NEW ZEALAND SUPERANNUATION FUND

ANNUAL REPORT 2011

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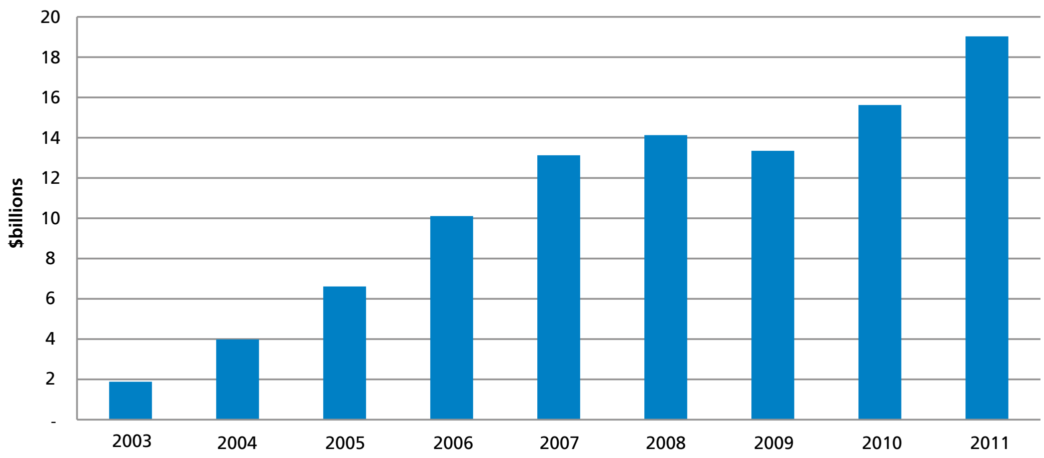
The Fund is less than eight
years into a task that will span
generations of New Zealanders.

Performance Summary

Fund size at 30 June 2011 (does not include NZ tax paid since inception, see below)		$19.03[1] billion
Returns	**Financial year to 30 June 2011**	**Since inception**
Actual Fund Return (includes NZ tax paid, see below)	25.05%	7.83% p.a.
$ increase in net asset position[1]	$3.4 billion	$19.03 billion
NZ Treasury Bill Return (T-Bill)	2.89%	5.60% p.a.
Absolute Net Return (Actual Return – T-Bill Return)	22.17%	2.23% p.a.
$ earned relative to Treasury Bills	**$3,483m**	**$1,750m**
Reference Portfolio Return	19.48%	7.44% p.a.
Value Added (Actual Return – Reference Portfolio Return)	5.58%	0.38% p.a.
$ earned relative to Reference Portfolio	**$887m**	**$539m**
NZ income tax paid	**$487m**	**$1,915m**

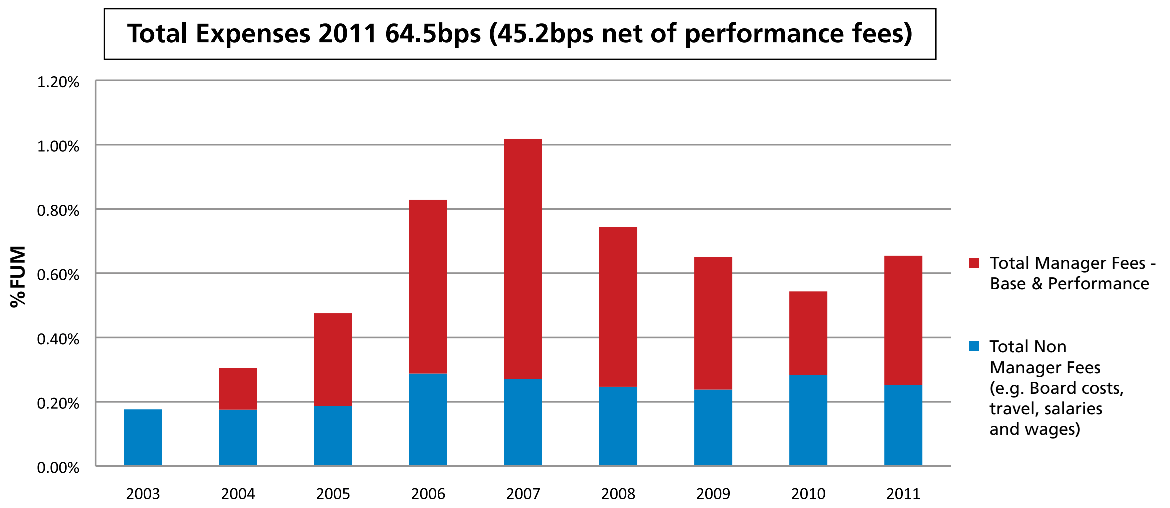
1. Excludes provisions for NZ tax

Fund size since inception



Data covers financial years to 30 June
Does not include NZ tax paid of $1.9 billion since inception

