment Research Institute Pty Ltd, and a Director of Prometheus Finance Ltd
Skills, experience, and expertise	A consultant, investment banker, and qualified accountant, Glen was previously UK Managing Director of Netherlands-based bank, Triodos. He is a former Director of the Wind Fund plc and the Local Investment Fund, a public-private partnership funding community-based initiatives in the UK. Glen has also served as Non-Executive Director of the Western Partnership for Sustainable Development and the Earth Centre Advisory Board
Standing Board committee membership	Chairman of the Guardians' Responsible Investment Committee and a member of the Guardians' Employee Policy and Remuneration Committee

Name	Mark Tume
Term of office	Appointed April 2006 for five years
External directorships	Director of Transpower New Zealand Ltd, and Infratil Limited, The New Zealand Refining Company, and of Ngai Tahu Holdings Corporation. Member of the Growth and Innovation Advisory Board
Skills, experience, and expertise	Over his 20-year 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. He was a former President of the New Zealand Financial Markets Association, and ACC's External Maori Reference Group
Standing Board committee membership	Member of the Guardians' Audit and Risk Committee and Private Markets Committee
Name	**John Evans**
Term of office	Appointed December 2006 for five years
External directorships	Managing Director of PGE Australasia Pty, an actuarial company specialising in the application of quantitative techniques to investment business. John holds a number of other directorships, including Emerging Leaders Investment Ltd, and is actively involved with various committees at Fiducian Portfolio Services, a specialist financial services organisation
Skills, experience, and expertise	John is also Associate Professor in Actuarial Studies at the University of South Wales and Deputy Director of the Centre for Pensions and Superannuation
Standing Board committee membership	Member of the Guardians' Audit and Risk Committee and Private Markets Committee

The Guardians' governing legislation and the Board's Governance Statement define Board responsibilities, responsibility 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 has therefore formally adopted a list of 'Matters Reserved for the Board' for which no delegation is permitted.

Periodically the Chairman, with assistance from an advisor, formally assesses the performance of individual Board members whilst Board members also assess the collective performance of the Board and the performance of the Chairman. The last such assessment was conducted in July 2007.

Principle 3 The Board should use committees where this would enhance its effectiveness in key areas while retaining board responsibility

The Board has four standing Board committees:

- **Audit and Risk Committee:** Oversees financial reporting, internal and external audit, the internal risk management framework and its application, compliance (including tax compliance), accuracy of financial statements, and other governance systems.
- **Responsible Investment Committee:** Oversees the implementation of the ethical investment policy (under Section 61(d) of the Act) and the policy for the exercise of voting rights (under Section 61(i) of the Act).
- **Employee Policy and Remuneration Committee:** Oversees the development and operations of employment and remuneration policies.
- **Private Markets Committee:** Considers private market opportunities on an 'as required' basis.

The roles and responsibilities of the Board committees are set out in the respective Committee Terms of Reference. Copies of the Terms of Reference are available on the Fund's website.

In addition, from time to time, the Board may establish specific sub-committees to address a particular matter or for a particular purpose. This allows the Board to function effectively and to apply its conflicts of interest policy.

The Board committees meet either 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 nine times during FY2007/08, and its standing committees held 14 meetings. Table 4 below reflects the number of meetings attended by each Board member relative to the total meetings that Board member could have attended.

Table 4 – Board Meeting Attendance

Meeting Type	Board	Audit and Risk Committee	Responsible Investment Committee	Private Markets Committee	Employee Policy and Remuneration Committee
Number of meetings	9	5	5	2	2
David May	8		5		2
Sir Douglas Graham	8	5	5		2
Bridget Liddell	8		4	2	
David Newman	9	5		2	
Mark Tume	9	5		2	
Glen Saunders	8		4		2
John Evans	9	5		2	

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 are required to meet all their obligations in respect of themselves and the Fund under the Act, Crown Entities Act 2004, and the Public Finance Act 1989, including tabling their Annual Report 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 Guardians and Fund are signed by the Chairman of the Board, the Chairman of the Audit and Risk Committee, and the Chief Executive Officer.

The Guardians are required by the Crown Entities Act 2004 to prepare a Statement of Intent. Our Statement of Intent for the three years from 2008 to 2011 was tabled in the House on 26 June 2008. The Guardians also report quarterly to the Minister with a written report on 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.

Members' remuneration is disclosed in Note 13 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 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 organisation and financial performance targets.

Further details concerning staff remuneration are disclosed in Note 14 to the Guardians' financial statements.

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. 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 Audit and Risk Committee reviews the reports of management and the external and internal auditors on the effectiveness of systems for internal control, financial reporting, and 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 and Risk 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 appoints the external auditors of the Guardians and the Fund. The Guardians' external auditors are Warren Allen of Ernst & Young (who audit the Fund) and Francis Caetano of Audit New Zealand (who audit the Guardians).

Principle 8 The Board should foster constructive relationships with shareholders that encourage them to engage with the entity

The Guardians are a Crown entity and their assets, and the assets of the Fund, form part of the Crown's assets. The Guardians are accountable to Parliament, through the Minister of Finance, for those assets. The Guardians' Statement of Intent for the three years from 2008 to 2011 is published on our website and will be reported against in the Annual Report next year. The Guardians report to the Minister on the Fund at those intervals that the Minister may require and currently the Guardians provide a quarterly written report on the Fund's progress.

Under the governing legislation, 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. The Guardians must have regard to any such direction and must notify the Minister how they propose to do this, as well as report the direction in the Annual Report. Any direction given by the Minister must be tabled in Parliament. No directions from the Minister have been received to date.

The Act and the Crown Entities Act 2004 provide more information on the role and responsibility of the Minister and are available on the Fund's website.

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 their Statement of Intent under the Crown Entities Act 2004 in June 2008. This set out the broad parameters of work for the three years from 2008 to 2011 and a detailed plan for FY2008/09.

Objectives set out in the Statement of Intent for the 2007–2008 financial year are reported against in Section 5 of this report. The Statement of Service Performance reports details of activities under each output for FY2007/08.

SECTION 8

Management Team

At 30 June 2008, there were 38 employees. We plan to increase this number in the coming three years in order to effectively respond to the investment opportunities available to the Fund, and to manage the associated implementation challenges.

One of our key priorities in the next year is to maximise our ability to attract, retain, motivate, and manage our team; and to review our vision and values. Both key priorities aim to position us as an employer of choice.

To ensure high-quality decision-making, our management team operates through a series of internal executive committees. These committees include the:

- **Management Committee:** dealing with the business operations of the Guardians;
- **Investment Committee:** advising on the investment decisions of the Guardians;
- **Portfolio Committee:** advising on the performance of the Fund and on the Guardians' service providers; and
- **Communications Committee:** advising on all internal and external communication issues.

In planning for growth, we have refined our organisational structure to support the overall business strategy. In particular, we have designed the structure to deliver:

- alignment with the Guardians' strategies and mandate;
- focus on driving performance and accountability;
- clarity around processes within the organisation;
- additional capability;
- support of clear governance;
- leverage of economies of scale and skill across the Guardians; and
- assurance that the cost of doing business is managed appropriately.

To continue to manage this growth on a sustainable basis, several business groups and key positions were created in March 2008. These roles are:

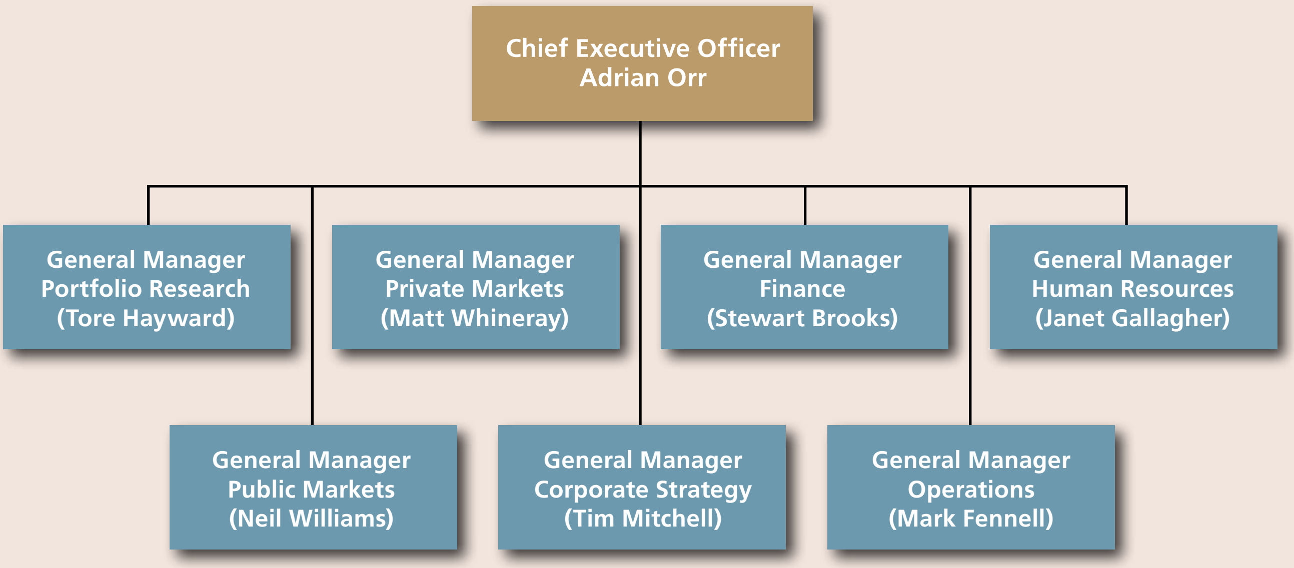
- General Manager Corporate Strategy: responsible for identifying and embedding global best practices, including ongoing focus on responsible investment initiatives across the organisation;
- General Manager Portfolio Research: responsible for developing the Fund's investment strategy and policy; and
- General Managers of Public Markets and Private Markets: responsible for implementing the investment strategy and policy.

GENERAL MANAGEMENT TEAM

From left to right: Matt Whineray, Tim Mitchell, Neil Williams, Stewart Brooks, Janet Gallagher, Adrian Orr (Chief Executive Officer), Mark Fennell, Tore Hayward.

The chart below details the organisation structure, along with brief profiles of the Chief Executive Officer and General Managers.

Figure 6 – Organisational Structure



Adrian Orr, Chief Executive Officer: Responsible for general management of the Guardians and of the Fund under delegation from the Board. Adrian joined the Guardians in February 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 also worked at The Treasury and at the OECD.

Janet Gallagher, General Manager Human Resources: Responsible for people, performance and culture. Janet joined the Guardians in May 2007 after eight years managing her own Human Resources (HR) consultancy business. Previously Janet held senior HR positions with Lion Nathan, NZI Life, and New Zealand Dairy Foods.

Mark Fennell, General Manager Operations: Responsible for developing and overseeing investment operations, information technology, and portfolio risk. Mark joined the Guardians in July 2007 from The Warehouse Group where he was the Company Secretary and Chief Risk Manager. 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).

Matt Whineray, General Manager Private Markets: Responsible for the appointment of investment managers in private markets and the search for private market investment opportunities. Matt joined the Guardians in May 2008 from Credit Suisse (Hong Kong) where he was Head of Financial Sponsor Coverage for non-Japan Asia. Prior to this, Matt was Managing Director of First NZ Capital and Vice President at Credit Suisse First Boston (New York). Matt began his career as a Barrister and Solicitor with Russell McVeagh.

Neil Williams, General Manager Public Markets: Responsible for the appointment of investment managers in public markets. Neil joined the Guardians in May 2008 from UBS Global Asset Management in London where he was Global Head of Asset Allocation and Managing Director in Global Investment Solutions. Neil was previously Chief Global Strategist, Executive Director for Goldman Sachs International (London).

Stewart Brooks, General Manager Finance: Responsible for financial control, tax, and external audit. Stewart joined the Guardians in August 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 equities for seven years. Prior to this, he worked for a computer multinational in the UK.

Tim Mitchell, General Manager Corporate Strategy: Responsible for the Guardians' overall strategy in best-practice activities, including best-practice portfolio management, responsible investment, legal, and communications. Tim joined the Guardians in April 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 spent seven years with Colonial First State Investment Managers, most recently as Chief Investment Officer.

Tore Hayward, General Manager Portfolio Research: Responsible for overseeing the development and implementation of investment policy. Tore joined the Guardians in January 2006 from AMP Capital Investors (NZ) Ltd, where he was Chief Investment Officer. Tore previously headed the foreign reserves management team at the Reserve Bank of New Zealand. Before that, he led the wholesale investment management operations for the ANZ Bank in New Zealand.

SECTION 9

Equal Employment Opportunities

We have policies and programmes in place to address equal employment opportunities for all employees and to recognise the benefits of diversity of skills and experience of employees. We have promoted staff participation in the development of these policies, in particular Good Employer initiatives, to ensure we meet our objective of being an employer of choice.

We review all people policies on a regular basis and endeavour to continually improve our Good Employer and Equal Employment Opportunities practices to ensure that all our staff members and prospective employees are treated with integrity, fairness and respect.

1. Leadership, Accountability, and Culture

The Guardians have a diverse workforce and a culture of achievement. Performance management systems, including quarterly one-on-one discussions, accountabilities and key performance indicators aligned to our overall strategic direction, are designed to support this culture.

2. Recruitment, Selection, and Induction

The growing size and complexity of our business has increased the need to attract and retain key talent both locally and globally. We have developed specific policies to ensure the selection process removes all barriers that may preclude minority groups. All vacancies are advertised internally and on our website. We also have in place a comprehensive three-month induction and follow-up induction programme for new employees.

3. Employee Development, Promotion, and Exit

The key activities in place for employee development, promotion, and exit include:

- the implementation of an individual development plan programme based on core competencies and capabilities;
- a company-wide training plan to ensure we maximise our ability to attract, retain, motivate, and manage our staff;
- internal promotions based on merit; and
- exit interviews in place for departing employees.

4. Flexibility and Work Design

We encourage family-friendly work practices and support good work-life balance by way of flexible working arrangements and technology in place to support those working from home.

5. Remuneration, Recognition, and Conditions

We have developed our remuneration policies to ensure that the remuneration system is transparent, gender neutral, fair, and equitable for all employees. In practice, we achieve this through participation in bi-annual market remuneration surveys and annual calibration exercises.

6. Harassment and Bullying Prevention

We are committed to preventing harassment and bullying in the workplace. We have developed zero tolerance policies in conjunction with clear guidelines for managing harassment complaints.

7. Safe and Healthy Environment

Key activities supporting our commitment to employee health, safety, and well-being include:

- staff participation on the Health and Safety Committee;
- first aid, civil defence, building warden training;
- fire evacuation training;
- using specialised health and safety consultants to undertake a full workplace health and safety audit; and
- ergonomic assessments for all employees.

As part of our regular reporting requirements, we monitor and report on the profile of our workforce. As at 30 June 2008, our workplace profile was as follows:

Headcount (FTE)*	38	
Full-time	37	
Part-time (2 x 0.5 FTE)	1	
Sex		
Women	13	34%
Men	25	66%
Senior Management		
Women	5.5	38%
Men	9	62%
Age		
Under 20	0	0%
20–29	8	21%
30–39	13	34%
40–49	14	37%
50–59	3	8%
Over 60	0	0%

*FTE = Full-time Employee

SECTION 10

Overview of the Guardians and the Fund

The Fund is a 'buffer fund' created to partially provide for the future cost of funding New Zealand superannuation payments.

New Zealand Superannuation

New Zealand currently has a taxpayer-funded 'pay-as-you-go' retirement income system, where eligible residents over the age of 65 receive a pension irrespective of their income or assets. This means that current pensions are paid by people currently in employment. The pension is known as New Zealand Superannuation.

At present, in New Zealand, there is only one person in eight over the age of 65. In the longer term, the picture looks very different with a sharp increase in the proportion of the population over 65 years of age. New Zealand's ageing population means that by 2030 the ratio of people over 65 will have risen to one in four. This ageing of the population, an issue that many developed countries face, is due to a combination of increased life expectancies and lower birth rates.

Meeting the Cost of an Ageing Population

The increase in the number of retired people relative to the working-age population will inevitably lead to a significant increase in the cost of providing New Zealand superannuation. Currently, the net cost is 3.3% of GDP. Projections indicate that by 2030 this cost will be about 5.7%, and by 2050 about 6.7% of GDP.

One way to alleviate this funding pressure is to move from a complete reliance on the 'pay-as-you-go' system to a partially pre-funded system, which is what New Zealand has done with the creation of the New Zealand Superannuation Fund.

A Smoothed Pay-As-You-Go System

Established under the Act, the Fund is an investment fund that accumulates and invests Crown contributions. These contributions, which are paid out of general taxes, are expected to average $1.5 billion a year over the next two decades (refer to Figures 7 to 9).

The purpose of the Fund is to build up a portfolio of Crown-owned financial assets during a period where the cost of New Zealand superannuation remains relatively low. Those financial assets will then be progressively drawn on by the Crown to supplement the Crown's annual budget as its finances adjust to the higher level of ongoing expense for New Zealand superannuation. In effect, the Fund provides a smoothing mechanism (or 'buffer fund') for what remains, fundamentally, a 'pay-as-you-go' pension system (refer to Figure 7).

Drawing on the Fund

Under the Act, no capital withdrawal is allowed from the Fund before 1 July 2020. According to current Treasury modelling, capital contributions from the Crown are projected to cease by 2027, at which time the Crown will start to make capital withdrawals from the Fund. However, the Fund is projected to be a net contributor from 2022, at which point tax flowing to the Crown is projected to exceed the Crown's capital contribution to the Fund. The Fund's assets under management are projected to peak at just over 32% of GDP in 2036 and then gradually fall as a proportion of GDP over the ensuing decades. Because capital withdrawals are forecast to always be less than the Fund's income net of tax, the Fund is expected to continue to grow in nominal dollar terms.

Notes:

Demographic projections are taken from Statistics New Zealand (www.stats.govt.nz). Projections of future New Zealand superannuation costs are taken from The Treasury's Contribution Rate Model (www.treasury.govt.nz).