Fund Expenses as a Percentage of Funds Under Management (FUM)



The big picture

The New Zealand Superannuation Fund and the Guardians of New Zealand Superannuation were established by an Act of Parliament to reduce the tax burden on future New Zealand taxpayers of the cost of New Zealand Superannuation (NZS).

What is the effect of New Zealand's ageing population?

Statistics New Zealand data projects that, between 2005 and 2050, the number of New Zealanders eligible to retire (aged 65+) will double. The associated cost of providing their retirement income, NZS, will more than double. This means New Zealand will have:

- more people of retirement age, as a proportion of the population, than ever before; and
- fewer 'working-age' people whose productivity can be tapped, through taxation, to fund the greater cost of retirement income.

These projections have significant implications for future Governments' ability to fund other vital areas such as health, welfare, education and law enforcement. This information is therefore relevant for all New Zealanders, now and in the future.

How do the Guardians respond to New Zealand's ageing population?

The NZ Superannuation and Retirement Income Act 2001 (the Act) established:

- the Fund, as a pool of assets on the Government's balance sheet
- the Guardians, as a Crown entity charged with managing the Fund

Together, the Fund and Guardians exist to 'smooth' the tax burden between generations of New Zealanders arising from the higher future cost of NZS.

The tax smoothing occurs through the Government making contributions to the Fund and then, at a future date (currently from 2031) withdrawing money from the Fund to help to meet the cost, at that time, of NZS.

Saving now for this future cost is called 'pre-funding' NZS. Pre-funding means that future Governments do not have to seek as much from future New Zealand taxpayers (or from other sources, such as by raising debt) to meet the cost of NZS when it is increasing most sharply.

This is reflected in our Mission Statement which frames the purpose of the Fund and Guardians:

'Maximise the Fund's return over the long term, without undue risk, so as to reduce future New Zealanders' tax burden'

Note that in the 2009 Budget the Government decided to suspend contributions to the Fund until the Crown operating balance returns to surplus sufficient to resume contributions. At present the Treasury estimates this to be in the 2016 financial year.

Six things to remember about the Guardians and Fund

1. We are required to invest the Fund so it makes as much money as possible, without incurring undue risk, for as long a period as possible; and the Government is not scheduled to make withdrawals from the Fund until 2031.

2. This means that the asset mix of the Fund is weighted toward growth assets, such as equity in companies.

3. It also means that we can and do invest in asset classes (e.g. timber) which cannot be realised quickly – they are 'illiquid' – and require a longer-term commitment of capital. This does not suit many investors' portfolios, often because they have high demands for cash (perhaps because they have to pay dividends or must cover the eventuality of investors selling up and leaving their fund).

4. We pursue 'atypical' investment options – such as investing in 'illiquid' asset classes – only when we are confident of being rewarded, over time, with superior returns relative to more standard options such as passive investments in fixed interest or equities.

5. Having a portfolio weighted toward growth assets tends to generate short-term volatility – up or down. However it is very important to keep in mind that the purpose of the Fund is long-term and so its success must be measured over time by future taxpayers who will benefit (the oldest of whom is 21 years away from retirement and many of whom have not yet been born). Single-year snapshots have very limited relevance other than as a small contributor to a much larger pattern of returns, which the Fund is only seven years into establishing.

6. Finally, we are very aware that the circumstances which make our Fund special relative to many other investors also make it quite difficult to objectively assess its performance and, as important, whether we are adding value to it. Accordingly, we carefully and publicly benchmark both its performance, and our role in that performance.

If you are interested in further information about the reason why the Fund and Guardians exist, more on the ageing population issue and how the Guardians and Fund are designed to respond to it, there is a significant volume of information on our website **www.nzsuperfund.co.nz.** On the front page of the website you can find our *Introduction to the Guardians and Fund.*

Board Statement

David May
CHAIRMAN

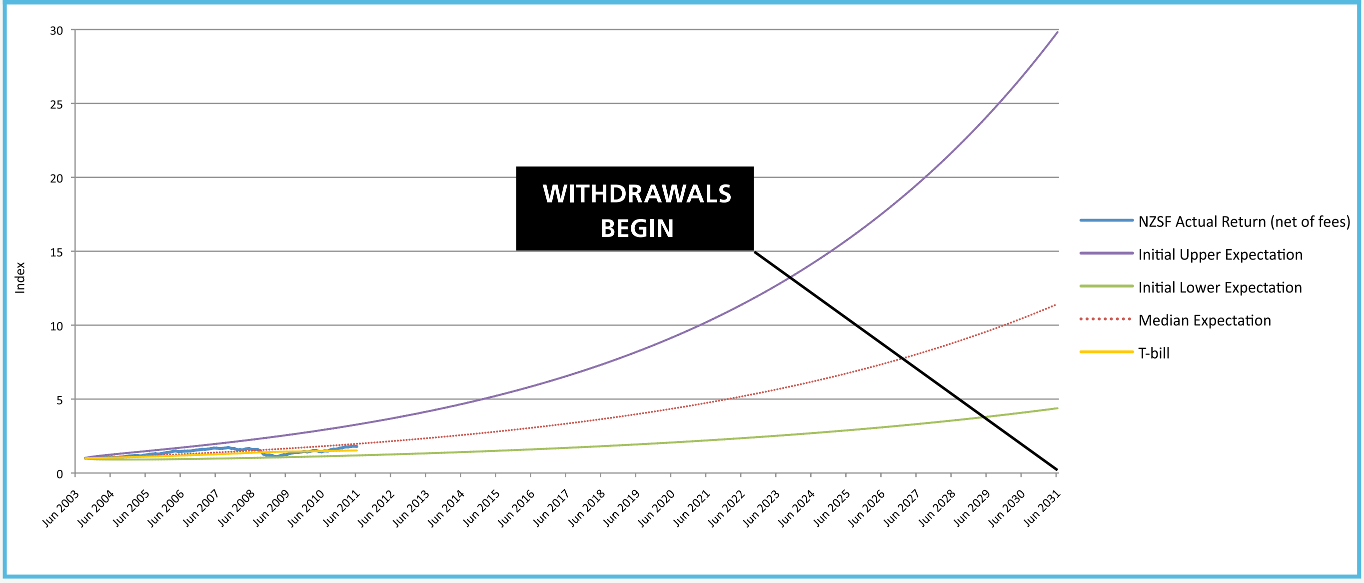
This financial year builds on the rebound that occurred post the 2008/09 Global Financial Crisis.

The strong return of 25% for the year reflected the continued maintenance of our investment discipline following the GFC and particularly strong results flowing from some of our value-add activities. The return over one year should, however,be kept in perspective. The Fund is less than eight years into a task that will span generations of New Zealanders (shown in the graph below). It's inevitable that, over such a long time, the Fund will have good years and bad. As illustrated by the past three financial years having encompassed the best and worst annual results for the Fund, the exceptionally good and bad can occur close together.

Of perhaps more importance is the work we have done to try to ensure we can sustain a strong performance into the future. Following the strategic objectives identified in our 2010 Statement of Intent (SOI) and derived from our Strategic Plan, we have:

- widened and deepened our framework for Strategic Tilting to ensure that we maximise the return from the strategy (see page 27);
- embedded the Investment Framework we introduced in our 2011 Statement of Intent (see page 12 for an example of how it has been applied);
- deployed capital into some new value-add strategies including New Zealand investments (see page 29 for a summary);
- reviewed our policy framework, including our Statement of Investment Policies, Standards and Procedures;

We are a short way into a long-term purpose



We expect and accept volatility. On some occasions, we can take advantage of it.

- conducted a number of stress tests to gauge the impact on the Fund's liquidity and long-term performance, of extreme investments shocks;
- continued to build a team capable of adding value in an extremely competitive global investment market (see from page 55).

DEALING WITH MARKET STRESSES

The past three financial years and the market unrest prevailing at the time this report was written have been an excellent test of the resilience of the Fund and of our ability to maintain investment discipline.

The investment mandate contained within our legislation demands a long-term structure for the Fund and a long-term perspective from us as the Guardians. This long-term focus translates to a weighting toward growth assets in the Fund and a tolerance from us for the short-term volatility that such a weighting creates. By tolerance for volatility, we mean that we expect and accept it. On some occasions, we can take advantage of it.