To learn more about New Zealand superannuation take a look at these websites: www.winz.govt.nz (Work and Income) and www.osc.govt.nz (The Office for Senior Citizens)

Figure 7 – Smoothing the Cost of New Zealand Superannuation

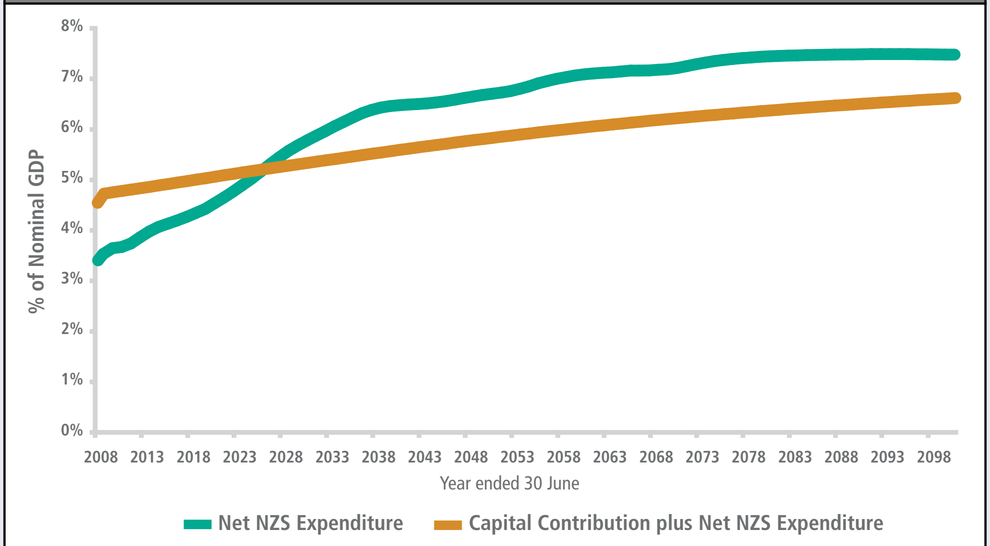


Figure 8 – Capital Contribution to the Fund

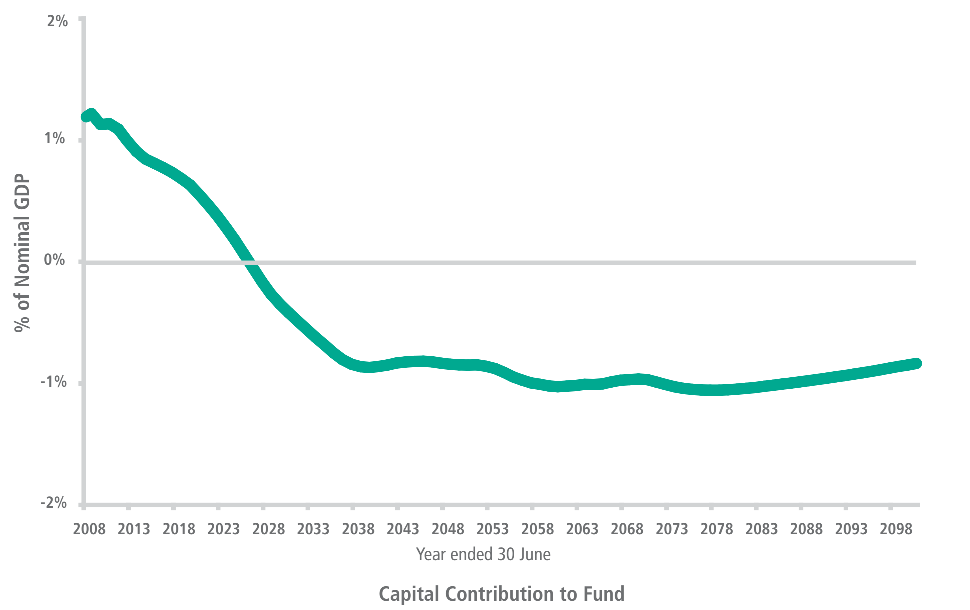
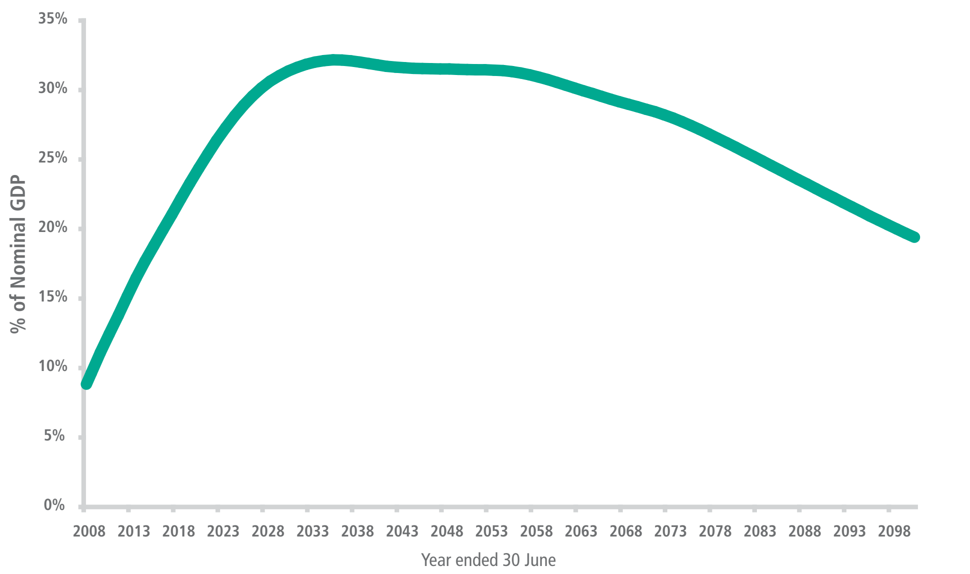


Figure 9 – Size of Fund Assets



SECTION 11

Portfolio information

Section 68(g) of the Act requires the Guardians to provide a schedule of their external investment managers and custodian.

Investment Managers and Custodian

The schedule below details the Guardians' external investment managers° and their global custodian as at 30 June 2008.

EXTERNAL INVESTMENT MANAGERS AND CUSTODIAN	CLASSES															
	New Zealand Equities	New Zealand Fixed Interest	New Zealand Property	Global Equities (Large Cap)	Global Equities (Small Cap)	Global Equities (Emerging Markets)	Global Equity Market Neutral	Multi-Strategy Alpha	Global Property	Infrastructure	Global Fixed Interest	Private Equity	Timber	Currency	Custody	Cash
Adams Street Partners												1				
AMP Capital Investors	1		1													
AMP Pencarrow (No. 2) Limited												1				
Apax Partners												1				
AQR Capital Management								1								
AXA Rosenberg Investment Management Limited					1		1									
Barclays Global Investors Australia Limited				1				1								
Bridgewater Associates, Inc.								1								
Brook Asset Management Limited	1															
Capital Partners Pty Limited										1						
Coller Capital												1				
Direct Capital Management Limited												1				
GMO LLC				1	1			1								
GMO Renewable Resources													1			
Goldman Sachs Asset Management, L.P.								1								
Hancock Timber Resource Group, Inc.													1			
HarbourVest Partners												1				
ING NZ Limited		2														1
Kohlberg Kravis Roverts & Co.												1				
Legg Mason International Limited						1										
LSV Asset Management Limited				1		1										
Morrison & Co. Funds Management Limited										1						
Northern Trust Company															1	
Numeric Investors LLC					1			1								
Overlay Asset Management														1		
Smartshares Limited	1															
Sterling Johnston Capital Management Limited					1											
Thompson, Siegel & Walmsley, Inc.					1											
Vanguard Investments Australia Limited									1		1					

°During the year, we terminated mandates with the following managers: Alliance Bernstein L.P. (Global Equities - large cap mandates); Fisher Funds Management Limited (New Zealand Equities mandate); and Goldman Sachs Asset Management, L.P. (Global Equites - small cap mandate).

SECTION 12

Investment Beliefs

Our Core Investment Beliefs

We hold certain investment beliefs:

- It is important that we are clear about our return objectives for the Fund, our risk tolerance, and the timeframe over which we will measure results.
- Risk and return are strongly related, and by ensuring we diversify the Fund we reduce its total risk.
- By comparing current pricing of assets to long-term averages we can at least partly predict the risk and return characteristics of those assets. The longer the time horizon we use, the greater confidence we can have in our predictions.
- Our long-term investment horizon means that we are extremely well positioned to capture illiquidity premia.
- We can unbundle different types of risks to make the portfolio more efficient. Examples include separating market risk and active risk, and decoupling foreign currency exposure from international assets.
- We must examine investment opportunities on a risk-adjusted basis, after expenses and foreign taxation, and excluding any benefit from leverage and for their expected impact on the Fund as a whole.
- Through diligent manager selection we can add value over and above the returns from public markets.
- As far as possible we must minimise any conflicts of interests that might exist in our relationships with investment managers. We can do this using financial incentives, insisting on transparency around related party transactions, and applying appropriate oversight to promote our interests.
- Environmental, social, and governance issues can affect the long-term financial performance of the companies we invest in. We encourage those companies to meet international standards in these areas.

SECTION 13

Investment Policies

Section 60 of the Act requires us to develop and comply with a Statement of Investment Policies, Standards and Procedures, setting out, amongst other things, how the Fund's assets will be invested and how performance will be measured. A summary of this Statement follows.

A full copy of the Statement is available on our website (www.nzsuperfund.co.nz).

Statement of Investment Policies, Standards and Procedures

Asset Classes and Selection Criteria

Section 61(a) – the classes of investments in which the Fund is to be invested and the selection criteria for investments within those classes

The Fund holds exposure to the following general asset classes and sub-categories:

(a) global equities comprising separate allocations to large/mid capitalisation, small capitalisation, and emerging markets equities;

(b) New Zealand equities, incorporating a constrained allocation to Australian equities (recognising the close economic relationship with Australia);

(c) fixed interest, which can be sub-categorised into global and New Zealand, investment grade, sub-investment grade, and sovereign;

(e) property, which can be sub-categorised into global and New Zealand, listed and unlisted;

(f) private market assets, which generally have low correlations with other asset classes but limited liquidity. Another distinguishing characteristic is that it is generally not possible to invest in a market capitalisation weighted 'slice' of a private markets asset class. These include, but are not limited to, private equity, timber, and infrastructure; and

(g) commodities, where returns are linked to a broad basket of futures prices for frequently traded commodities.

The Fund may be invested in other asset classes or in specific sub-categories of the asset classes listed above.

Where applicable, the guidelines for each investment mandate will define authorised investments for that portfolio and detail the portfolio constraints. Typically, these constraints include:

(a) maximum exposure to any particular company, sector, country or credit rating;

(b) minimum and maximum number of assets that can be held;

(c) maximum issued capital or debt of an individual company that can be held; and

(d) in the case of securities portfolios, maximum deviation from the manager's benchmark exposure to a particular company, sector, currency, or country and ranges for ex ante tracking error relative to that benchmark.

Benchmarks

Section 61(b) – the determination of benchmarks or standards against which the performance of the Fund as a whole, classes of investments, and individual investments, will be assessed

The risk and return characteristics of the benchmarks used for the Fund as a whole and for individual asset classes must be broadly consistent with those considered in the analysis used to construct the SAA.

The performance objective for the Fund as a whole is to exceed, before New Zealand tax, the return on Treasury bills by at least 2.5% p.a. over rolling 20-year periods.

The performance of asset classes will be assessed by comparing the aggregate performance of the investment managers within that asset class against the selected benchmark for that asset class.

The performance of individual managers will be assessed by comparing their performance against their respective benchmark (in whatever respective currency the mandate is set), taking into account the amount of risk the manager has adopted relative to that benchmark. For some private market managers, the benchmark itself depends on the risk characteristics of the assets that are being invested in.

Performance will be measured after deduction of foreign taxes (including withholding taxes and stamp duties) and before New Zealand tax.

Reporting Standards

Section 61(c) – standards for reporting the investment performance of the Fund

The documentation governing an investment mandate will contain reporting provisions to enable the Guardians to determine the manager's compliance with the investment contract and success in meeting the mandate's investment objectives.

Management will periodically report to the Board in sufficient detail to enable the Board to make informed judgements about the Fund, asset classes within the Fund, and the performance of investment managers, the custodian(s) or external advisors engaged by the Guardians.

Public reporting through the website and statutory reports will be as open and transparent as commercial sensitivities allow.

Responsible Investment

Section 61(d) – ethical investment, including policies, standards and procedures for avoiding prejudice to New Zealand's reputation as a responsible member of the world community

Section 61(i) – the retention, exercise or delegation of voting rights acquired through investments

The Board has adopted a Responsible Investment Policy to assist in meeting the Guardians' obligation to manage the Fund in a manner consistent with adopting best-practice portfolio management, maximising returns without undue risk to the portfolio as a whole, and avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

The Guardians consider responsible investment to be part of evolving best-practice investment management and believe that long-term financial performance can be affected by environmental, social, and governance issues. The Guardians are committed to the United Nations (UN) Principles for Responsible Investment (UNPRI) and aim to encourage companies to meet internationally agreed standards for responsible corporate behaviour, in particular the principles of the UN Global Compact. The Guardians have adopted guidelines and procedures to exercise the Fund's voting rights internationally in line with good corporate governance practice.

Balance Between Risk and Return

Section 61(e) – the balance between risk and return in the overall Fund portfolio

The return objective for the Fund reflects the balance between risk and return that has been adopted by the Guardians. This return objective focuses on returns relative to the return on Treasury bills, since Treasury bill returns have low volatility from month to month and serve as a proxy for the opportunity cost to the Crown of investing in the Fund. The Guardians have set the return objective for the Fund to exceed, before New Zealand tax, the Treasury bill return by at least 2.5% over rolling 20-year periods. The return projections in the latest SAA review indicate that there is approximately a 50% probability of this objective being met in a given 20-year period. In arriving at this return objective, and the risk control measures it will adopt, the Guardians have accepted there will be considerable volatility of returns over shorter periods.

Fund Management Structure

Section 61(f) – the Fund management structure

The Guardians' core focus is the development of an investment strategy which takes full advantage of the Fund's characteristics and executing this through partnerships with high-quality and closely aligned organisations.

Roles will be undertaken internally where the Guardians form the view external suppliers cannot meet the organisation's specific needs. The quality and cost of an outsourced service are the benchmarks against which these opportunities will be judged.

A global custodian provides the appropriate separation of functions between the investing function (undertaken by the investment managers) and transaction settlement and reporting (undertaken by the global custodian).

Derivatives

Section 61(g) – the use of options, futures and other derivative financial instruments

The Guardians' policies in relation to derivatives are designed to ensure that: the use of derivatives results in appropriate market exposures for the Fund as a whole; the resulting counterparty exposures are adequately controlled; and the Fund is able to meet liquidity requirements associated with their use.

The policy on derivatives distinguishes between derivatives taken out by external managers on the Fund's behalf, and derivatives taken out directly by the Guardians.

External managers may be permitted to use derivatives in pursuit of excess returns or to provide market exposure provided such use is consistent with the investment guidelines given to the manager and the Guardians are satisfied the manager has the necessary risk controls in place to ensure their prudent use.

Derivatives, when considered together with the other investments in the Fund, must be consistent with the exposures specified in the Fund's SAA interpreted together with the Guardians' policy for rebalancing the portfolio.

Risk Management

Section 61(h) – the management of credit, liquidity, operational, currency, market and other financial risks

The Guardians have developed risk management policies, procedures, and other internal controls for application by the Guardians' staff, external investment managers, and other expert service providers. The Guardians monitor compliance with the relevant policies and procedures as well as compliance by external managers.

Risk management is further supported by the Guardians' Code of Conduct and conflict of interest procedures, defined roles and responsibilities, and individual and collective accountability processes.

The Guardians have developed a risk management framework and identified and reviewed a number of key risks in detail. The primary purpose of the risk management framework is to:

- identify the major risks that could prevent the Guardians from realising our objectives;
- understand the activities applied by the Guardians to manage these risks and determine the adequacy of the activity;
- link the risk management activity to the operation business processes;
- provide ongoing measurement of the effectiveness of the risk management activity; and
- ensure that assurance from management and independent assurance providers over major risks and their related management activities is aligned with controls.

Securities Lending

Section 61(h) – the management of credit, liquidity, operational, currency, market, and other financial risks

The Fund has a securities lending programme managed by an agent who specialises in securities lending. The programme has been in operation since January 2007.

The Guardians' securities lending activities are designed to minimise the counterparty risk, cash collateral investment risk, and operational/settlement risks associated with the programme.

Valuation of Private Market Assets

Section 61(j) – the method of, and basis for, valuation of investments that are not regularly traded at a public exchange

Where investments are held that are not able to be traded on recognised exchanges, or held in pooled vehicles subject to external valuation methodologies, they will be valued according to accepted market practice.

As a general principle, the Guardians require all investments to be valued at fair value. In the case of listed assets, fair value is readily determined by reference to traded prices on recognised exchanges. For unlisted assets, where quoted market prices are not available, fair value will be determined on the basis of independent valuations, where practical. Where it is not practical to obtain an independent valuation, an investment manager's valuation will be used. Where an investment manager's valuation is deemed not to be sufficiently reliable, the investment will be valued at cost less any impairment.

Where independent valuations are undertaken, these valuations will be conducted at least annually by recognised professional advisors who are independent of the asset manager, and are suitably qualified and possess appropriate experience and expertise relevant to the nature of each specific asset.

Investment Constraints

Section 61(k) – prohibited or restricted investments or any investment constraints or limits

No investment will be made in any security that breaches the Responsible Investment Policy.

The Investment Manager Agreement (IMA) with a manager will prescribe constraints, on that manager's security selection discretion, that are consistent with the objectives for which that manager was appointed and with the risk budget for the Fund as a whole.

The Guardians must use their best endeavours to ensure that the Fund does not control any other entity or hold a percentage of the voting rights in any other entity that would require it to seek control of the entity (as per Section 59 of the Act). If the Fund does end up controlling an entity, the Guardians must take all reasonable steps to remedy the situation as soon as possible.

The Guardians will ensure that tax planning is not overly aggressive from a New Zealand or international corporate perspective.

The Guardians will comply with all tax legislation in all countries in which the Fund invests and will not enter into tax arrangements that contravene such laws.

On behalf of the Board and Management of the Guardians of New Zealand Superannuation we hereby certify that to the best of our knowledge the investment policies, standards and procedures for the Fund have been complied with throughout the 2007/08 financial year.

David May

DAVID MAY
Chairman

ADRIAN ORR
Chief Executive Officer

SECTION 14

Milestones

2008	April	General Manager Private Markets announced Termination of two global equities large cap investment mandates and one US small cap equities investment mandate
	March	Termination of one of New Zealand equities mandate General Manager Public Markets and General Manager Corporate Strategy announced Changes to organisation structure announced
2007	December	Second review of Strategic Asset Allocation completed
	September	Fourth multi-strategy mandate awarded
	July	Transition to new custodian
	May	Release of the Auditor-General's audit on the Guardians' governance and management team of the Fund
	March	First securities lending programme awarded
	January	New custodian appointed Chief Executive Officer appointed
2006	November	Second global equity market neutral mandate awarded
	October	Minority interest acquired in Kaingaroa Forest
	August	Institutional Shareholder Services (now Risk Metrics) appointed to assist with proxy voting
	June	Third multi-strategy mandate awarded
	May	Second multi-strategy mandate awarded
	April	Founding signatories to UNPRI
	March	Second global infrastructure mandate awarded
2005	November	Second New Zealand timber purchase announced First US timber purchase announced First equity only multi-strategy mandate awarded First global tactical asset allocation mandate awarded
	October	First New Zealand timber purchase announced First investment in commodity futures announced First Reference Group meeting held
	September	Second commitment to New Zealand private equity announced
	August	Fourth New Zealand equities mandate awarded
	July	Passive currency overlay mandate awarded Third global emerging markets mandate awarded Termination of one global emerging markets equity mandate
	June	First commitment to New Zealand private equity announced First New Zealand unlisted property mandate awarded
	March	First review of Strategic Asset Allocation completed First global infrastructure mandate awarded Alternative assets advisory firm appointed
	February	First global listed property mandate awarded First global equities (large cap) mandate awarded Second global emerging markets mandate awarded

2004	**November**	First independent review of the Guardians of New Zealand Superannuation conducted
	October	Second US equities (small cap) mandate awarded
	July	Additional global equities (large cap) mandate awarded First US equities (small cap) mandate awarded First non-US equities (small cap) mandate awarded First global emerging markets mandate awarded
	May	First three global equities (small cap) mandates awarded
	March	Further two global equities (large cap) mandates awarded
	January	Additional New Zealand equities mandate awarded
2003	**November**	First global fixed interest mandate awarded DMO currency execution agent appointed
	September and October	First New Zealand fixed interest mandate awarded Transition manager appointed New Zealand Superannuation Fund commenced investing with $2.4 billion in cash First global equities (large cap) mandate awarded First two New Zealand equities mandates awarded Custodian appointed
	August	Initial Strategic Asset Allocation announced
	March	Chief Executive Officer, legal advisor, and tax advisor appointed
	February	Advisor for initial strategic asset allocation appointed
2002	**November**	Board strategy planning undertaken
	August	Guardians of New Zealand Superannuation Board appointed
2001	**October**	Minister of Finance appointed independent committee to nominate persons for the Guardians of New Zealand Superannuation Board New Zealand Superannuation Fund created by an Act of Parliament (New Zealand Superannuation and Retirement Income Act 2001)
2000	**November**	New Zealand Superannuation Bill introduced into Parliament

SECTION 15

Overview of the Financial Statements

This section provides a brief overview of the key elements of the Fund's financial performance and position for the financial year (FY) 2007/08. Given the long-term investment horizon of the Fund, for comparative purposes we also show summary performance statistics since we began investing in September 2003.

Our SAA outlines the asset classes we invest in, with a high weighting towards equity investment rather than fixed interest due to our long investment horizon and liquidity. In addition, we select investment managers who we believe are able to gain return in excess of the market in many of these asset classes. We also look to diversify our assets into unlisted (or private) markets where additional excess return may be received for bearing other forms of risk such as liquidity and operational risk.

Fund Revenue

Given our wide variety of assets held globally, we have diverse income streams. Our revenue streams include dividends from listed equity holdings, interest received from debt instruments, and sales revenue from our timber holdings. The value of our portfolio also changes based on movements in the underlying (or fair) value of the assets, and movements in exchange rates.

Over FY2007/08 we received positive income streams from dividends, interest, and timber sales. However, revenue from all three streams was down on the previous financial year, in part due to investment decisions aimed to improve long-term returns.

The reduced interest income reflects our decision to move out of New Zealand fixed interest investments into global fixed interest investments. We expect foreign exchange hedging gains to largely offset the lower income yield on global fixed interest securities. Our switching decision was made due to our long-term view that increased credit and duration exposure will enhance our returns from fixed interest.

The lower timber sale revenue reflects our timber managers' decision to deliberately reduce logging activity due to low log prices.

The Fund also changed in value due to the annual assessment of our assets 'fair value'. A significant proportion of our assets are valued on global listed financial markets. Given poor performance in global financial market, we have experienced a significant mark-to-market reduction in the value of our assets.

We also recorded an overall decline in the value of our forest investments driven by a variety of factors including logs being harvested during the year (i.e., a depletion of stock), a decline in log prices, and increases in logging expenses.

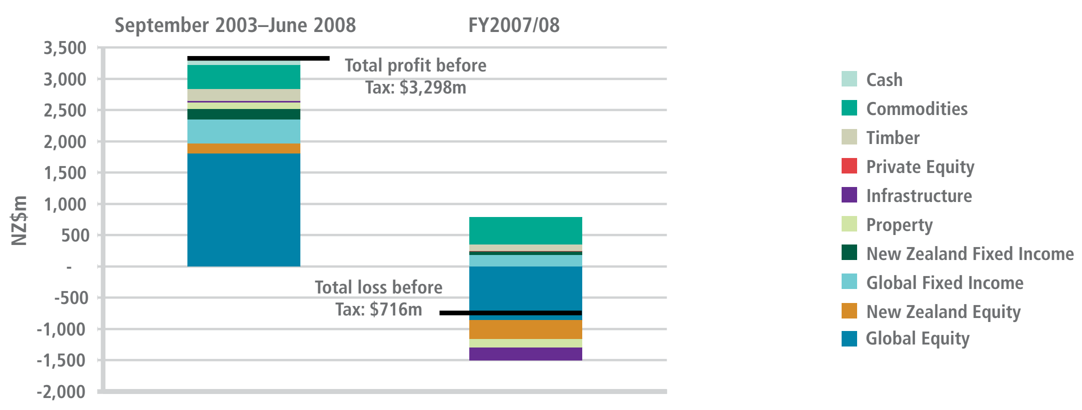
However, the Fund's associate, Kaingaroa Timberlands Partnership, made a $80.4 million contribution to profit through a combination of trading surplus and revaluation of the forest.

Movements in exchange rates also contributed positively to the Fund's income after taking into account hedging activities. The Fund is 84% hedged, with gains being able to be made to the value of the Fund when the New Zealand dollar weakens.

As a result of New Zealand's new tax regime for investments introduced in FY2007/08, the Fund experienced a tax expense for the year, despite making a loss overall. The new tax regime (Fair Dividend Regime) sees the Fund pay tax on average assets held rather than the return on those assets. We discuss this in more depth in the notes to the Fund financial statements.

For comparison, we show the respective contributions of each asset class to total revenue (before tax) since the Fund's inception in September 2003.

Figure 10 – Contributions to Profit by Asset Class



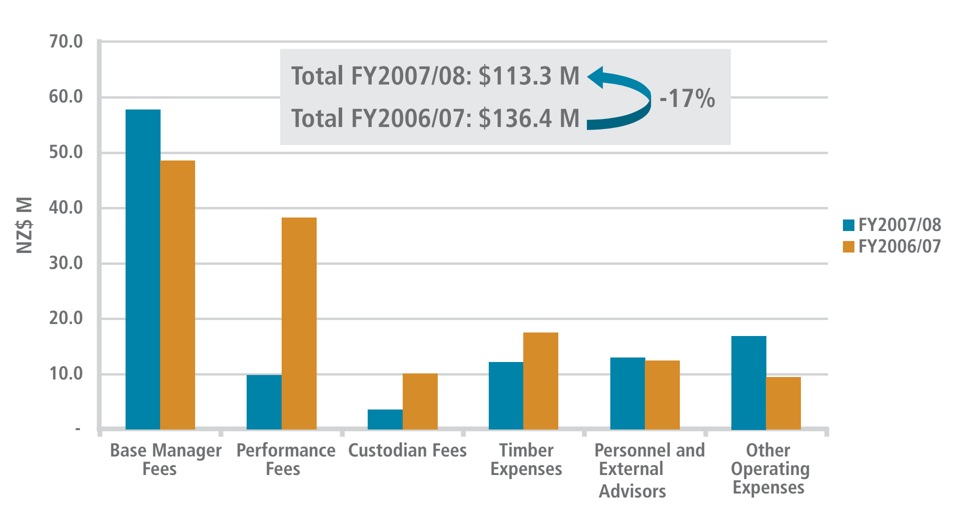
Fund Expenses

The cost of operating the Fund decreased during the FY2007/08. The main contributor was lower overall performance fees paid to investment managers. Base manager fees paid to our investment managers increased, in line with the increase in funds under management. However, the performance-based component of manager fees was $28.5 million lower than the previous year, directly attributable to the underperformance of some of the mandates.

As explained earlier, timber expenses also decreased ($5.3 million less than FY2006/07) as our timber managers reduced harvesting to 50% of the levels originally expected for the year.

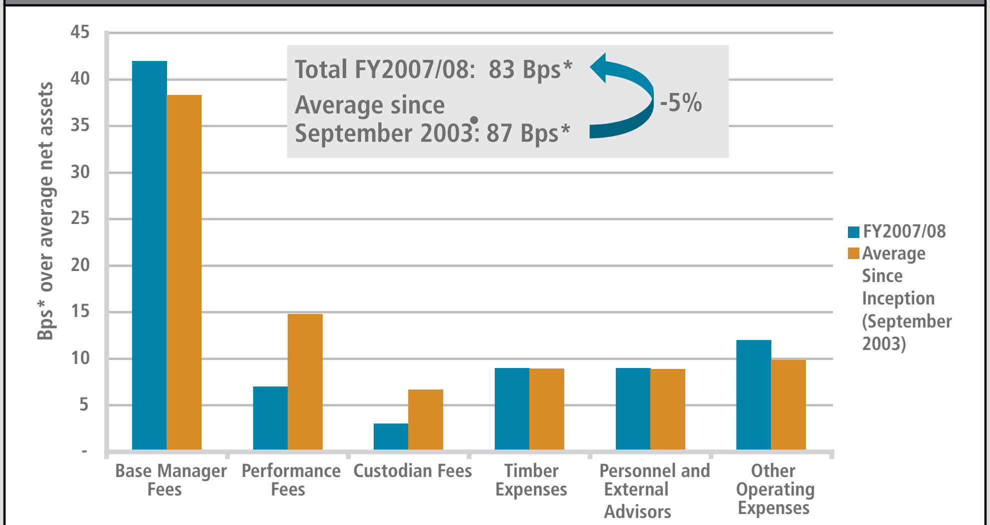
Meanwhile, personnel and advisory expenses increased as we both expanded staff capabilities, and increased the use of external advice for some investments as we consider more complex investment activities. The Guardians continue to be a growing institution. Costs are expected to grow in absolute terms, but decline as a percent of funds under management as economies of scale develop.

Figure 11 – Fund Expenses in $Million



The total expenses outlined include governance and other costs which are funded by appropriations from the Crown. 'Other Operating Expenses' includes primarily trading and brokerage expenses ($12.14m or 8.9Bps*). In FY2006/07, brokerage expenses were netted from mark-to-market pricing and therefore are not included in this chart.

Figure 12 – Fund Expenses in Basis Points of Net Average Assets

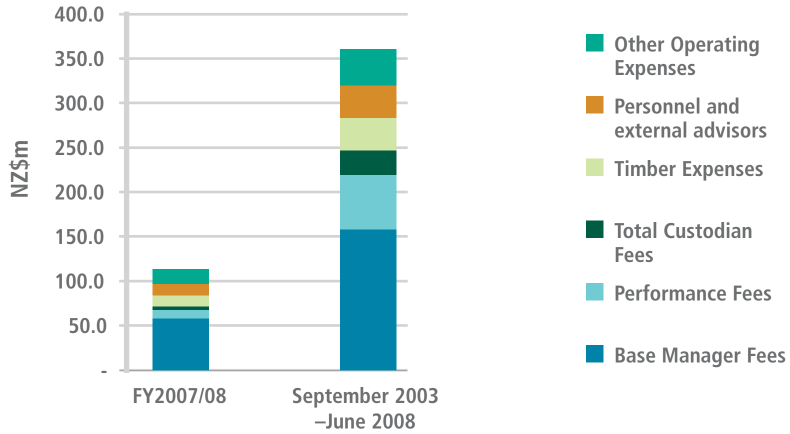


* Bps = Basis point (refer to definition in Section 17)

• Equivalent to five-year average

Manager fees account for the single largest portion of expenses. Over the nearly five years since investment commenced, manager fees and performance fees have accounted for 61% of the total expenses, timber production 10%, personnel and external advisors 10%, custodian fees 8%, and other expenses 11%.

Figure 13 – Total Fund Expenses



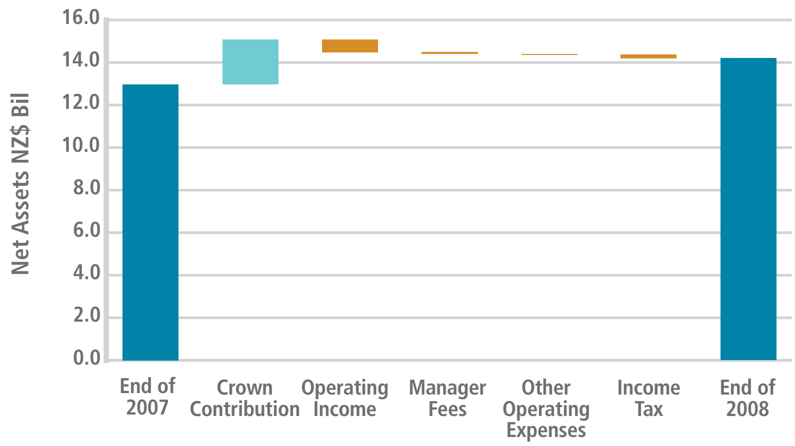
Change in Net Assets Under Management

Total net assets increased during the 2008 financial year by $1.2 billion. This increase comprised Crown contributions, investment income, operating expenses, and income tax accruals. From an opening position of $13.0 billion (post-tax) the Fund's net assets increased to $14.2 billion (post-tax) at market value.

The total capital contribution from the Crown during the current year was $2.1 billion, while investment income and operating expenses had a net negative impact of $716 million. We also paid New Zealand tax of $407.3 million.

Since inception, the Crown has contributed $12.4 billion of the current $14.2 billion of net assets under management.

Figure 14 – Movement in Net Assets FY2007/08



2008

CONTENTS

Financial Statements

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 control 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 2008 fairly reflect the financial position, operations, and cash flows of the New Zealand Superannuation Fund and Group.

David May

DAVID MAY
Chairman
15 September 2008

ADRIAN ORR
Chief Executive Officer
15 September 2008

Statement of Financial Performance

For the year ended 30 June 2008

	Notes	GROUP ACTUAL 2008 NZ$000	GROUP ACTUAL 2007 NZ$000	BUDGET 2008 NZ$000
Interest income	2(a)	124,574	146,070	153,547
Dividend income		233,240	280,825	340,249
Timber sales	4	19,994	36,464	26,145
Fair value changes in investments at fair value through profit or loss	3	(1,340,659)	1,224,037	688,097
Net foreign exchange gain/(loss)		289,645	19,539	-
Fair value changes in timber investments - forests	4	(18,876)	14,338	29,070
Share of profit of investments accounted for using the equity method	7(f)	80,408	25,632	29,523
Other income		6,884	6,698	3,451
NET OPERATING INCOME/(LOSS)		**(604,790)**	**1,753,603**	**1,270,082**
Operating expense	2(b)	111,670	134,900	115,769
PROFIT/(LOSS) FOR THE YEAR BEFORE INCOME TAX EXPENSE		**(716,460)**	**1,618,703**	**1,154,313**
Income tax expense	6	164,287	525,048	199,831
PROFIT/(LOSS) FOR THE YEAR AFTER INCOME TAX EXPENSE		**(880,747)**	**1,093,655**	**954,482**

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

Statement of Financial Position

As at 30 June 2008

	Notes	GROUP ACTUAL 2008 NZ$000	GROUP ACTUAL 2007 NZ$000	BUDGET 2008 NZ$000
ASSETS				
Cash and cash equivalents	19	324,103	363,030	260,497
Investments				
Investments - derivative financial instrument assets	7	84,435	402,050	10,320
Investments - other financial assets	7	13,167,046	11,769,621	14,764,026
Investments accounted for using the equity method	7	510,228	290,294	520,750
Timber investments - forests	7	259,630	272,517	449,106
Total investments		**14,021,339**	**12,734,482**	**15,744,202**
Trade and other receivables	8	215,855	82,690	75,475
Other assets	9	61	940	118
Taxation receivable		125,307	-	-
Property, plant, and equipment	10	101,386	77,112	71,150
Intangible assets	11	187	40	-
TOTAL ASSETS		**14,788,238**	**13,258,294**	**16,151,442**
LIABILITIES				
Derivative financial instrument liabilities	7	267,011	37,208	-
Trade and other payables	12	227,291	52,276	98,285
Taxation payable		-	41,740	-
Provisions	13	40,185	40,685	37,183
Deferred tax liability	6	41,828	113,575	141,029
TOTAL LIABILITIES		**576,315**	**285,484**	**276,497**
NET ASSETS		**14,211,923**	**12,972,810**	**15,874,945**
PUBLIC EQUITY				
Retained surplus		1,818,870	2,699,617	3,498,584
Foreign currency translation reserve		(21,097)	(24,620)	(14,385)
Land revaluation reserve		24,071	10,734	4,883
Contributed capital	15	12,390,079	10,287,079	12,385,863
TOTAL PUBLIC EQUITY		**14,211,923**	**12,972,810**	**15,874,945**

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 2008

	Notes	FOREIGN CURRENCY TRANSLATION RESERVE NZ$000	LAND REVALUATION RESERVE NZ$000	CONTRIBUTED CAPITAL NZ$000	RETAINED SURPLUS NZ$000	TOTAL NZ$000
Balance at 1 July 2006		**4,109**	**7,289**	**8,238,079**	**1,605,962**	**9,855,439**
Gain on revaluation of land			8,477			8,477
Deferred tax on revaluation			(5,032)			(5,032)
Translation of foreign operations		(40,857)				(40,857)
Deferred tax on translation		12,128				12,128
Net income recognised directly in equity		(28,729)	3,445	-	-	(25,284)
Profit for the year					1,093,655	1,093,655
Total recognised income and expense for the year		(28,729)	3,445	-	1,093,655	1,068,371
Fund capital contributions from the Crown				2,049,000		2,049,000
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15			6,809,938		6,809,938
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15			(6,809,938)		(6,809,938)
Balance at 30 June 2007		**(24,620)**	**10,734**	**10,287,079**	**2,699,617**	**12,972,810**
Gain on revaluation of land			19,835			19,835
Deferred tax on revaluation			(6,498)			(6,498)
Translation of foreign operations		5,259				5,259
Deferred tax on translation		(1,736)				(1,736)
Net income recognised directly in equity		3,523	13,337	-	-	16,860
Loss for the year					(880,747)	(880,747)
Total recognised income and expense for the year		3,523	13,337	-	(880,747)	(863,887)
Fund capital contributions from the Crown				2,103,000		2,103,000
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15			7,348,172		7,348,172
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15			(7,348,172)		(7,348,172)
Balance at 30 June 2008		**(21,097)**	**24,071**	**12,390,079**	**1,818,870**	**14,211,923**

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 2008

	Note	GROUP ACTUAL 2008 NZ$000	GROUP ACTUAL 2007 NZ$000	BUDGET 2008 NZ$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Dividends received		221,591	275,853	340,249
Interest received		118,141	139,168	153,547
Receipts from customers		22,632	37,731	30,678
Miscellaneous income		5,142	6,430	-
Income taxation received		-	3	-
Total cash inflow from operating activities		367,506	459,185	524,474
Cash was applied to:				
Managers' fees		(56,678)	(43,586)	(68,784)
Payments to suppliers		(50,267)	(50,491)	(42,034)
Income taxation paid		(407,273)	(596,175)	(270,346)
Goods and Services Tax		(1,107)	(1,281)	-
Total cash outflow from operating activities		(515,325)	(691,533)	(381,164)
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	19(c)	**(147,819)**	**(232,348)**	**143,310**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of investments		11,270,947	8,868,142	11,969,981
Total cash inflow from investing activities		11,270,947	8,868,142	11,969,981
Cash was applied to:				
Purchases of investments		(13,130,704)	(10,385,988)	(14,210,678)
Purchase of property, plant, and equipment		(5,032)	(1,701)	-
Purchase of intangible asset		(199)	(54)	-
Purchase of associates		(125,412)	(265,740)	-
Total cash outflow from investing activities		(13,261,347)	(10,653,483)	(14,210,678)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		**(1,990,400)**	**(1,785,341)**	**(2,240,697)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Capital contributions from the Crown		2,103,000	2,049,000	2,098,776
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES		**2,103,000**	**2,049,000**	**2,098,776**
Net increase/(decrease) in cash and cash equivalents		**(35,219)**	**31,311**	**1,389**
Cash and cash equivalents at the beginning of the financial year		363,030	357,317	259,108
Effects of exchange rate changes on the balance of cash held in foreign currencies		(3,708)	(25,598)	-
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	19(a)	**324,103**	**363,030**	**260,497**

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

Notes to the Financial Statements

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

These are the financial statements of the New Zealand Superannuation Fund (Fund) and its subsidiaries, 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 (Group).