Any period of market activity will encompass various reactions to actual or perceived stresses. Some stresses are simply short-term shocks and some do not actually eventuate. It is the impact of volatility on long-term valuations that we care about. These impacts are sometimes far less pronounced than the short-term reactions in market pricing.

The fact that stresses have negative impacts on short-term investment returns is fundamental to the markets. It is why you can earn more, on average over time, on an investment in equities relative to an investment in cash. Equities are more volatile than cash and therefore offer a larger risk premium to compensate investors for accepting more volatile returns.

We do not try to predict short-term market reactions, but we do try to prepare for them in order to avoid being forced into unplanned response. We prepare for them by:

- diversifying the passive exposures in the Reference Portfolio;
- stress testing the Fund for the possible impact of extreme shocks, and;
- ensuring strong governance of our active asset allocation activity which deviates from the Reference Portfolio.

Diversifying the Reference Portfolio

The Reference Portfolio is a diversified set of passive investments weighted toward growth assets so that, over time, it benefits from the expected risk premiums. It is diversified primarily by asset class (currently equities, property and fixed income) and within those by geography and sector.

Ensuring strong governance of our value-add investments where we deviate from the Reference Portfolio

The governance we apply is anchored to our fundamentals: the Fund's endowments, our investment beliefs and our risk appetite (see the box *Investing in all Conditions* on the next page).

Against the context of our fundamentals, we put considerable effort into assessing the fair-value price of assets, based on long-term fundamental factors. That allows us to form a view of the intrinsic value of an asset class at any point in time. We can then put money on the table when markets have moved far enough below that fair value, to represent the best possible reward at that point in time for the risk we are accepting (we illustrate that idea further in our discussion of Strategic Tilting on page 27). This discipline is often applied because of market responses to a stress event (or, conversely, where there is no stress event but we nevertheless judge the assets are mispriced).

Similarly, we can take money off the table if markets move above that fair value. In both cases we limit the size of our tilts so they do not represent a major departure from our long-term policy position of being predominantly oriented toward growth assets.

Board Statement (continued)

STRESS IN THE PAST FINANCIAL YEAR

A good example of how we dealt with short-term stress is the market impact of the terrible earthquake and tsunami in Japan. There was a clear negative effect on the Japanese economy and a knock-on effect on global production which is still being felt. However, we assessed that the impact on the drivers of fair value of Japanese and global equities was likely to be negligible (namely, the earthquake had not altered the long-established trend rates of global growth and profitability; neither had it changed the equally established expectation that there is a risk premium for holding equities). Therefore, while the market's aggressive response was to sell global

INVESTING IN ALL CONDITIONS

There are three important influences on our investment approach in all market conditions: the Fund's endowments, our investment beliefs, and our risk appetite.

Endowments

The Fund benefits from a number of endowments which allow us to tolerate short-term volatility. These include the Fund's long investment horizon and its certain liquidity profile.

Having a long investment horizon allows us the flexibility to make investments with longer-term return characteristics (i.e. they are likely to produce higher returns over time because of the various risk premiums involved). As has been discussed in this section, this long horizon is the crucial factor in the Fund being tolerant to market volatility and able to endure market cycles.

Having a certain liquidity profile means that the flow of cash into and out of the Fund is known – in fact it is subject to a legislated formula. This certainty gives us the confidence to invest in assets (in particular, assets that are not simple to sell quickly) where other investors may be constrained by their own less predictable liquidity demands. It also means that we can buy assets at attractive prices when other market participants are forced to sell to meet their liquidity demands.

It is evident that in reacting to market stresses, the Fund's endowments work hand-in-hand. The first endowment means that we do not need to overreact to market disruptions; the second means that we can benefit directly from others' reactions.

Investment beliefs

Our investment beliefs guide all of our investment decisions. Collectively, the beliefs guide our value judgements about how markets work, and about how a long-term investor should behave to maximise its returns.

The belief most relevant to dealing with market stresses is: expected returns are partly predictable within asset classes and returns can revert toward a mean over time. This is the foundation of our Strategic Tilting strategy, which we discuss further on page 27.

The final influence is our risk appetite

This is a crucial element of how we approach investment during stress events. We have interpreted the investment mandate established in our legislation and have set parameters for our investment activity. The main output of this is the weighting to growth assets in the Fund; another is how much volatility we are prepared to accept in a given period (this is discussed in detail beginning on page 20). Others involve controls on how much of the Fund can be concentrated in a single asset or investment manager. Setting these parameters naturally guides how we apply our investment beliefs and the Fund's endowments.