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.

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.

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 142.

STATEMENT OF COMPLIANCE

The Fund is a profit-oriented entity. 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), 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 2008 were authorised for issue in accordance with a resolution of the Board of Guardians of New Zealand Superannuation on 15 September 2008.

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.

This is the first set of financial statements prepared based on NZ IFRS and comparatives for the year ended 30 June 2007 have been restated accordingly. Reconciliations of equity and profit for the year ended 30 June 2007 under NZ IFRS to the balances reported in the 30 June 2007 financial statements are detailed in note 21.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2008. 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 IFRS 8	Operating Segments	New standard replacing NZ IAS 14 Segment Reporting, which adopts a management approach to segment reporting.	1 January 2009	NZ IFRS 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the amendments may have an impact on the Group's segment disclosures as segment information included in internal management reports is more detailed than is currently reported under NZ IAS 14 Segment Reporting.	1 July 2009
NZ IAS 1 (revised)	Presentation of Financial Statements	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in public equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	The amendments are expected to only affect the presentation of the Group's financial statements and will not have a direct impact on the measurement and recognition of amounts under the current NZ IAS 1. The Group has not determined at this stage whether to present the new statement of comprehensive income as a single or two statements.	1 July 2009
NZ IFRS 3 (revised) and NZ IAS 27 (amended)	NZ IFRS 3 Business Combinations (revised) and NZ IAS 27 Consolidated and Separate Financial Statements (amended)	NZ IFRS 3 (revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. NZ IAS 27 (amended) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by a subsidiary as well as the loss of control of a subsidiary.	1 July 2009	The changes introduced by NZ IFRS 3 (revised) and NZ IAS 27 (amended) must be applied prospectively and will affect future acquisitions and transactions with minority interests.	1 July 2009

* Designates the beginning of the applicable annual reporting period.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following particular accounting policies which materially affect the measurement of financial performance 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 on a fortnightly basis 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 in any financial year before 1 July 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 76 of the Act the Group is treated as if it is a body corporate for tax purposes and is therefore subject to income tax on any income derived from investments, and that income is treated as gross income of the Fund under the Income Tax Act 2004.

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

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 by balance date. Current tax for current and prior years 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.

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, and 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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income tax (continued)

(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 recognised directly in equity is recognised in equity and not in the statement of financial performance.

(d) Financial instruments

The Group is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, 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 financial performance.

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 assets at fair value through profit or loss (either designated at fair value through profit or loss or held for trading):	
- Equities	i)
- Fixed interest securities	ii)
- Forward foreign exchange contracts	iii)
- Futures contracts	iii)
- Equity swaps	iii)
- Commodity swaps	iii)
- Multi-strategy funds	iv)
- Certain private equity investments	v)
- Unlisted unit trusts	vi)
- Available for sale financial assets at cost: certain private equity investments	vii)
- Investments accounted for using the equity method (refer accounting policy (h))	
- Timber investments - forests (refer accounting policy (i))	

Financial instrument investments (other than investments accounted for using the equity method and available for sale financial assets) are initially recognised at fair value on a trade date basis. Transaction costs, for example trading commission, are expensed immediately in the statement of financial performance. 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 the statement of financial performance.

Interest earned is accrued in income according to the terms of the contract, while dividend income is recorded when the right to payment has been established.

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:

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investments (continued)

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

ii) Fixed interest securities are valued at the last quoted bid price by a reputable pricing vendor or broker as of the close of business at balance date.

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

iv) Investments in multi-strategy 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 multi-strategy fund.

v) Investments in certain private equity funds (unlisted investment funds) 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 fund. 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. Certain private equity funds are classified as available for sale. The accounting policy for these investments is outlined under vii).

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) Certain private equity funds 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 funds cannot be reliably measured where the fund's financial statements have not been prepared under either IFRS or a recognised and reliable accounting basis such as US GAAP.

Derivatives

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk (forward foreign exchange contracts), and achieve exposure to assets and asset classes (futures contracts, options, equity swaps and commodity swaps). 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 all forward foreign exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The fair value of futures contracts is calculated as being 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 commodity swaps and equity swaps is provided by the counterparty and is calculated by reference to the movement in the underlying index or basket of securities. Commodity swaps and equity swaps are settled net in cash.

The fair value of options is calculated using a Black-Scholes option valuation model.

(f) Securities lending

Securities lending transactions are collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Collateral is advanced by the borrower to a third-party lending agent. Recourse to collateral is only available in the event of default by the borrower, and as such is not recognised in the statement of financial position.

(g) 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 using the purchase method. 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 consolidaiton.

(h) 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Investments in associates (continued)

At inception, certain of the Fund's associates are either 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 and assets and liabilities 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.

(i) Timber investments - 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 the statement of financial performance 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 are 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 is set out in note 7(g).

(j) Receivables

Short-term receivables are stated at their estimated realisable value after providing for doubtful and uncollectible debts.

(k) 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 is measured at fair value. 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 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 expense in profit or loss, in which case the increase is credited to the statement of financial performance to the extent of the decrease previously charged.

A decrease in carrying amount arising on the revaluation of land 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.

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

Independent valuations of land are performed with sufficient regularity 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.

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 the statement of financial performance in the year the item is derecognised.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Property, plant, and equipment (continued)

Impairment

All items of property, plant, and equipment are assessed for indicators of impairment at each balance date.

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 financial performance unless it relates to land 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 financial performance immediately unless it relates to land, 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 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.

(l) Depreciation

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

The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Land improvements	15 – 50 years
Office equipment	3 years
Computer equipment	3 years
Office fitout	2 – 6 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.

(m) 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.

(n) Payables

Short-term payables are not interest bearing and are stated at their nominal value.

(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 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) 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:

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 shareholders' 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 financial performance.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income recognition (continued)

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.

Securities lending fees are recognised as earned.

(q) 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 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 the statement of financial performance.

(r) Translation of the financial statements of independent 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 an independent 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 in the statement of financial performance when the gain or loss on disposal of the foreign operation is recognised.

(s) 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 investments. Investments include securities not falling within the definition of cash, including those cash flows from the settlement of forward foreign exchange contracts.

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 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.

(t) 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, then 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.

(u) Impact of adoption of NZ IFRS

The Group changed its accounting policies on 1 July 2007 to comply with NZ IFRS. The transition to NZ IFRS is accounted for in accordance with NZ IFRS-1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards, with 1 July 2006 as the date of transition. An explanation of how the transition from superseded policies to NZ IFRS has affected the Group's financial position, financial performance and cash flows is discussed in note 21.

(v) Changes in accounting policies

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

(w) 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 each accounting policy above.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

	GROUP ACTUAL		BUDGET
	2008 NZ$000	2007 NZ$000	2008 NZ$000
2. PROFIT/(LOSS) FROM OPERATIONS			
(A) INTEREST INCOME			
New Zealand fixed interest - Crown	36,922	47,983	44,094
New Zealand fixed interest - State-Owned Entities	408	556	118
New Zealand fixed interest - Local Bodies	2,342	4,214	5,169
New Zealand fixed interest - Other	13,491	50,854	65,580
New Zealand fixed interest - Total	53,163	103,607	114,961
Global fixed interest	50,504	25,434	34,290
Other interest	20,907	17,029	4,296
Total interest income	**124,574**	**146,070**	**153,547**
(B) OPERATING EXPENSE			
Profit/(Loss) before income tax has been arrived at after charging the following expenses and losses:			
Timber harvesting and operating expenses (note 4)	12,149	17,494	
Depreciation of non-current assets (note 10)	497	383	
Amortisation of intangible assets (note 11)	52	14	
Managers' fees - base	57,825	48,591	56,742
Managers' fees - performance (note 13)	9,858	38,309	17,486
Custody fees	3,580	10,084	6,500
Auditors' remuneration (note 5)	315	305	365
Reimbursement of Guardians' expenses	9,410	7,328	11,902
Other expenses	17,984	12,392	22,774
	111,670	**134,900**	**115,769**
3. FAIR VALUE CHANGES IN INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS			
Financial assets or liabilities designated at fair value through profit or loss	(1,466,876)	1,112,053	
Financial assets or liabilities held for trading recognised at fair value through profit or loss	126,217	111,984	
	(1,340,659)	**1,224,037**	**688,097**
4. TIMBER OPERATIONS			
Timber sales	19,994	36,464	26,145
Harvesting and operating expenses	(12,149)	(17,494)	
Depreciation - land improvements (note 10)	(298)	(316)	
Net trading result	7,547	18,654	26,145
Fair value changes in timber investments - forests	(18,876)	14,338	29,070
Timber net surplus/(loss) (excluding managers' fees)	**(11,329)**	**32,992**	**55,215**

The fair value less estimated point of sale costs of the timber harvested during the year, determined at the point of harvest, is equivalent to the revenue from timber sales recognised in the statement of financial performance.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

	GROUP ACTUAL 2008 NZ$000	GROUP ACTUAL 2007 NZ$000	BUDGET 2008 NZ$000
5. REMUNERATION OF AUDITORS			
Auditor of the parent entity			
Audit of the financial statements - Attest	285	305	365
Audit of the financial statements - IFRS transition	30	-	-
	315	**305**	**365**

The auditor of the New Zealand Superannuation Fund is Warren Allen of Ernst & Young, on behalf of the Auditor-General.

	GROUP ACTUAL 2008 NZ$000	GROUP ACTUAL 2007 NZ$000	BUDGET 2008 NZ$000
6. INCOME TAXES			
Income tax expense			
Current tax - current year	242,962	707,978	
Current tax - prior year	(6,078)	25,324	
Deferred tax - current year	(79,076)	(178,471)	
Deferred tax - prior year	6,479	(29,783)	
Income tax expense	**164,287**	**525,048**	**199,831**
Profit/(loss) for the year before income tax	(716,460)	1,618,703	1,154,313
Income tax expense calculated at 33%	(236,433)	534,172	
Fair Dividend Regime	344,307	-	
PIE Regime	77,073	-	
Non-deductible expenditure	6,091	3,556	
Non-assessable income	(284)	-	
Imputation credits	(18,367)	(12,680)	
Other items	(8,100)	-	
Income tax expense	**164,287**	**525,048**	**199,831**
Deferred tax assets are attributed to the following			
Current staff benefits	2	59	
Non-current staff benefits	417	107	
Foreign tax credits	(1,100)	189	
Temporary differences	407	2,555	
Decrease in tax rate to 30%	132	-	
Set off against deferred tax liability	142	(2,910)	
Balance at the end of the year	**-**	**-**	
Movements			
Balance at the beginning of the year	-	-	
Prior year adjustments	238	-	
Set off of deferred tax liabilities	3,290	(2,910)	
Withholding tax set off	(10)	(405)	
Decrease in tax rate to 30%	132	(11)	
(Credited)/Charged to the statement of financial performance	(3,650)	3,326	
Balance at the end of the year	**-**	**-**	

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

	GROUP ACTUAL 2008 NZ$000	GROUP ACTUAL 2007 NZ$000	BUDGET 2008 NZ$000
6. INCOME TAXES (continued)			
Deferred tax liabilities are attributed to the following			
Non-current unrealised gains and losses	(38,186)	(18,319)	
Current unrealised gains and losses	(377)	(96,160)	
Accrued Foreign Dividend Withholding Payments	(259)	(268)	
Temporary differences	(683)	(33)	
Amounts recognised directly in equity	(2,181)	(1,705)	
Set off against deferred tax asset	(142)	2,910	
Balance at the end of the year	**(41,828)**	**(113,575)**	**(141,029)**
Movements			
Balance at the beginning of the year	(113,575)	(324,287)	
Prior year adjustments	(6,718)	29,783	
Foreign Dividend Withholding Payments set off	(496)	3,022	
Set off against deferred tax asset	(3,290)	2,910	
Decrease in tax rate to 30%	-	1,557	
Amounts recognised directly in equity	(475)	(1,705)	
Credited to the statement of financial performance	82,726	175,145	
Balance at the end of the year	**(41,828)**	**(113,575)**	**(141,029)**

With effect from 1 July 2008, the tax rate for the Group will reduce from 33% to 30%. Deferred tax has been provided at 30% in accordance with NZ-IAS 12 Income Taxes.

From 1 July 2007, the Fair Dividend Rate (FDR) applied to all equity investments excluding New Zealand equities and Australian equities listed on the Australian Stock Exchange (ASX) with franking credits. These assets are taxed on 5% of their daily value. Gains, losses, and dividends will no longer be subject to tax. FDR gave rise to a tax expense of $344m, $129m of tax based on 5% of the daily value of these equities and $215m arising from the exclusion of realised gains, unrealised losses, and dividends received.

All equities that were previously classified as Grey List, were deemed to have been disposed of at market value on 30 June 2007. The unrealised gain arising on these shares resulted in a current tax liability of $33.4m. The first instalment was paid on 30 June 2008 with a further two instalments due 30 June 2009 and 2010.

From 1 October 2007, the Group was treated as a Portfolio Investment Entity (PIE) for tax purposes with regard to New Zealand equities and Australian equities listed on the ASX maintaining franking credits. The dividends on these equities are taxable, with capital gains and losses no longer subject to tax. In accordance with the legislation, the Group was deemed to dispose of these stocks on 30 September 2007 at market value crystallising gains of $225.5m. The tax liability arising from transition is $74.4m. The first instalment was paid on 31 March 2008 with a further two instalments due 31 March 2009 and 2010.

The Group has investments in a number of PIE entities. The unrealised gains on these investments did not crystallise on transition to the PIE regime resulting in a tax saving of $41.2m.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

	GROUP ACTUAL 2008 NZ$000	GROUP ACTUAL 2007 NZ$000	BUDGET 2008 NZ$000
7. INVESTMENTS			
(A) INVESTMENTS BY ASSET TYPE			
Financial assets			
Derivative financial instrument assets:			
Forward foreign exchange contracts	27,129	355,938	
Futures contracts	-	851	
Equity swaps	10,633	4,199	
Commodity swaps	20,581	12,256	10,320
Options	26,092	28,806	
Total derivative financial instrument assets	**84,435**	**402,050**	**10,320**
Other financial assets:			
New Zealand equities - State-Owned Entities	7,821	15,402	7,580
New Zealand equities - Other	973,809	882,462	987,971
Global equities	6,094,436	6,319,830	7,990,534
Total equities	**7,076,066**	**7,217,694**	**8,986,085**
New Zealand fixed interest - Crown	532,843	605,092	756,806
New Zealand fixed interest - State-Owned Entities	4,307	6,402	2,014
New Zealand fixed interest - Local Bodies	15,945	70,222	
New Zealand fixed interest - Other	808,234	731,736	1,411,252
Global fixed interest	1,564,402	895,287	3,607,869
Total fixed interest	**2,925,731**	**2,308,739**	**5,777,941**
Multi-strategy funds	2,350,742	1,623,253	
Private equity	186,162	69,437	
Unlisted unit trusts	628,345	550,498	
Total other financial assets	**13,167,046**	**11,769,621**	**14,764,026**
Total financial assets	**13,251,481**	**12,171,671**	**14,774,346**
Investments accounted for using the equity method (refer note 7(f))	**510,228**	**290,294**	**520,750**
Non-financial assets - timber investments - forests (refer note 7(g))			
New Zealand timber investments - forests	140,573	153,423	
Global timber investments - forests	119,057	119,094	
Total timber investments - forests	**259,630**	**272,517**	**449,106**
Total investments	**14,021,339**	**12,734,482**	**15,744,202**
Derivative financial instrument liabilities			
Forward foreign exchange contracts	184,493	26,706	
Futures contracts	-	3,336	
Equity swaps	69,832	7,166	
Commodity swaps	12,686	-	
Total derivative financial instrument liabilities	**267,011**	**37,208**	**-**
Net investments	**13,754,328**	**12,697,274**	**15,744,202**

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

7. INVESTMENTS (continued)

(B) RESTRICTIONS

The Group participates in a securities lending program to enhance portfolio returns. Credit risk associated with the securities lending program is mitigated by requiring the borrower to provide daily collateral in the form of readily marketable investments of greater market value than the securities loaned. As at 30 June 2008, the Group's global equities investments include loaned securities with a fair value of $999,519,820 (2007: $850,205,283). The fair value of collateral held (by a third-party agent) in respect of these loans is $1,044,187,458 (2007: $888,065,640).

(C) FAIR VALUES

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

(D) GEOGRAPHIC DISTRIBUTION

The Group invests either directly or indirectly in a number of countries, and derives income from these sources. This exposes the Group to the risks associated with investing in these countries. The investment holdings of the Group are represented by geographical region as follows:

	GROUP ACTUAL 2008 NZ$000	GROUP ACTUAL 2007 NZ$000	BUDGET 2008 NZ$000
New Zealand	3,227,390	3,365,479	
Australia	519,966	485,321	
Japan	787,904	744,865	
United States	5,781,880	4,738,358	
Canada	280,499	178,648	
Europe	2,630,824	2,668,758	
Other Asia	354,359	356,677	
Central & South America	128,704	106,500	
Africa	32,867	37,532	
Middle East	9,935	15,136	
Net investments	**13,754,328**	**12,697,274**	**15,744,202**

(E) INVESTMENTS IN SUBSIDIARIES

NAME OF ENTITY	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2008 %	OWNERSHIP INTEREST 2007 %
CNI Timber Holdco	30 June	New Zealand	0%	100%
CNI Timber Operating Company Limited	30 June	New Zealand	0%*	100%

During the year, CNI Timber Holdco ceased to be a subsidiary of the Fund. CNI Timber Holdco was wound up and struck off the companies register.

*All of the shares in CNI Timber Operating Company Limited were legally transferred to the Guardians for nil consideration. 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

	GROUP ACTUAL 2008 NZ$000	GROUP ACTUAL 2007 NZ$000	BUDGET 2008 NZ$000
7. INVESTMENTS (continued)			
(F) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD			
Investments in associates	**510,228**	**290,294**	**520,750**

NAME OF ENTITY	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2008 %	OWNERSHIP INTEREST 2007 %
Kaingaroa Timberlands Partnership	30 June	New Zealand	30%	20%

	GROUP ACTUAL 2008 NZ$000	GROUP ACTUAL 2007 NZ$000	BUDGET 2008 NZ$000
Associates			
Carrying amount at start of year	290,294	-	350,995
Acquisition of associate	147,094	265,740	140,232
Share of recognised revenues and expenses	80,408	25,632	29,523
Return of capital	(7,568)	(1,078)	
Carrying amount at end of year	**510,228**	**290,294**	**520,750**
Goodwill at the start of the year	-	-	
Goodwill at the end of the year	-	-	
Current assets	48,223	50,595	
Non-current assets	1,947,940	1,662,774	
	1,996,163	1,713,369	
Current liabilities	13,578	10,171	
Non-current liabilities	-	-	
	13,578	10,171	
Net assets	1,982,585	1,703,198	
Revenue	457,603	453,091	
Net profit	347,744	386,922	
Share of associate’s profit/(loss)	80,408	25,632	29,523

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

7. INVESTMENTS (continued)

(G) NON-FINANCIAL ASSETS - TIMBER INVESTMENTS

Timber investments - forests are accounted for under NZ IAS 41 Agriculture, and carried at fair value less estimated point of sale costs. Timber investments - land is accounted for under NZ IAS 16 Property, Plant and Equipment, and is carried at fair value with revaluations reflected in reserves.

	GROUP ACTUAL		BUDGET
	2008 NZ$000	2007 NZ$000	2008 NZ$000
Gross carrying amount - forests			
Carrying amount at start of year	272,517	289,061	302,706
Additions	4,224	858	117,330
Fair value changes in timber investments - forests	(18,876)	14,338	29,070
Foreign exchange gain/(loss) on translation	1,765	(31,740)	
Carrying amount at end of year	**259,630**	**272,517**	**449,106**

At 30 June 2008, the Group's forests measured approximately 6,920 million m^3 (2007: 6,675 million m^3). During the year ended 30 June 2008, the Group harvested 0.4 million m^3 (year ended 30 June 2007: 0.6 million m^3), which had a fair value less estimated point-of-sale costs of NZ$15.4 million (year ended 30 June 2007: NZ$23.2 million).

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 5.5-9.0% (2007: 6.5-9.0%).

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

(e) No allowance for inflation has been provided.

(f) 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.

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

(h) 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 the statement of financial performance.

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

Forest financial risk management strategy

The Group has procedures in place to minimise damage to forest assets from climatic risks, pests and diseases, nutrient deficiencies and imbalances, fire, and flood risk. As a member of the New Zealand Forest Owners Association the Group subscribes to the annual national forest health surveillance programme. This programme helps early detection of any exotic disease or pest incursion, data to meet New Zealand's international forest reporting requirements and forest health management information. For the overseas forests, the Group has membership to university-based forestry research organisations. Relevant information is collected and then used to prescribe subsequent operations to address identified concerns.

In addition, pest and disease populations are constantly monitored through annual region-specific surveys, site or species specific pest surveys and visual assessment by contractors. This information is then used to determine where to carry out control operations.

New Zealand forests have historically experienced low forest loss due to fire as a result of both climatic conditions and management regimes directed toward active fire risk reduction. The Group owns a number of fire fighting resources and these are located around the districts as defined by risk factors at any given point in time.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

	GROUP ACTUAL 2008 NZ$000	GROUP ACTUAL 2007 NZ$000	BUDGET 2008 NZ$000
8. TRADE AND OTHER RECEIVABLES			
Trade receivables	2,986	1,780	
Allowance for doubtful debts	-	-	
	2,986	1,780	
Accrued interest	36,948	30,875	26,672
Dividends receivable	23,805	15,189	11,740
Unsettled sales	152,116	34,846	37,063
	215,855	**82,690**	**75,475**

Trade receivables have standard 30 day 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 objective evidence of impairment.

	GROUP ACTUAL 2008 NZ$000	GROUP ACTUAL 2007 NZ$000	BUDGET 2008 NZ$000
9. OTHER ASSETS			
Prepayments	61	940	118
	61	**940**	**118**

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

	GROUP ACTUAL				
	LAND AND LAND IMPROVEMENTS NZ$000	OFFICE EQUIPMENT NZ$000	COMPUTER EQUIPMENT NZ$000	OFFICE FITOUT NZ$000	TOTAL NZ$000
10. PROPERTY, PLANT, AND EQUIPMENT					
Gross carrying amount					
Balance at 1 July 2006	74,845	-	-	-	74,845
Additions	-	318	123	1,255	1,696
Disposals	(10)	-	-	-	(10)
Net revaluation increments/(decrements)	8,477	-	-	5	8,482
Foreign exchange gain/(loss) on translation	(7,518)	-	-	-	(7,518)
Balance at 30 June 2007	**75,794**	**318**	**123**	**1,260**	**77,495**
Additions	4,319	5	75	-	4,399
Reclassification	-	-	37	(37)	-
Net revaluation increments/(decrements)	19,835	-	-	-	19,835
Foreign exchange gain/(loss) on translation	537	-	-	-	537
Balance at 30 June 2008	**100,485**	**323**	**235**	**1,223**	**102,266**
Accumulated depreciation					
Balance at 1 July 2006	-	-	-	-	-
Depreciation expense	316	14	29	24	383
Balance at 30 June 2007	**316**	**14**	**29**	**24**	**383**
Depreciation expense	298	46	67	86	497
Balance at 30 June 2008	**614**	**60**	**96**	**110**	**880**
Net book value					
As at 30 June 2007	**75,478**	**304**	**94**	**1,236**	**77,112**
As at 30 June 2008	**99,871**	**263**	**139**	**1,113**	**101,386**

Land as part of the New Zealand timber investments was valued by Telfer Young (Northland) Ltd, an independent registered valuer. Land as part of the global timber investments was revalued by Sizemore & Sizemore, Inc. and Resource Programming, Inc.

The valuations were obtained as at 30 June 2008. The revaluation surplus has been taken to the land revaluation reserve.

Carrying amount that would have been recognised under the cost model $75,848,000.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

	GROUP ACTUAL 2008 NZ$000	GROUP ACTUAL 2007 NZ$000	BUDGET 2008 NZ$000
11. INTANGIBLE ASSETS			
Gross carrying amount			
Opening balance	54	-	
Additions - Computer software	199	54	
Closing balance	**253**	**54**	
Accumulated amortisation			
Opening balance	14	-	
Amortisation expense	52	14	
Closing balance	**66**	**14**	
Net book value	**187**	**40**	

12. TRADE AND OTHER PAYABLES

	2008	2007	Budget 2008
Trade payables	3,083	4,570	
Accrued expenses	16,108	22,850	
Unsettled purchases	206,301	23,877	
GST payable	5	-	
Inter-entity payable to Guardians	1,794	979	
	227,291	**52,276**	**98,285**

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 timeframe.

The timing and amount of expected cash flows for unsettled purchases are certain as they are based on contractual terms and corporate actions. All payables are expected to be settled within one year.

13. PROVISION FOR PERFORMANCE-BASED FEES

	2008	2007	Budget 2008
Balance brought forward	40,685	12,801	34,557
Provision during the year	9,858	38,309	17,486
Paid out during the year	(10,358)	(10,425)	(14,860)
Closing provision	**40,185**	**40,685**	**37,183**
Represented by:			
Current	31,482	10,280	
Non-current	8,703	30,405	
	40,185	**40,685**	**37,183**

Investment managers earn performance-based fees once agreed hurdles are reached. 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. 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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	
	2008 NZ$000	2007 NZ$000
ASSETS		
Cash and cash equivalents	-	-
Investments		
Investments - derivative financial instrument assets	-	14,248
Investments - other financial assets	814,507	619,935
Investments accounted for using the equity method	510,228	290,294
Timber investments - forest	259,630	272,517
Total investments	**1,584,365**	**1,196,994**
Trade and other receivables	-	-
Other assets	-	-
Taxation receivable	-	-
Deferred tax asset	-	-
Property, plant, and equipment	101,386	77,112
Intangible assets	187	40
TOTAL ASSETS	**1,685,938**	**1,274,146**
LIABILITIES		
Derivative financial instrument liabilities	-	-
Trade and other payables	-	-
Taxation payable	-	-
Provisions	8,703	30,405
Deferred tax liability	41,828	113,575
TOTAL LIABILITIES	**50,531**	**143,980**
NET ASSETS	**1,635,407**	**1,130,166**

15. MANAGEMENT OF FUND CAPITAL

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. Capital contributions are made by the Crown to the Fund on a fortnightly basis for investment and for the purpose of contribution to the net cost of paying superannuation entitlements after 2020. Contributions to the Fund are based on a percentage of GDP as set out in the Act. Based on estimates prepared by The Treasury, and forming part of the May 2008 Budget, these are expected to average $2.2 billion over the next three years.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

15. MANAGEMENT OF FUND CAPITAL (continued)

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.

The Guardians review the Fund's investment policies and strategic asset allocation on an annual basis to ensure it is efficient over the longer term.

The Guardians have determined investment policies and a strategic asset allocation (SAA) that, in their view and on the basis of professional advice received, best meets their statutory obligation to maximise the return to the Fund without undue risk and best meets the Guardians' investment objective for the Fund. This is reviewed from time-to-time.

The SAA highlights target levels for asset classes. It does not reflect the Fund's current holdings. The difference between the Fund's current and target holdings is made up through the use of proxies, whereby any differences for the private market holdings are made up of offsetting holdings of other, more readily accessible assets such as listed equities and fixed interest. The table below shows the target weights and ranges (before proxies) as at 30 June 2008.

	30 JUNE 2008 %	RANGES %
Sector		
Global large cap equities	32.0	
Global small cap equities	5.5	
New Zealand equities	7.5	
Emerging market equities	3.0	
Property	10.0	
Private equity	5.0	0-10
Infrastructure	5.0	0-15
Other private markets	5.0	0-10
Timber	5.0	0-10
Commodities	5.0	
Fixed interest	17.0	
Total portfolio	**100.0**	
Net unhedged foreign currency exposure	16.0	

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

16. COMMITMENTS AND CONTINGENT LIABILITIES

At year end, the Group had commitments to private equity funds totalling $346,328,000 (2007: $256,731,000), of which $111,143,000 has been called and paid (2007: $48,711,000). Capital called as at balance date but not yet paid amounted to $15,924,000 (2007: $nil). The Group also had other commitments of $650,758,000 (2007: $440,101,000), of which $308,015,000 has been called upon (2007: $129,927,000).

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

There were no contingent liabilities at 30 June 2008 (2007: $nil).

17. RELATED PARTY DISCLOSURES

(A) PARENT ENTITIES

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

(B) EQUITY INTERESTS IN RELATED PARTIES

Details of the interests held in subsidiaries and associates are disclosed in notes 7(e) and 7(f) (respectively) to the financial statements.

(C) TRANSACTIONS WITH RELATED PARTIES

The Guardians have paid expenses relating to the Group, as it is 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 Group transacts with the New Zealand Debt Management Office (NZDMO) for a portion of its foreign exchange contracts. The fair value of outstanding contracts at year end was a liability of $115.98m (2007:asset $296.83m). Losses on contracts with the NZDMO recognised in the statement of financial performance for the year were $251.56m (2007: gains $1,534.94m). All other transactions with government entities are on an arm's length basis.

The Group has invested a proportion of its assets in fixed income securities issued by the Government, Crown Entities, and State-Owned Entities. These are detailed in note 7. The income earned from these investments is detailed in note 2.

18. SUBSEQUENT EVENTS

On 4 August 2008, the Board decided to exercise an option to acquire a further 10% stake in an associate, Kaingaroa Timberlands Partnership. The approximate value of the purchase is USD $110,000,000.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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		BUDGET
	2008 NZ$000	2007 NZ$000	2008 NZ$000
Cash and cash equivalents	324,103	363,030	260,497

At balance date, cash of $292,767,000 (2007: $297,269,000) had been allocated and was held by Investment Managers awaiting investment.

(B) COLLATERAL

$24,906,156 of cash balances (2007: $24,569,435) are held in separate bank accounts lodged with the relevant futures exchange. These funds have been pledged as collateral for potential margin calls on futures of $nil (2007: negative $2,485,000) held by the Group. The counterparties are not permitted to sell or re-pledge the collateral cash 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.

(C) RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Profit/(loss) for the year after income tax expense	(880,747)	1,093,655	954,482
Add/(deduct) non-cash items:			
Share of profit of investments accounted for using the equity method	(80,408)	(25,632)	
Depreciation and amortisation of non-current assets	549	397	
Fair value changes in timber investments - forests	18,876	(14,338)	
Fair value changes in investments	1,340,659	(1,210,370)	
Net foreign exchange gain	(289,645)	(19,539)	
Other non-cash items	3,616	250	
Changes in net assets and liabilities:			
(Increase)/decrease in assets			
Trade and other receivables	(133,165)	22,801	
Other assets	879	(900)	
Increase/(decrease) in liabilities:			
Trade and other payables	175,015	(21,552)	
Provisions	500	27,884	
Increase/(decrease) in current tax balances	(167,047)	126,320	
Increase/(decrease) in deferred tax balances	(71,747)	(210,712)	
Deduct items classified as investing activities:			
Unsettled sales	117,270	(35,436)	
Unsettled purchases	(182,424)	34,824	
Net cash provided by/(used in) operating activities	**(147,819)**	**(232,348)**	**143,310**

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS

(A) FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT BASIS

Key: H4T: Held for trading
Designated at FVTPL: Designated at fair value through profit and loss
L&R: Loans and receivables
A4S: Available for sale
AC: Amortised cost/cost/or equity accounted

	H4T NZ$000	DESIGNATED AT FVTPL NZ$000	L&R NZ$000	A4S NZ$000	AC NZ$000	TOTAL NZ$000
2008						
Financial assets						
Investments						
Investments - derivative financial instrument assets:						
Forward foreign exchange contracts	27,129					27,129
Futures contracts	-					-
Equity swaps	10,633					10,633
Commodity swaps	20,581					20,581
Options	26,092					26,092
	84,435	-	-	-	-	84,435
Investments - other financial assets:						
Equities						
New Zealand equities - State-Owned Entities		7,821				7,821
New Zealand equities - Other		973,809				973,809
Global equities		6,094,436				6,094,436
Total equities	-	7,076,066	-	-	-	7,076,066
Fixed interest						
New Zealand fixed interest - Crown		532,843				532,843
New Zealand fixed interest - State-Owned Entities		4,307				4,307
New Zealand fixed interest - Local Bodies		15,945				15,945
New Zealand fixed interest - Other		808,234				808,234
Global fixed interest		1,564,402				1,564,402
Total fixed interest	-	2,925,731	-	-	-	2,925,731
Multi-strategy funds		2,350,742				2,350,742
Private equity		162,091		24,071		186,162
Global unit trusts		628,345				628,345
	-	3,141,178	-	24,071	-	3,165,249
Investments accounted for using the equity method					510,228	510,228
Total investments	84,435	13,142,975	-	24,071	510,228	13,761,709
Trade and other receivables			215,855			215,855
Total financial assets	**84,435**	**13,142,975**	**215,855**	**24,071**	**510,228**	**13,977,564**
Financial liabilities						
Derivative financial instrument liabilities:						
Forward foreign exchange contracts	184,493					184,493
Futures contracts	-					-
Equity swaps	69,832					69,832
Commodity swaps	12,686					12,686
Total derivative financial instrument liabilities	267,011	-	-	-	-	267,011
Trade and other payables					227,291	227,291
Provisions					40,185	40,185
Total financial liabilities	**267,011**	**-**	**-**	**-**	**267,476**	**534,487**

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

(A) FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT BASIS (continued)

	H4T NZ$000	DESIGNATED AT FVTPL NZ$000	L&R NZ$000	A4S NZ$000	AC NZ$000	TOTAL NZ$000
2007						
Financial assets						
Investments						
Investments - derivative financial instrument assets:						
Forward foreign exchange contracts	355,938					355,938
Futures contracts	851					851
Equity swaps	4,199					4,199
Commodity swaps	12,256					12,256
Options	28,806					28,806
	402,050	-	-	-	-	402,050
Investments - other financial assets:						
Equities						
New Zealand equities - State-Owned Entities		15,402				15,402
New Zealand equities - Other		882,462				882,462
Global equities		6,319,830				6,319,830
Total equities	-	7,217,694	-	-	-	7,217,694
Fixed interest						
New Zealand fixed interest - Crown		605,092				605,092
New Zealand fixed interest - State-Owned Entities		6,402				6,402
New Zealand fixed interest - Local Bodies		70,222				70,222
New Zealand fixed interest - Other		731,736				731,736
Global fixed interest		895,287				895,287
Total fixed interest	-	2,308,739	-	-	-	2,308,739
Multi-strategy funds		1,623,253				1,623,253
Private equity		64,633		4,804		69,437
Unlisted unit trusts		550,498				550,498
	-	2,238,384	-	4,804	-	2,243,188
Investments accounted for using the equity method					290,294	290,294
Total investments	402,050	11,764,817	-	4,804	290,294	12,461,965
Trade and other receivables			82,690			82,690
Total financial assets	**402,050**	**11,764,817**	**82,690**	**4,804**	**290,294**	**12,544,655**
Financial liabilities						
Derivative financial instrument liabilities:						
Forward foreign exchange contracts	26,706					26,706
Futures contracts	3,336					3,336
Equity swaps	7,166					7,166
Commodity swaps	-					-
Total derivative financial instrument liabilities	37,208	-	-	-	-	37,208
Trade and other payables					52,276	52,276
Provisions					40,685	40,685
Total financial liabilities	**37,208**	**-**	**-**	**-**	**92,961**	**130,169**

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

(B) 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 and Risk Committee.

Strategic asset allocation

Sector	TARGET 2008 %	ACTUAL 2008 %	TARGET 2007 %	ACTUAL 2007 %
Global large cap equities	32.0	36.8	42.5	42.3
Global small cap equities	5.5	6.0	7.5	6.9
New Zealand equities	7.5	6.8	7.5	7.3
Emerging market equities	3.0	3.3	2.5	3.4
Private markets	20.0	13.2	8.0	10.8
Property	10.0	9.2	7.0	6.9
Fixed interest	17.0	19.4	20.0	17.3
Commodities	5.0	5.3	5.0	5.1
Total	**100.0**	**100.0**	**100.0**	**100.0**

Derivatives

The use of derivatives is governed by the Group's investment policies which provide written principles on the use of financial 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.

(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 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 above under financial risk management objectives, policies, and processes. Market risk is further managed by requiring investment managers to manage their portfolios within defined market exposure limits. Those limits 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

(D) MARKET RISK (continued)

(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 where value is determined with reference to an equity market index. The following table details the Group's sensitivity to a change of price with all other variables held constant. The analysis is performed on the same basis for 2007. The percentages used represent management's assessment of a reasonably possible change in equity prices.