Could we insure against the negative impacts of volatility?

Even in volatile markets the likelihood of a substantial downward movement, with a corresponding impact on the Fund, remains small. However, the impact of that movement if it does happen can be substantial. Nevertheless, we do not seek to actively insure the Fund against those impacts (other than what is possible as a secondary effect of hedging the Fund's returns to the New Zealand dollar).

Insuring the Fund in this way would be expensive. It would also require us to make investments which are aimed at mitigating volatility rather than maximising our risk-adjusted returns over time. Ultimately, it would give away the advantages we've discussed of being a long-term investor.

Our strongly preferred response is to tilt the Fund away from what we believe is overvalued, thereby hopefully avoiding its eventual – or rapid – return towards intrinsic value. And if we believe there is a serious case for intrinsic value to be reconsidered, portfolio insurance would still not be our primary response. Rather, we would consider reducing the growth assets in the Fund – a more effective and less expensive way of reducing the Fund's exposure to a market movement of that order.

The past three financial years and the prevailing market unrest have been an excellent test of the Fund's resilience and our ability to maintain investment discipline.

equities – thereby driving their price to a level below what we regarded as fair value, and which therefore represented an attractive reward for the risk accepted – we responded by buying more equities for the Fund.

A more recent response to market stress has been to reduce the NZD hedging of our foreign currency exposure below our long-term policy position of 100%. This policy position has paid off well over the life of the Fund but, while we remain predominantly hedged, our current view of the high NZD has prompted us to scale back the hedging quite considerably.

BOARD CHANGES

I'd like to note some changes in the Board of the Guardians during the financial year. In 2011 Professor John Evans and David Newman left the Board. Both made enormous contributions during the Fund's formative years with David providing strong support to me in his role as Deputy Chairman and Chair of the Audit Committee.

I would also like to note the reappointment of Mark Tume for a further five year term and welcome the appointment to the Board, on 1 September 2011, of Dr Craig Ansley. Finally, I would again like to thank my colleagues and the team at the Guardians for their work during the year. There has been a strong focus, and a considerable amount of work completed, on further refining our investment approach. We are confident that these refinements will allow us to get the most out of our investment beliefs, and the Fund's endowments, in order to best serve the Fund's purpose.

David May

David May
CHAIRMAN

CEO's Statement

What work have we done to add value to the Fund?

Adrian Orr

CHIEF EXECUTIVE OFFICER

The Board Statement has set out how the Fund is structured to navigate, and to benefit from, stormy market conditions.

In this section, I'd like to go into more detail on what we have done in the past financial year to ensure that we are best-placed to add value to the Fund over the horizon that matters for our purpose. This seems timely in the current climate, which we anticipate still prevails as this report is published, as we are applying the preparatory work we have done in the preceding financial years.

As discussed in the Board Statement, the Fund's endowments are key to driving our approach to investment. They are particularly important in adding value as, collectively, they represent the Fund's competitive advantage. A long investment horizon, certain liquidity, our sovereign status and independent investment responsibility mean that we have a very wide set of investment choices. We have significant latitude – subject to our mandate; to the constraints we put on ourselves through the Board's risk appetite; to our Statement of Investment Policies Standards and Procedures (SIPSP), and to our Responsible Investment Framework – to invest in what we want, for whatever term suits the Fund and with whatever other parties we regard as desirable and appropriate.

That puts us in a very attractive position, relative to many other investors, for maximising the risk-adjusted returns on the Fund over the long term. In the past financial year we have done a lot of work to ensure that we are using the Fund's competitive advantages as well as we can. We have done so in three main ways:

First, by decoupling our investment approach from the Strategic Asset Allocation (SAA). A critical first step was establishing the Reference Portfolio, which we discussed in our 2010 Annual Report. More information about the Reference Postfolio is on our website.

In the past financial year, however, we have further decoupled from the SAA and, as set out in our Statement of Intent for 2011 (and discussed in detail on page 24), we have shifted to an Investment Framework. The Investment Framework builds on the Reference Portfolio by refining the process we follow if we deviate from it and how we do so (our value-added investment activity).

We are positioned to maximise the risk-adjusted returns on the Fund over the long term.