	%	PROFIT AFTER TAX ($000)		TOTAL EQUITY ($000)	
		Increase	Decrease	Increase	Decrease
30 June 2008					
New Zealand equities	19%	210,115	(210,115)	210,115	(210,115)
Global large cap equities	15%	955,190	(955,190)	955,190	(955,190)
Global small cap equities	18%	144,213	(144,213)	144,213	(144,213)
Emerging markets equities	27%	111,044	(111,044)	111,044	(111,044)
30 June 2007					
New Zealand equities	19%	125,319	(125,319)	125,319	(125,319)
Global large cap equities	15%	669,103	(669,103)	669,103	(669,103)
Global small cap equities	18%	104,931	(104,931)	104,931	(104,931)
Emerging markets equities	27%	78,091	(78,091)	78,091	(78,091)

Equity swaps at fair value at balance date:	2008 Face Value NZ$000	2008 Fair Value NZ$000	2007 Face Value NZ$000	2007 Fair Value NZ$000
Equity swaps				
Assets	(437,830)	10,633	808,737	4,199
Liabilities	1,116,610	(69,832)	437,002	(7,166)

Contractual maturity of all swaps is within 90 days.

(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 for each foreign asset class;

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

(c) engaging one or more currency execution agents 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 hedged with derivative financial instruments such as forward foreign exchange contracts.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

(D) MARKET RISK (continued)

(ii) Foreign currency exchange rate risk (continued)

Foreign currency exposure

	2008 ASSETS NZ$000	2007 ASSETS NZ$000
Foreign currency denominated items:		
Australian Dollars	115,271	86,655
Brazilian Real	52,469	45,439
Canadian Dollars	92,693	95,425
Swiss Francs	59,776	66,465
Chilean Pesos	1,912	3,298
Chinese Yuan	-	1,262
Czech Republic Koruny	2,461	2,986
Danish Kroner	41,945	26,279
Egyptian Pounds	1,225	1,149
European Union Euros	343,755	336,274
United Kingdom Pounds	211,052	198,492
Hong Kong Dollars	150,845	114,302
Hungarian Forints	3,580	2,921
Indonesian Rupiahs	12,241	9,160
Israeli New Shekels	8,893	10,726
Indian Rupees	22,299	20,170
Japanese Yen	205,563	177,951
South Korean Won	56,767	97,019
Mexican Pesos	21,157	24,419
Malaysian Ringgits	7,010	8,571
Norwegian Krone	45,560	41,247
Philippines Pesos	955	1,996
Pakistani Rupees	1,626	-
Polish Zlotych	5,727	4,036
Russian Rubles	74	713
Swedish Kronor	86,849	109,193
Singaporean Dollars	72,844	56,956
Thai Baht	12,110	14,862
Turkish New Lira	7,292	9,652
Taiwanese New Dollars	51,500	70,667
United States of America Dollars	675,209	525,678
South African Rand	27,674	36,901

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 2008

20. FINANCIAL INSTRUMENTS (continued)

(D) MARKET RISK (continued)

(ii) Foreign currency exchange rate risk (continued)

2008	CONTRACT VALUE NZ$000	FAIR VALUE NZ$000
Forward foreign exchange contracts (buy/(sell)):		
Less than 3 months	(8,327,856)	(159,873)
3 to 12 months	144,807	2,509
	(8,183,049)	**(157,364)**
2007		
Forward foreign exchange contracts (buy/(sell)):		
Less than 3 months	(6,220,429)	327,163
3 to 12 months	(800,131)	2,069
	(7,020,560)	**329,232**

All forward foreign exchange contracts mature within 12 months.

The target currency exposure of the Group is determined independently of the target asset exposures. The Strategic Asset Allocation target level for the net foreign exchange exposure by the Group, after currency hedging is 17.5%. This target was specified in the context of a long-term target of 10%. The higher 17.5% net unhedged currency target reflects the unusually high level of the New Zealand dollar, which makes foreign currency more attractive than usual. The Group has put in place a mechanism to progressively lower the net unhedged currency exposure target towards the long term target of 10%, contingent upon the NZD falling below certain pre-set threshold levels.

As a result of this mechanism the currency exposure for the Group moved to 16% during the month of June 2008.

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 2007. The percentages used represent management's assessment of a reasonably possible change in foreign currency rates.

	%	PROFIT AFTER TAX ($000)		TOTAL EQUITY ($000)	
		Increase	Decrease	Increase	Decrease
30 June 2008					
NZD:USD	10%	(47,265)	47,265	(47,265)	47,265
NZD:EUR	10%	(24,063)	24,063	(24,063)	24,063
NZD:GBP	10%	(14,774)	14,774	(14,774)	14,774
NZD:JPY	10%	(14,389)	14,389	(14,389)	14,389
NZD:Others	10%	(67,393)	67,393	(67,393)	67,393
30 June 2007					
NZD:USD	10%	(35,220)	35,220	(35,220)	35,220
NZD:EUR	10%	(22,530)	22,530	(22,530)	22,530
NZD:GBP	10%	(13,299)	13,299	(13,299)	13,299
NZD:JPY	10%	(11,923)	11,923	(11,923)	11,923
NZD:Others	10%	(64,485)	64,485	(64,485)	64,485

(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 the New Zealand dollar BKBM interest rate and the US LIBOR/prime rate.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

(D) MARKET RISK (continued)

(iii) Interest rate risk (continued)

Interest rate exposure - maturity profile of financial instruments

The following tables are based on the earlier of contractual repricing or maturity period.

Group

	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	VARIABLE INTEREST RATE NZ$000	FIXED MATURITY DATES LESS THAN 1 YEAR NZ$000	1 - 2 YEARS NZ$000	2 - 5 YEARS NZ$000	5 - 10 YEARS NZ$000	10+ YEARS NZ$000
2008							
Financial assets							
Cash and cash equivalents	3.07%	324,103					
New Zealand Government Stock	6.59%		76,735	108,310	188,813	158,985	
New Zealand State-Owned Entities	8.53%						4,307
Other investments	5.94%	92,967	691,161	179,228	562,752	523,847	338,626
		417,070	**767,896**	**287,538**	**751,565**	**682,832**	**342,933**
2007							
Financial assets							
Cash and cash equivalents	6.55%	363,030					
New Zealand Government Stock	6.00%			94,494	227,195	196,740	86,663
New Zealand State-Owned Entities	6.59%						6,402
Other investments	2.56%	499,111	105,723	209,404	348,951	274,048	260,008
		862,141	**105,723**	**303,898**	**576,146**	**470,788**	**353,073**

Interest rate sensitivity

The sensitivity analysis in the table below of the effect on profit after tax and total equity 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 2007. The percentages used represent management's assessment of a reasonably possible change in interest rates.

	BASIS POINT	PROFIT AFTER TAX ($000) INCREASE	PROFIT AFTER TAX ($000) DECREASE	TOTAL EQUITY ($000) INCREASE	TOTAL EQUITY ($000) DECREASE
30 June 2008					
Cash and cash equivalents	50	1,282	(1,282)	1,282	(1,282)
New Zealand fixed interest	50	(7,583)	7,783	(7,583)	7,783
Global fixed interest	50	(38,683)	40,393	(38,683)	40,393
30 June 2007					
Cash and cash equivalents	50	1,216	(1,216)	1,216	(1,216)
New Zealand fixed interest	50	(9,552)	9,768	(9,552)	9,768
Global fixed interest	50	(26,139)	27,840	(26,139)	27,840

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

(D) MARKET RISK (continued)

(iv) Commodity price risk

The Group is exposed to commodity price risk through its investments in commodity swaps. These investments are classified as held for trading. The commodity portofolios are designed to closely track the Goldman Sachs Commodity Excess Return Index.

Commodity price risk exposure

	2008 NOTIONAL VALUE NZ$000	2008 FAIR VALUE NZ$000	2007 NOTIONAL VALUE NZ$000	2007 FAIR VALUE NZ$000
Commodity swaps at fair value at balance date:				
Commodity swaps				
Assets	725,424	20,581	653,680	12,256
Liabilities	958,216	(12,686)	-	-
Futures				
Assets	745,133	-	49,295	851
Liabilities	(155,900)	-	532,344	(3,336)

The margin on futures contracts is settled daily. Contractual maturity of all swaps is within 90 days.

Commodity price sensitivity

The following details the Fund's sensitivity to a change in the commodity price index, with all other variables remaining constant. The analysis has been performed on the same basis as 2007. The percentages used represent management's assessment of a reasonably possible change in commodity prices.

	%	PROFIT AFTER TAX ($000)		TOTAL EQUITY ($000)	
		Increase	Decrease	Increase	Decrease
30 June 2008					
Goldman Sachs Commodity Excess Return Index	22%	115,628	(115,628)	115,628	(115,628)
30 June 2007					
Goldman Sachs Commodity Excess Return Index	22%	99,233	(99,233)	99,233	(99,233)

(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, 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, are engaged in similar activities, operate within similar industries, 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.

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

(E) CREDIT RISK MANAGEMENT (continued)

	GROUP ACTUAL		BUDGET
	2008	2007	2008
	NZ$000	NZ$000	NZ$000
By industry			
Basic materials	1,215,074	1,004,661	
Communications	407,125	601,822	
Consumer - Cyclical	502,076	706,848	
Consumer - Non-cyclical	1,083,283	1,211,032	
Diversified	69,729	74,242	
Energy	647,916	524,612	
Financial	2,496,747	4,623,875	
Funds	3,260,480	244,132	
Government	1,333,900	1,482,225	
Industrial	1,403,784	1,158,894	
Mortgage securities	9,293	47,199	
Technology	351,630	335,130	
Utilities	625,728	311,331	
Other	347,563	371,271	
	13,754,328	**12,697,274**	**15,744,202**

At balance date, the Group has counterparty exposure in respect of its forward foreign exchange contracts, commodity swaps and equity swaps. The table below sets out the exposures by individual counterparty where an instrument has a positive fair value:

	GROUP ACTUAL	
	NOTIONAL VALUE	FAIR VALUE
	NZ$000	NZ$000
2008		
AIG Financial International	237,012	4,146
Barclays Wholesale GTS	1,160	6
Chase Manhattan Bank	7,991	116
Citibank	73,647	2,048
Commonwealth Bank of Australia	3,616	79
CSFB Global Foreign Exchange	8,158	130
Deutsche Bank	322,516	567
Goldman Sachs & Co	234,875	5,492
Merrill Lynch International	5,226	3
Morgan Stanley	(178,858)	21,629
National Bank Australia	912,418	1,200
Northern Trust	12,007	58
New Zealand Debt Management Office	1,230,078	9,952
Royal Bank of Scotland	5,102	87
Royal Bank of Canada	409,187	132
Société Genérale	200,400	2,868
State Street Bank & Trust Co	374,839	5,181
UBS	11,230	218
Westpac	807,703	4,431
	4,678,307	**58,343**

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

(E) CREDIT RISK MANAGEMENT (continued)

	GROUP ACTUAL	
	NOTIONAL VALUE NZ$000	FAIR VALUE NZ$000
2007		
AIG Financial International	207,106	3,444
Barclays Capital London	60,388	811
BNP Paribas	193,232	2,129
Brown Brothers Harriman	66	-
Chase Manhattan Bank	19,513	537
Citibank	1,467	25
Commonwealth Bank of Australia	6,269	92
Crédit Suisse First Boston	3,834	152
Deutsche Bank	109,403	1,449
Goldman Sachs International	577,278	3,680
HSBC Bank	61,150	4,865
Lehman Brothers	13,033	492
Morgan Stanley	1,005,351	25,716
NAB FFX Broker	729,659	3,444
New Zealand Debt Management Office	8,267,650	314,721
Northern Trust Company London	63,827	903
Royal Bank Of Canada	88,229	1,491
Royal Bank Of Scotland	19,697	1,104
State Street	3,917	17
Société Générale	211,200	6,237
UBS	65,735	1,050
Westpac	5,626	34
	11,713,630	**372,393**

The Group has assessed that there is no objective evidence of impairment.

(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 of the long-term nature of the Fund (no capital withdrawals are permitted prior to 30 June 2020 and, on current assumptions, none are expected before 30 June 2025), and the strong positive cashflow into the Fund up until that time, no specific liquidity standards have been developed.

Liquidity risk is managed by:
(a) requiring managers to invest primarily in securities traded on recognised exchanges with specified maximums for unlisted securities;
(b) requiring managers, within the terms of their individual contracts, to hold diversified portfolios; and
(c) limiting the credit rating of all fixed interest investments to minimum levels.

Information about the contractual maturity periods of financial assets is included at 20(d)(i),(ii),(iii), and (iv) above.

(G) 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

21. IMPACTS OF THE ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group changed its accounting policies on opening balance date to comply with NZ IFRS. The transition to NZ IFRS is accounted for in accordance with NZ IFRS-1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards, with 1 July 2006 as the date of transition.

An explanation of how the transition from superseded policies to NZ IFRS has affected the Group's financial position, financial performance, and cash flows is set out in the following tables and the notes that accompany the tables.

(A) EFFECT OF NZ IFRS ON THE STATEMENT OF FINANCIAL POSITION AS AT TRANSITION DATE, 1 JULY 2006

			GROUP	
	Note	SUPERSEDED POLICIES* NZ$000	EFFECT OF TRANSITION TO NZ IFRS NZ$000	NZ IFRS NZ$000
ASSETS				
Cash and cash equivalents		357,317	-	357,317
Investments				
Investments - derivative financial instrument assets		18,960	-	18,960
Investments - other financial assets	(i), (ii)	9,485,948	4,902	9,490,850
Investments accounted for using the equity method	(ii)	18,466	(18,466)	-
Timber investments - forest		289,061	-	289,061
Timber investments - land	(iii)	74,845	(74,845)	-
Total investments		**9,887,280**	**(88,409)**	**9,798,871**
Trade and other receivables		105,491	-	105,491
Other assets		40	-	40
Taxation receivable		84,580	-	84,580
Property, plant, and equipment	(iii)	-	74,845	74,845
TOTAL ASSETS		**10,434,708**	**(13,564)**	**10,421,144**
LIABILITIES				
Derivative financial instrument liabilities		154,789	-	154,789
Trade and other payables		73,828	-	73,828
Provisions		12,801	-	12,801
Deferred tax liability	(iv)	328,875	(4,588)	324,287
TOTAL LIABILITIES		**(570,293)**	**(4,588)**	**(565,705)**
NET ASSETS		**9,864,415**	**(8,976)**	**9,855,439**
PUBLIC EQUITY				
Retained surplus	(i),(iv)	1,614,938	(8,976)	1,605,962
Foreign currency translation reserve		4,109	-	4,109
Land revaluation reserve		7,289	-	7,289
Contributed capital		8,238,079	-	8,238,079
TOTAL PUBLIC EQUITY		**9,864,415**	**(8,976)**	**9,855,439**

(i) Investments are valued at the end of day bid price on the relevant exchange under NZ IFRS, rather than the last sale price used for NZ GAAP.

(ii) Investments previously held as associates under NZ GAAP have been classified as FVPL under NZ IFRS.

(iii) Land has been reclassified from investments to property, plant and equipment.

(iv) The effect of the change in valuation basis for investments has impacted on the deferred tax liability.

*Reported financial position for the financial year ended date on day before transition date.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

21. IMPACTS OF THE ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(B) EFFECT OF NZ IFRS ON THE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2007

	Note	SUPERSEDED POLICIES* NZ$000	GROUP EFFECT OF TRANSITION TO NZ IFRS NZ$000	NZ IFRS NZ$000
ASSETS				
Cash and cash equivalents		363,030	-	363,030
Investments				
Investments - derivative financial instrument assets	(v)	401,332	718	402,050
Investments - other financial assets	(vi), (viii), (xii)	11,750,808	18,813	11,769,621
Investments accounted for using the equity method	(vii), (viii)	331,219	(40,925)	290,294
Timber investments - forest		272,517	-	272,517
Timber investments - land	(ix)	75,478	(75,478)	-
Total investments		**12,831,354**	**(96,872)**	**12,734,482**
Trade and other receivables		82,690	-	82,690
Other assets		940	-	940
Property, plant, and equipment	(ix), (x)	1,674	75,438	77,112
Intangible assets	(x)	-	40	40
TOTAL ASSETS		**13,279,688**	**(21,394)**	**13,258,294**
LIABILITIES				
Derivative financial instrument liabilities		37,208	-	37,208
Trade and other payables		52,276	-	52,276
Taxation payable		41,740	-	41,740
Provisions		40,685	-	40,685
Deferred tax liability	(xi)	116,277	(2,702)	113,575
TOTAL LIABILITIES		**288,186**	**(2,702)**	**285,484**
NET ASSETS		**12,991,502**	**(18,692)**	**12,972,810**
PUBLIC EQUITY				
Retained surplus	(xiii)	2,694,307	5,310	2,699,617
Foreign currency translation reserve	(xii)	(618)	(24,002)	(24,620)
Land revaluation reserve		10,734	-	10,734
Contributed capital		10,287,079	-	10,287,079
TOTAL PUBLIC EQUITY		**12,991,502**	**(18,692)**	**12,972,810**

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

21. IMPACTS OF THE ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(C) EFFECT OF NZ IFRS ON THE STATEMENT OF FINANCIAL PERFORMANCE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Note	SUPERSEDED POLICIES* NZ$000	EFFECT OF TRANSITION TO NZ IFRS NZ$000	NZ IFRS NZ$000
Revenue		470,057	-	470,057
Share of profit/(loss) of investments accounted for using the equity method	(viii)	45,314	(19,682)	25,632
Other income	(xiii)	1,227,721	30,193	1,257,914
Other expenses	(xiv)	(152,384)	17,484	(134,900)
Profit for the year before income tax expense		**1,590,708**	**27,995**	**1,618,703**
Income tax expense	(xv)	511,339	13,709	525,048
Profit for the year after income tax expense		**1,079,369**	**14,286**	**1,093,655**

(v) Adjustment reflects the discount on acquisition relating to the purchase of an associate. This discount is taken to income under NZ IFRS. Refer note (vii).

(vi) Investments are valued at the end of day bid price on the relevant exchange under NZ IFRS, rather than the last sale price used for NZ GAAP.

(vii) Adjustment reflects the discount on acquisition relating to the purchase of an associate being recognised immediately in the statement of financial performance.

(viii) Investments previously held as associates under NZ GAAP have been classified as FVPL under NZ IFRS.

(ix) Land has been reclassified from investments to property, plant and equipment.

(x) Computer software has been reclassified from property, plant and equipment to intangible assets in accordance with NZ IAS 38 Intangible Assets.

(xi) The change in valuation basis for investments and other statement of financial performance adjustments have impacted the deferred tax liability.

(xii) For NZ GAAP, the gains/losses on hedge of a net investment in a foreign subsidiary were taken to the foreign currency translation reserve whereas for NZ IFRS this is taken to the statement of financial performance as hedge accounting has not been adopted.

(xiii) Adjustment reflects the impact of notes (vi) and (xi).

(xiv) Adjustment reflects the timber depletion expense being included as part of the fair value change in forest asset.

(xv) Tax expense has increased as a result of the additional profit under NZ IFRS. Refer to notes (vii), (xii), and (xiii) for explanations of profit impact.

*Reported financial position and financial performance for the financial year ended 30 June 2007.