The Investment Framework works by being indifferent to asset class and to how an investment is accessed (e.g. accessed through a manager, by direct investment, or held passively in listed markets). Instead, it focuses on applying to all investment opportunities a common analytical framework to robustly assess the expected risks and return of each.

This enables an investment approach which is more flexible and, once we have identified potential investment opportunities, a more rigorous assessment of whether it represents the best possible use of the Fund's capital, relative to all other opportunities. We have provided an actual example of how the framework is applied in the case study on the following page.

The language, and the thinking process, which underpins the Investment Framework has been reflected in all of the internal policies that contribute to the governance of our investment activity. This includes our Statement of Investment Policies, Statements and Procedures (SIPSP), which is required by our Act. The revised SIPSP and all of our other policies are on our website.

Second, by continuing to ensure that potential co-investors – in particular, those we regard as our peer funds (discussed in some detail in this section of the 2010 Annual Report) – are aware of our endowments. We do this passively, by making a considerable amount of information available publicly on our website and through our public documents (including Annual Reports). But we also actively engage with our peers. We do this at forums where our peer funds go to learn from and benchmark ourselves against each other, to co-operate on issues of common interest and – our prime focus – to work toward co-investment.

Co-investment is a prime objective of our peer relationships because it further broadens our potential investment choices. It also usually provides more cost-effective access to the investment in question. Because our peers have time horizons and investment approaches similar to our own, we also have close alignment of interest in how we manage the investment. Importantly, we can share and benefit from each other's investment expertise. We can be part of opportunities we might otherwise be unable to consider by ourselves, because the opportunities are too large, or because we would simply not otherwise have access to them.

Third, by applying an ongoing focus on identifying and then developing an ideal team culture. Having endowments, investment beliefs and a robust governance framework is irrelevant if the organisation lacks a culture which values, uses and develops these things. In the past financial year we have concluded an exercise where we have decided on the culture we want and assessed the extent to which we provide it. We will be using the results of that survey in the coming financial year (we discuss this further on page 57) to further develop our great team.

CEO's Statement (continued)

Case study

Below we provide an example from the past financial year, of how our revised approach works in practice. This example deals with a $20 million investment in a Paris-based Private Equity fund, Astorg Partners, at the end of 2010. The investment involved taking over the commitment to the fund of an existing investor who wished to exit.

Investment	Astorg Partners – private equity fund specialising in midsized privately owned French companies
Sources of investment risk	Risk relates to the French and broader European economy in general and, likely, sector risk depending on the nature of the companies invested in.
Sources of investment return	Our confidence in returns is based on our conviction about Astorg Partners and its strong record of prior returns.
Sources of opportunity	We believe it is difficult to get reliable, high-quality information about the performance of small to midsized privately owned French companies. Consequently, there is a lack of capital available to those companies to facilitate their growth. The opportunity is therefore to use a rare source of quality information – our manager – to make attractively priced investments in companies with sound business models and excellent growth prospects.
Access point (how do we make the investment)	We do not believe it is possible to adequately replicate the expected returns from privately owned French companies with a listed exposure. Given its track record of returns, there is some evidence of Astorg's persistent skill and, crucially, that this skill is rewarded by outperformance. This skill appears to relate to the Manager's ability to create economically viable deals from companies with complex private ownership and then to apply a broad set of operational and strategic skills to improve business performance and create investment value.

Thanks

Finally, I would like to thank the team and the Board for maintaining and increasing their discipline in what has been a pleasing and constructive 12 months. I believe the work we have done this year to further refine our investment and organisational processes will provide the platform for a significant and positive step-change in our ability to manage the Fund in the service of its important purpose.

Adrian Orr,
CEO

Overview of financial statements

HEADLINE RESULTS

- **$3.0 billion increase in Fund's net asset position compared to the prior year**
- **A net return of 25.05% on the Fund's assets**
- **A 12.5 bps increase in overall expenses, driven mostly by performance fees, as a proportion of funds under management[1]**

FUND REVENUE

The 2010/11 financial year saw further growth for the Fund, continuing on from the gains made in the previous year.

This increase in returns reflects the continued recovery of both global and local asset prices following the GFC. The Fund has seen significant gains across a number of different areas including listed equities, private market holdings and derivative financial instruments.

In particular, the Fund's revenue arising from derivatives is reflective of further increases in use of this asset class to gain cost-effective exposure to investments. This is also reflected in the increased holdings of these financial instruments at the year end. Share of profits from the Fund's associate, Kaingaroa Timberlands Partnership, have also increased, in part due to a revaluation increase that was higher than in the previous year. We discuss the revaluation process on page 30.