(D) RETAINED EARNINGS

	Note	GROUP ACTUAL 1-JUL-06 NZ$000	GROUP ACTUAL 30-JUN-07 NZ$000
The effect of the above adjustments on retained earnings is as follows:			
Deferred tax	(iv)	4,588	4,588
Change in equity accounting	(vii), (viii)	-	(19,682)
Change in valuation of investments	(ii), (vi)	(13,564)	34,113
Change in tax expense	(xv)	-	(13,709)
Change in foreign exchange gain/(loss) on translation of foreign operation	(xii)	-	(24,002)
Total adjustment to retained earnings		**(8,976)**	**(18,692)**

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

21. IMPACTS OF THE ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(E) EFFECT OF NZ IFRS ON THE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2007

There are no material differences between the statement of cash flows presented under NZ IFRS and the statement of cash flows presented under superseded policies.

22. COMPARISON TO BUDGET

During the year ended 30 June 2008, market returns have generated a negative variance over the assumptions utilised in the budget.

While the result is considerably below budget, the result is within the expected range of forecast accuracy. The financial modelling used in forming the budget highlights that in any given year the Fund's return is likely to be within a range of +/- 10% around the estimated average approximately two-thirds of the time. This range narrows considerably as the time horizon for the forecast lengthens due to the 'trend-reverting' time series behaviour of asset prices.

Overall, investments in listed equities and property were negative but broadly in line with returns in world markets, while in contrast, fixed interest and commodities contributed positively to Fund performance.

Ernst & Young Chartered Accountants

AUDIT REPORT

TO THE READERS OF
THE NEW ZEALAND SUPERANNUATION FUND AND GROUP'S
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

The Auditor-General is the auditor of the New Zealand Superannuation Fund (the Fund) and group (the Group). The Auditor-General has appointed me, Warren Allen, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Group, on his behalf, for the year ended 30 June 2008.

Unqualified Opinion

In our opinion the financial statements of the Group on pages 69 to 108:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
    - the Group's financial position as at 30 June 2008; and
    - the results of operations and cash flows for the year ended on that date.

The audit was completed on 15 September 2008, and 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 the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

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.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

ERNST & YOUNG Chartered Accountants

AUDIT REPORT (Continued)

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Guardians;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Guardians and the Auditor

The Guardians are responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Group as at 30 June 2008 and the operations and cash flows for the year ended on that date. The Guardians' responsibilities arise from the New Zealand Superannuation and Retirement Income Act 2001.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and 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 Institute of Chartered Accountants of New Zealand.

During the year, the Auditor-General carried out a performance audit of the governance and management of the New Zealand Superannuation Fund, which Ernst & Young assisted with.

Other than the audit, we have no relationship with or interests in the Fund, or any of its subsidiaries.

Warren Allen.

WARREN ALLEN
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

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 control 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 2008, fairly reflect the financial position, operations, and cash flows of the Guardians of New Zealand Superannuation and Group.

DAVID MAY
Chairman
15 September 2008

SIR DOUGLAS GRAHAM
Deputy Chairman
15 September 2008

Statement of Financial Performance

For the year ended 30 June 2008

		PARENT AND GROUP ACTUAL		BUDGET
		2008	2007	2008
	Note	NZ$000	NZ$000	NZ$000
Revenue	2(a)	11,203	8,259	12,340
Expenses	2(b)	11,203	8,234	12,271
NET SURPLUS FOR THE YEAR		**-**	**25**	**69**

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

Statement of Financial Position

As at 30 June 2008

		PARENT AND GROUP ACTUAL		BUDGET
		2008	2007	2008
	Note	NZ$000	NZ$000	NZ$000
Current assets				
Cash and cash equivalents	17	1,309	1,883	1,215
Trade and other receivables	4	19	2	144
Inter-entity receivables	4,13	713	535	855
Total current assets		**2,041**	**2,420**	**2,214**
Non-current assets				
Inter-entity receivables	4,13	1,355	588	855
Investments in subsidiaries	11	-	-	-
Intangible assets	5	11	28	10
Property, plant, and equipment	6	50	135	50
Total non-current assets		**1,416**	**751**	**915**
TOTAL ASSETS		**3,457**	**3,171**	**3,129**
Current liabilities				
Trade and other payables	7	1,441	1,991	1,255
Inter-entity payables	7,13	25	-	-
Total current liabilities		**1,466**	**1,991**	**1,255**
Non-current liabilities				
Trade and other payables	7	1,395	636	1,230
Provisions	8	96	19	40
Total non-current liabilities		**1,491**	**655**	**1,270**
TOTAL LIABILITIES		**2,957**	**2,646**	**2,525**
NET ASSETS		**500**	**525**	**604**
PUBLIC EQUITY				
Accumulated surplus		-	25	104
General equity reserve	9	500	500	500
TOTAL PUBLIC EQUITY		**500**	**525**	**604**

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 2008

	PARENT AND GROUP ACTUAL		
	GENERAL EQUITY RESERVE NZ$000	ACCUMULATED SURPLUS NZ$000	TOTAL NZ$000
Balance at 1 July 2006	500	-	500
Net surplus for the year	-	25	25
Total recognised income and expense for the year	-	25	25
Balance at 30 June 2007	**500**	**25**	**525**
Net surplus for the year	-	-	-
Total recognised income and expense for the year	-	-	-
Repayment of accumulated surplus to the Crown	-	(25)	(25)
Balance at 30 June 2008	**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 2008

	Note	PARENT AND GROUP ACTUAL 2008 NZ$000	2007 NZ$000	BUDGET 2008 NZ$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Receipts from the Crown		1,527	1,393	1,729
Receipts from New Zealand Superannuation Fund		7,761	6,437	10,714
Interest received		182	100	92
Goods and Services Tax		(211)	200	(1,107)
Total cash inflow from operating activities		**9,259**	**8,130**	**11,428**
Cash was applied to:				
Payments to suppliers		(3,271)	(3,038)	(4,209)
Payments to employees		(6,562)	(3,865)	(7,171)
Total cash outflow from operating activities		**(9,833)**	**(6,903)**	**(11,380)**
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	17	**(574)**	**1,227**	**48**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of property, plant, and equipment		-	65	-
Total cash inflow from investing activities		**-**	**65**	**-**
NET CASH PROVIDED BY INVESTING ACTIVITIES		**-**	**65**	**-**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was applied to:				
Repayment of accumulated surplus to the Crown		-	(590)	-
Total cash outflow from financing activities		**-**	**(590)**	**-**
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES		**-**	**(590)**	**-**
Net increase/(decrease) in cash and cash equivalents		**(574)**	**702**	**48**
Cash and cash equivalents at the beginning of the financial year		1,883	1,181	1,167
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	17	**1,309**	**1,883**	**1,215**

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

Statement of Commitments

For the year ended 30 June 2008

	PARENT AND GROUP ACTUAL 2008 NZ$000	2007 NZ$000
Non-cancellable operating lease commitments payable		
Payable no later than 1 year	370	370
1-2 years	357	357
2-5 years	981	1,070
Beyond 5 years	-	268
	1,708	**2,065**

Statement of Contingent Liabilities

For the year ended 30 June 2008

There were no contingent liabilities as at 30 June 2008 (2007: nil).

Notes to the Financial Statements

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

These are the financial statements of Guardians of New Zealand Superannuation (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 142.

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 their Subsidiaries for the year ended 30 June 2008 were authorised for issue in accordance with a resolution of the Board of Guardians of New Zealand Superannuation on 15 September 2008.

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 and 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.

This is the first set of financial statements prepared based on NZ IFRS and comparatives for the year ended 30 June 2007 have been restated accordingly. Reconciliations of equity and net surplus for the year ended 30 June 2007 under NZ IFRS to the balances reported in the 30 June 2007 financial statements are detailed in note 19 below.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2008. These are outlined in the table below:

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
NZ IAS 1 (revised)	Presentation of Financial Statements	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in public equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	The amendments are expected to only affect the presentation of the Group's financial statements and will not have a direct impact on the measurement and recognition of amounts under the current NZ IAS 1. The Group has not determined at this stage whether to present the new statement of comprehensive income as a single or two statements.	1 July 2009
NZ IFRS 3 (revised) and NZ IAS 27 (amended)	NZ IFRS 3 Business Combinations (revised) and NZ IAS 27 Consolidated and Separate Financial Statements (amended)	NZ IFRS 3 (revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. NZ IAS 27 (amended) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by a subsidiary as well as the loss of control of a subsidiary.	1 July 2009	The changes introduced by NZ IFRS 3 (revised) and NZ IAS 27 (amended) must be applied prospectively and will affect future acquisitions and transactions with a minority interest.	1 July 2009

* Designates the beginning of the applicable annual reporting period unless otherwise stated.

The following particular accounting policies which materially affect the measurement of financial performance 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation of subsidiaries

The Group financial statements comprise the Guardians of New Zealand Superannuation and their subsidiaries (Group).

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 Group financial statements incorporate the financial statements of the Guardians and their subsidiaries, which have been consolidated using the purchase method. 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 the appropriations relate to, 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, then 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.

(e) Taxation

The Guardians are a public authority in terms of the Income Tax Act 2004 and consequently are exempt from income tax.

(f) Receivables

Short-term receivables are stated at their estimated realisable value after providing for doubtful and uncollectible debts.

(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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, plant, and equipment (continued)

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 financial performance 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.

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 financial performance.

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 financial performance 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 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.

(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 and associated depreciation rates of major classes of assets have been estimated as follows:

Office equipment	3 years
Computer equipment	1 - 3 years
Leasehold improvements	3 - 6 years

The cost of leasehold improvements is capitalised and depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is shorter.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, long-term 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 as 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

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 a 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 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 financial performance. 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 financial performance.

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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) Impact of adoption of NZ IFRS

The Guardians changed its accounting policies on 1 July 2007 to comply with NZ IFRS. The transition to NZ IFRS is accounted for in accordance with NZ IFRS-1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards, with 1 July 2006 as the date of transition. An explanation of how the transition from superseded policies to NZ IFRS has affected the Parent and Group’s financial position, financial performance and cash flows is discussed in note 19. There are no material differences between total equity, net surplus after tax and the statement of cash flows as presented under NZ IFRS as compared with those items presented under previous NZ GAAP.

(t) Changes in accounting policies

There have been no changes in accounting policies. All policies are consistent with prior year.

(u) 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 incentive

A component of the long-term incentive scheme is a measure of the performance of the Fund, calculated based on a rolling four-year performance average. The calculation of this liability utilises assumptions regarding the future performance of the Fund. Should the performance of the Fund differ from the assumption utilised in the calculation of the liability for long-term incentive, this will impact the employee benefits expense in the statement of financial performance, and the carrying amount of the liability in the statement of financial position. The Group minimises the risk of this estimation uncertainty by using a model based on historical evidence to forecast future returns of the Fund.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

	PARENT AND GROUP ACTUAL 2008 NZ$000	2007 NZ$000	BUDGET 2008 NZ$000
2. NET SURPLUS FROM OPERATIONS			
(A) REVENUE			
Revenue from operations consisted of the following items:			
Revenue from the Crown	1,611	1,537	1,537
Cost reimbursement from New Zealand Superannuation Fund	9,410	6,622	10,711
Interest revenue	182	100	92
	11,203	**8,259**	**12,340**
(B) NET SURPLUS			
Net surplus has been arrived at after charging for:			
Loss on sale of property, plant, and equipment	-	58	-
Depreciation and amortisation of non-current assets (note 5 and note 6)	102	168	102
Auditors' remuneration (note 3)	35	29	28
Board members' fees	183	144	165
Employee benefit expense*:			
Long-term incentive expense	1,396	1,053	1,261
Other employee remuneration and related expenses	7,137	4,879	7,803
Operating lease rental expenses:			
Minimum lease payments	391	226	385
Professional fees	293	277	242
Other expenses	1,666	1,400	2,285
	11,203	**8,234**	**12,271**

*Compensation of key management personnel of the entity is specifically disclosed in the related party note 13.

3. REMUNERATION OF AUDITORS

Auditor of the parent entity			
Audit of the financial statements - Attest	28	26	28
Audit of the financial statements - IFRS transition	2	3	-
	30	**29**	**28**
Auditor of entities in the Group (not including the parent entity)			
Audit of the financial statements	-	-	-
Review of long-term incentive scheme	5	-	-
	5	**-**	**-**

The audit fees of other entities in the Group are paid by the Fund.

The auditor of the parent entity is Francis Caetano of Audit New Zealand, on behalf of the Auditor-General.

The auditor of other entities in the Group is Warren Allen of Ernst & Young, on behalf of the Auditor-General.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

	PARENT AND GROUP ACTUAL 2008 NZ$000	2007 NZ$000	BUDGET 2008 NZ$000
4. TRADE AND OTHER RECEIVABLES			
Current receivables			
Trade receivables	3	2	144
Prepayments	16	-	-
Allowance for doubtful debts	-	-	-
Inter-entity receivables	713	535	855
	732	**537**	**999**
Non-current receivables			
Inter-entity receivables	1,355	588	855
	1,355	**588**	**855**

Trade receivables have standard 30-day credit terms.

Inter-entity receivables classified as current consist of amounts payable by the Fund to the Guardians on standard 30-day credit terms.

Inter-entity receivables classified as non-current consist of amounts payable by the Fund to the Guardians for reimbursement of the long-term incentive scheme. As the amount of the eventual payout under the long-term incentive is uncertain, the amount eventually collected from the Fund is also uncertain. The amount recognised represents management's best estimate of the receivable at year end.

The Group does not have a history of default on receivables. Accordingly, no allowance has been made for doubtful debts.

5. INTANGIBLE ASSETS

	2008	2007	Budget 2008
Gross carrying amount			
Opening balance	63	63	63
Additions	-	-	-
Disposals	-	-	-
Closing balance	63	63	63
Accumulated amortisation			
Opening balance	35	15	35
Amortisation expense	17	20	18
Closing balance	52	35	53
Net book value	**11**	**28**	**10**

Intangible assets are software licences and applications used by the Group in day-to-day operations.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

	PARENT AND GROUP ACTUAL			
	OFFICE EQUIPMENT NZ$000	COMPUTER EQUIPMENT NZ$000	LEASEHOLD IMPROVEMENTS NZ$000	TOTAL NZ$000
6. PROPERTY, PLANT, AND EQUIPMENT				
Gross carrying amount				
Balance at 1 July 2006	248	244	189	681
Additions	1	-	-	1
Disposals	(2)	-	(189)	(191)
Balance at 30 June 2007	247	244	-	491
Additions	-	-	-	-
Disposals	-	-	-	-
Balance at 30 June 2008	**247**	**244**	**-**	**491**
Accumulated depreciation				
Balance at 1 July 2006	147	82	44	273
Depreciation expense	50	77	22	149
Depreciation reversed on disposal	-	-	(66)	(66)
Balance at 30 June 2007	197	159	-	356
Depreciation expense	29	56	-	85
Balance at 30 June 2008	**226**	**215**	**-**	**441**
Net book value				
As at 30 June 2007	50	85	-	135
As at 30 June 2008	**21**	**29**	**-**	**50**

	PARENT AND GROUP ACTUAL		BUDGET
	2008 NZ$000	2007 NZ$000	2008 NZ$000
7. TRADE AND OTHER PAYABLES			
Current payables and accruals			
Trade payables (i)	267	158	
Goods and services tax (GST) payable	(12)	199	
Employee entitlements - annual leave (key management personnel)	60	126	
Employee entitlements - annual leave (other)	172	68	
Employee entitlements - accrued salary (key management personnel)	28	8	
Employee entitlements - accrued salary (other)	47	9	
Employee entitlements - long-term incentives (key management personnel) (ii)	135	224	
Employee entitlements - long-term incentives (other) (ii)	510	193	
Accrued expenses	234	212	
Inter-entity payables	25	-	
Income received in advance - related party	-	794	
	1,466	**1,991**	**1,255**

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

7. TRADE AND OTHER PAYABLES (continued)

	PARENT AND GROUP ACTUAL 2008 NZ$000	2007 NZ$000	BUDGET 2008 NZ$000
Non-current payables and accruals			
Employee entitlements - long-term incentives (key management personnel)	434	343	
Employee entitlements - long-term incentives (other)	961	293	
	1,395	**636**	**1,230**

(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 timeframe.

(ii) The Guardians have a long-term incentive scheme for all employees. A component of the scheme is a measure of the performance of the Fund, calculated based on a rolling four-year performance average. The incentive fully vests at the end of the four-year performance period. Since payments in relation to the Fund performance component of the scheme are based on four-year averages, any negative returns generated during the four year period are offset against positive returns. As such, during the first three years of the four-year calculation period, the value of the final payment 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 management's best estimate of the returns that will be achieved by the Fund in future years.

8. PROVISIONS

Non-current provisions			
Provision for refurbishment	96	19	40
	96	**19**	**40**

	PARENT AND GROUP REFURBISHMENT (i)
Balance at 1 July 2007	19
Additional provisions recognised	77
Balance at 30 June 2008	**96**

(i) The provision for refurbishment represents the present value of management's best estimate of the future sacrifice of economic benefits that will be required under the Group's programme for restoring premises to the condition required under the lease agreement. The estimate has been made on the basis of advice received from a Quantity Surveyor and may vary as a result of changes in the price of building materials.

9. MANAGEMENT OF CAPITAL

As a public benefit entity which is fully funded by Crown appropriations (for budgeted executive and Board 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.

10. 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. The lease terms are 5 years and 6 months, with options to extend for 6 years and 1 year respectively. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

11. SUBSIDIARIES

NAME OF ENTITY	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST AND VOTING RIGHTS 2008 %	2007 %
Subsidiaries			
New Zealand Superannuation Fund Nominees Limited	New Zealand	100	100
NZSF Timber Investments (No 1) Limited	New Zealand	100	100
NZSF Timber Investments (No 2) Limited	New Zealand	100	100
NZSF Timber Investments (No 3) Limited	New Zealand	100	100
NZSF Timber Investments (No 4) Limited	New Zealand	100	100
NZSF Private Equity Investments (No 1) Limited	New Zealand	100	100
CNI Timber Operating Company Limited	New Zealand	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.

12. ACQUISITION OF SUBSIDIARY

On 11 December 2007 the Guardians acquired 100% of the shares in CNI Timber Operating Company Limited.

At acquisition, the assets and liabilities of the consolidated entity did not change as the value of the company's net assets was nil.

No consideration was paid for the acquisition of the company.

13. 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

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 11 to the financial statements.

(C) TRANSACTIONS WITH RELATED PARTIES

Revenue

The Guardians are a wholly owned entity of the Crown, and have paid expenses relating to the Fund during the year, as they are required to do under the Act. Crown appropriations (for budgeted executive and Board costs) are the main source of revenue. Additional income is sourced from the Fund which reimburses all remaining operating costs of the Group.

	PARENT AND GROUP ACTUAL 2008 NZ$000	2007 NZ$000	BUDGET 2008 NZ$000
Appropriations from the Crown	1,611	1,537	1,537
Cost reimbursement from New Zealand Superannuation Fund	9,410	6,622	10,711
	11,021	**8,159**	**12,248**

Amounts receivable from or payable to related parties at balance date are disclosed in notes 4 and 7 of these financial statements.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

13. RELATED PARTY DISCLOSURES (continued)

(C) TRANSACTIONS WITH RELATED PARTIES (continued)

In the current year, the Group has recorded an accrual of $25,000 to distribute back to the Crown, which is a repayment of accumulated surplus.

The Board has entered into a number of transactions with other government entities on an arms length basis. Where those parties are acting in the course of their normal dealings with the Guardians, related party disclosures have not been made for transactions of this nature.

	PARENT AND GROUP ACTUAL 2008 NZ$000	2007 NZ$000	BUDGET 2008 NZ$000
Employee benefits			
The compensation of the Board, executives, and other key management personnel, is set out below:			
Short-term employee benefits (including board member fees)	2,107	2,151	
Termination benefits	130	-	
Long-term employee benefits	569	560	
	2,806	**2,711**	**-**
Board members' fees			
Board members earned the following fees during the year:			
D May (Chairperson)	46	37	
Sir D Graham (Deputy Chairperson)	25	21	
M Anderson *	-	2	
B Liddell	23	19	
D Newman	23	19	
G Saunders	20	17	
M Tume	23	19	
J Evans **	23	10	
	183	**144**	**165**

* Dr Anderson resigned from the Board in August 2006.

**Mr Evans was appointed to the Board in December 2006.

Board fees are paid inclusive of GST. Where a Board member is registered for GST their fees detailed above are recorded exclusive of GST. Board members’ travel expenses to attend meetings are also paid by the Guardians.

Board members’ indemnity and insurance

The Guardians have indemnified Board members in respect of a 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.

Terms/price under which related party transactions were entered into

All balances advanced to and payable to related parties are unsecured and subordinate to other liabilities. Interest is not charged on outstanding balances.

There have been no write-downs of receivables in respect of transactions with related parties. No amounts were provided for doubtful debts relating to debts due from related parties at reporting date (2007: $nil).

The terms and conditions around settlement of related party balances are set out in note 4 and note 7.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

14. EMPLOYEES REMUNERATION OVER $100,000 PER ANNUM

	NZ$000			PARENT AND GROUP ACTUAL 2008	2007
Total remuneration and benefits					
	100	-	110	3	1
	110	-	120	1	-
	120	-	130	3*	3
	130	-	140	-	1
	140	-	150	3	2
	150	-	160	-	1
	160	-	170	2	4
	170	-	180	1	1
	190	-	200	3	1
	200	-	210	4*	2
	210	-	220	1	1
	220	-	230	-	1
	230	-	240	3	-
	240	-	250	1	-
	260	-	270	1	1
	280	-	290	-	1
	290	-	300	1*	-
	300	-	310	1	-
	330	-	340	1	1
	350	-	360	1	-
	370	-	380	1	-
	390	-	400	1	-
	410	-	420	1	2
	440	-	450	1	-
	520	-	530	1*	-

*Includes payments made to terminated employees. Refer to note 15.

The total remuneration figures in this table consist of both an employee's gross salary and the proportion of the long-term incentive entitlement that will be paid out after this financial year end.

The total remuneration bands and benefits listed above 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 bonus entitlement is a long-term incentive scheme that has both organisation and financial performance targets of the Fund. The financial performance component is based on rolling four-year periods of returns against thresholds and benchmarks. If both the organisation and financial performance targets are achieved over a rolling four-year period, a maximum of 30% of an employee's salary can be paid in bonus.

In the prior year, the total amount of long-term entitlement was included in the remuneration table, even though a portion was not yet payable and any payout is future years was dependent on the continued financial performance of the Fund against the agreed hurdles, and at the discretion of the Board. The comparative data has been restated accordingly to reflect the amended basis of disclosure.

The total value of the long-term incentive earned in the current year is $986,989, of which $644,828 will be paid out after this financial year end.

15. TERMINATION PAYMENTS

There were five payments made in respect of terminated employees during the year. These payments totalled $254,000 and were made in relation to employees whose position was made redundant (2007: $nil).

16. SUBSEQUENT EVENTS

There were no reportable events subsequent to year end (2007: nil).

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

17. 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		BUDGET
	2008 NZ$000	2007 NZ$000	2008 NZ$000
Cash and bank	608	883	
Short-term deposits	701	1,000	
	1,309	**1,883**	**1,215**

(B) RECONCILIATION OF NET SURPLUS FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2008 NZ$000	2007 NZ$000	Budget 2008 NZ$000
Net surplus for the year	-	25	69
Add/(deduct) non-cash items:			
Depreciation and amortisation of non-current assets	102	168	
Gains/(losses) on sale of property, plant, and equipment	-	58	
Changes in working capital:			
(Increase)/decrease in assets:			
Receivables	(962)	(1,069)	
Increase/(decrease) in liabilities:			
Payables and accruals	209	994	
Provisions	77	1,051	
Net cash provided by/(used in) operating activities	**(574)**	**1,227**	**48**

18. FINANCIAL INSTRUMENTS

(A) FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT BASIS

Key: L&R: Loans and receivables AC: Amortised cost or cost

	L&R NZ$000	AC NZ$000	TOTAL NZ$000
2008			
Financial assets			
Cash and cash equivalents			
Cash and bank	-	608	608
Short-term deposits	-	701	701
Total cash	-	1,309	1,309
Receivables	3	-	3
Inter-entity receivables	2,068	-	2,068
Total financial assets	**2,071**	**1,309**	**3,380**
Financial liabilities			
Payables and accruals	-	2,861	2,861
Total financial liabilities	**-**	**2,861**	**2,861**

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

18. FINANCIAL INSTRUMENTS (continued)

(A) FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT BASIS (continued)

	L&R NZ$000	AC NZ$000	TOTAL NZ$000
2007			
Financial assets			
Cash and cash equivalents			
Cash and bank	-	883	883
Short-term deposits	-	1,000	1,000
Total cash	-	1,883	1,883
Receivables	2	-	2
Inter-entity receivables	1,123	-	1,123
Total financial assets	**1,125**	**1,883**	**3,008**
Financial liabilities			
Payables and accruals	-	2,627	2,627
Total financial liabilities	**-**	**2,627**	**2,627**

(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 are risk averse. They 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 value 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 2008 (30 June 2007: $nil). The Board does not consider that there is any significant interest exposure on the Group’s investments.

The Guardians are primarily exposed to changes in the New Zealand dollar Official Cash Rate.

Interest rate exposure - maturity profile of financial instruments

The following tables are based on the earlier of contractual repricing or maturity period.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

18. FINANCIAL INSTRUMENTS (continued)

(D) MARKET RISK (continued)

		PARENT AND GROUP ACTUAL		
	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	VARIABLE INTEREST RATE NZ$000	FIXED MATURITY DATES - LESS THAN 1 YEAR NZ$000	NON INTEREST BEARING NZ$000
2008				
Financial assets				
Cash and cash equivalents	8.27	608	701	-
Receivables	-	-	-	2,071
	8.27	**608**	**701**	**2,071**
2007				
Financial assets				
Cash and cash equivalents	7.20	883	1,000	-
Receivables	-	-	-	1,125
	7.20	**883**	**1,000**	**1,125**

Interest rate sensitivity

The sensitivity (percentage movement) 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.

		NET SURPLUS 2008 NZ$000	NET SURPLUS 2007 NZ$000
Cash and cash equivalents	+ 100 bps	10	19
Cash and cash equivalents	- 100 bps	(10)	(19)

The Guardians' sensitivity to interest rate changes has not changed significantly from the prior year.

(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 VALUES

The fair value of financial instruments is equivalent to the carrying amount disclosed in the statement of financial position.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

19. IMPACTS OF THE ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group changed its accounting policies on its opening balance date to comply with NZ IFRS. The transition to NZ IFRS is accounted for in accordance with NZ IFRS-1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards, with 1 July 2006 as the date of transition.

An explanation of how the transition from superseded policies to NZ IFRS has affected the Parent and Group's financial position, financial performance, and cash flows is set out in the following tables and the notes that accompany the tables.

(A) EFFECT OF NZ IFRS ON THE STATEMENT OF FINANCIAL POSITION AS AT TRANSITION DATE, 1 JULY 2006

		PARENT AND GROUP		
	NOTE	SUPERSEDED POLICIES* NZ$000	EFFECT OF TRANSITION TO NZ IFRS NZ$000	NZ IFRS NZ$000
Current assets				
Cash and cash equivalents		1,181	-	1,181
Trade and other receivables		56	-	56
Total current assets		**1,237**	**-**	**1,237**
Non-current assets				
Investments in subsidiaries		-	-	-
Intangible assets	(i)	-	47	47
Property, plant, and equipment	(i)	454	(47)	407
Total non-current assets		**454**	**-**	**454**
Total assets		**1,691**	**-**	**1,691**
Current liabilities				
Trade and other payables		580	-	580
Provisions		590	-	590
Total current liabilities		**1,170**	**-**	**1,170**
Non-current liabilities				
Provisions		21	-	21
Total non-current liabilities		21	-	21
Total liabilities		**1,191**	**-**	**1,191**
Net assets		**500**	**-**	**500**
Public equity				
General equity reserve		500	-	500
Accumulated surplus		-	-	-
Total public equity		**500**	**-**	**500**

(i) Certain items of computer software have been reclassified to intangible assets.

*Reported financial position for the financial year ended 30 June 2006 on day before transition date.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

19. IMPACTS OF THE ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(B) EFFECT OF NZ IFRS ON THE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2007

		PARENT AND GROUP		
	NOTE	SUPERSEDED POLICIES* NZ$000	EFFECT OF TRANSITION TO NZ IFRS NZ$000	NZ IFRS NZ$000
Current assets				
Cash and cash equivalents		1,883	-	1,883
Trade and other receivables		2	-	2
Inter-entity receivables		535	-	535
Total current assets		**2,420**	**-**	**2,420**
Non-current assets				
Investments in subsidiaries		-	-	-
Inter-entity receivables		588	-	588
Intangible assets	(i)	-	28	28
Property, plant, and equipment	(i)	163	(28)	135
Total non-current assets		**751**	**-**	**751**
Total assets		**3,171**	**-**	**3,171**
Current liabilities				
Trade and other payables	(ii)	1,574	417	1,991
Provisions	(ii)	417	(417)	-
Total current liabilities		**1,991**	**-**	**1,991**
Non-current liabilities				
Trade and other payables	(ii)	-	636	636
Provisions	(ii)	655	(636)	19
Total non-current liabilities		**655**	**-**	**655**
Total liabilities		**2,646**	**-**	**2,646**
Net assets		**525**	**-**	**525**
Public equity				
General equity reserve		500	-	500
Accumulated surplus		25	-	25
Total public equity		**525**	**-**	**525**

(i) Certain items of computer software have been reclassified to intangible assets.

(ii) Provision for bonus has been reclassified to trade and other payables as an employee entitlement.

*Reported financial position for the financial year ended 30 June 2007.

(C) EFFECT OF NZ IFRS ON THE STATEMENT OF FINANCIAL PERFORMANCE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

Revenue	8,159	-	8,159
Interest income	100	-	100
Other expenses	8,234	-	8,234
Net surplus for the year	**25**	**-**	**25**

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

19. IMPACTS OF THE ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(D) RETAINED EARNINGS

The above adjustments had nil effect on retained earnings.

(E) EFFECT OF NZ IFRS ON THE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2007

There are no material differences between the statement of cash flows presented under NZ IFRS and the statement of cash flows presented under superseded policies.

20. COMPARISON TO BUDGET

		ACTUAL 2008 NZ$000	BUDGET 2008 NZ$000	VARIANCE 2008 NZ$000
Statement of financial performance	(ii)	-	69	(69)
Statement of changes in public equity	(i)	500	604	(104)
Statement of financial position	(i)	500	604	(104)
Statement of cash flows	(iii)	1,309	1,215	94

(i) Variances to budget are due to unspent appropriations and accumulated surplus being returned to The Treasury.

(ii) The Guardians' actual expenditure for the year was less than budgeted due to underspends in salaries and overseas travel. This is due to a delay in timing of recruitment activity compared with budget.

(iii) Additional cash on hand at year end is due to timing of supplier payments.

Audit Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

TO THE READERS OF
THE GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP'S
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2008

The Auditor General is the auditor of the Guardians of New Zealand Superannuation (the "Guardians") and group. The Auditor General has appointed me, F Caetano, using the staff and resources of Audit New Zealand, to carry out the audit on his behalf. The audit covers the financial statements and statement of service performance included in the annual report of the Guardians and group for the year ended 30 June 2008.

UNQUALIFIED OPINION

In our opinion:

The financial statements of the Guardians and group on pages 112 to 135:

– comply with generally accepted accounting practice in New Zealand; and fairly reflect:
  - the Guardians and group's financial position as at 30 June 2008; and
  - the results of operations and cash flows for the year ended on that date.

The statement of service performance of the Guardians and group on pages 12 to 16:

– complies with generally accepted accounting practice in New Zealand; and
– fairly reflects for each class of outputs:
  - standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
  - actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 15 September 2008, and 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 the Auditor, and explain our independence.

BASIS OF OPINION

We carried out the audit in accordance with the Auditor General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and statement of service performance did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and the statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit Report (continued)

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement and statement of service performance disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements or statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. We obtained all the information and explanations we required to support our opinion above.

RESPONSIBILITIES OF THE BOARD AND THE AUDITOR

The Board is responsible for preparing financial statements and a statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Guardians and group as at 30 June 2008 and the results of operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, the Guardians and group's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. The Board's responsibilities arise from the Crown Entities Act 2004 and the New Zealand Superannuation and Retirement Income Act 2001.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This 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 Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Guardians or any of their subsidiaries.

F CAETANO
Audit New Zealand
On behalf of the Auditor General
Auckland, New Zealand

SECTION 17

Glossary

Absolute Return

The actual return, in dollar or percentage terms, generated by a portfolio during a specific period.

Active Management

An investing strategy that seeks returns in excess of a specified benchmark through the application of manager skill in security selection.

Active Return

Return relative to a benchmark. If a portfolio's return is 5%, and the benchmark's return is 3%, then the portfolio's active return is 2%.

Active Risk

The risk (annualised standard deviation) of the active return (which is the return relative to a benchmark). Also called the tracking error.

Alpha

That part of a portfolio's return not explained by market factors. Alpha is the result of manager skill applied through active management.

Annualised Rate of Return

A rate of return expressed over one year, although the actual rates of return being annualised are for periods longer or shorter than one year.

Assets

Anything owned that has value and is measurable in terms of money.

Asset Classes

Categories of assets, such as shares, bonds, or real estate.

Asset Mix

The proportion, in percentage terms, of each asset class held in the Fund.

Basis Point

One-hundredth of 1%. The difference between 5.25% and 5.50% is 25 basis points.

Benchmark

A standard against which the performance of a security, index, or investor can be measured.

Bond

A debt investment with which the investor loans money to an entity (company or Crown) that borrows the funds for a defined period of time at a specified interest rate.

Commodities

Tangible products, such as metals, crude oil, or grain.

Custodian

An independent organisation entrusted with holding investments and settling transactions on behalf of the owner. The custodian maintains the financial records for the investments and may perform other services (such as performance measurement, mandate compliance etc) for the owner as well.

Derivatives

Financial instruments whose value and characteristics are derived from, or linked to, underlying assets, indexes, or reference rates (such as exchange rates or interest rates). A wide assortment of instruments is classified as derivatives: they include foreign exchange hedging, futures, swaps, warrants, and options.

Diversification

Investing in a variety of assets or through a number of managers in order to spread risk.

Equities

Securities that signify ownership in a corporation and represent a claim on part of the corporation's assets and earnings.

Fund Manager (aka Asset Manager or Investment Manager)

Invests and manages the assets of others.

Hedge or Hedging

A strategy designed to reduce the risk of loss caused by fluctuations in, for example, security prices, interest rates, and foreign currency exchange rates.

Hedge Fund

An investment fund that attempts to generate active returns by employing long-short strategies and/or leverage.

Index

A measure of performance of a collection of assets typically across a sector, country, region, or style (e.g., Dow Jones, MSCI).

Investment

An asset or item that is purchased with the expectation it will generate income or appreciate in the future.

Investment Horizon

The period of time over which money is to be invested (e.g., 1 year, 20 years).

Investment Proxies

Assets held in substitution for other assets. In the Fund’s case listed various public markets assets are held in proportions that best mimic the overall risk characteristics of the targeted private market asset allocation.

Mark-to-market

The revaluation of an instrument to current market prices.

Market Neutral

An investing strategy relying purely on alpha and that is not influenced by the direction of the market as a whole.

Passive Management

An investing strategy that mirrors a market index and does not attempt to beat the market. Also known as ‘passive strategy’ or ‘passive investing’.

Portfolio

A group of investments, such as shares and bonds, held by an investor.

Private Equity
When equity capital is made available to companies or investors, but not quoted on a stock market. The funds raised through private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet.

Private Markets
Markets in which transactions are generally not made through an exchange or trading platform. Examples of private market assets are property funds, timber plantations, and infrastructure assets (such as toll roads).

Proxy
A formal document signed by a shareholder to authorise another person, or commonly the company's management, to vote the holder's shares at the annual meeting.

Public Markets
Markets in which prices for securities are readily available, generally through an exchange or trading platform. Public market assets include shares and bonds (even though in New Zealand bonds are often traded directly between counterparties).

REIT
Real Estate Investment Trust. Listed property securities are often generically called REITs although technically the term refers to a particular legal structure.

Responsible Investment
The integration of social, environmental, and corporate governance considerations into investment management and ownership practices – in the belief that these factors can have an impact on financial performance.

Return
The gain or loss on an investment in a particular period, consisting of income (such as interest, dividends, or rent), plus capital gains or capital losses. The return is usually expressed as a percentage.

Risk
The chance of something happening that will have an impact upon objectives. Risk can have both positive (upside risk) and negative (downside risk) consequences. For investments, it is the chance that an investment's actual return will be different (higher or lower) than expected.

Risk Adjusted Return
A measure of investment return adjusted to reflect the risk that was assumed.

Risk Budget
The allocation between different types of risk.

Risk-free Rate
The return on New Zealand Treasury bills (for the Guardians' purpose).

Risk Management
The culture, processes, and structures that are directed towards realising potential opportunities, whilst managing adverse effects.

Risk Tolerance
The amount of loss an organisation is willing or able to tolerate should a downside risk materialise.

Shareholder

Any person, company, or other institution that owns at least one share in a company. A shareholder may also be referred to as a stockholder.

Stocks

A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. Also known as shares, or equity.

Strategic Asset Allocation (SAA)

The mix of asset classes the Guardians have determined best meets the objectives of the Fund.

Voting Right

The right of a stockholder to vote on matters of corporate policy as well as on who is to compose the board of directors.

Yield

The annual rate of return on an investment expressed as a percentage.

SECTION 18

Corporate Directory

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BANKERS

GUARDIANS OF NEW ZEALAND SUPERANNUATION

The National Bank of New Zealand

NEW ZEALAND SUPERANNUATION FUND

Westpac Banking Corporation

SOLICITORS

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NEW ZEALAND SUPERANNUATION FUND

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