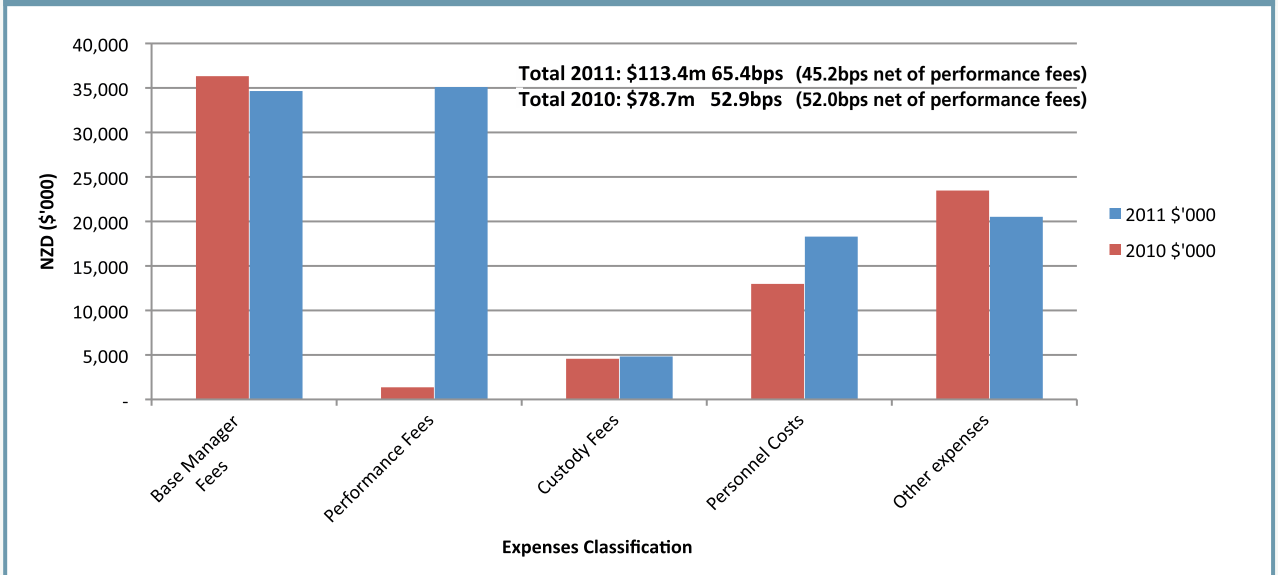
FUND EXPENSES

The Guardians' and Fund expenses are accounted for separately. Both are met from the Fund (with all returns net of all costs), although the Board of the Guardians costs are funded through an annual appropriation from Parliament as required by our Act. Regardless, we include all costs in the expenses analysis graph presented below.

The Fund's overall expenses have increased over the year, primarily driven by an increase in manager performance fees (net of performance fees, expenses actually decreased from 52.0bps to 45.2 bps as a proportion of funds under management). The levels of these fees are determined by the positive net returns generated by assets overseen by our external managers.

Base manager fees have continued to decrease largely due to a continued increased use of derivatives, rather than holding of physical securities.

Expenses Analysis for the Year Ended 30 June 2011



[1] To reconcile the expenses discussed in this section with the expenses in the financial statements (note 2), please note that the graph does not include timber expenses or farm operating costs. While for accounting purposes they must be treated as expenses, economically they form part of the net return of the Fund.

Overview of financial statements - continued

Custody fees have increased in line with the increase in the size of the Fund.

Personnel costs have increased due to the payment of incentives, linked to the overall performance of the Fund, as well as a small increase in headcount (see pages 55 and 57 for discussion of both).

Other operating expenses (containing trading and brokerage expenses, depreciation and amortisation, audit fees and advisor costs) have reduced marginally, driven primarily by a reduction in trading and brokerage expenses in the year.

The Fund has recognised a tax expense for the year of $907 million, an increase on the previous year, largely due to the fair value gains on investments as noted above.

Managing expenses

The ultimate measure of the success of the Fund will be its absolute return net of all costs over rolling 20-year periods. So the overall focus is on ensuring that when we incur expenses we do so because we expect to add value to the Fund. Cost efficiency is central to all of our investment decisions. Within that overall absolute return focus we seek to ensure that the cost we incur is optimal by:

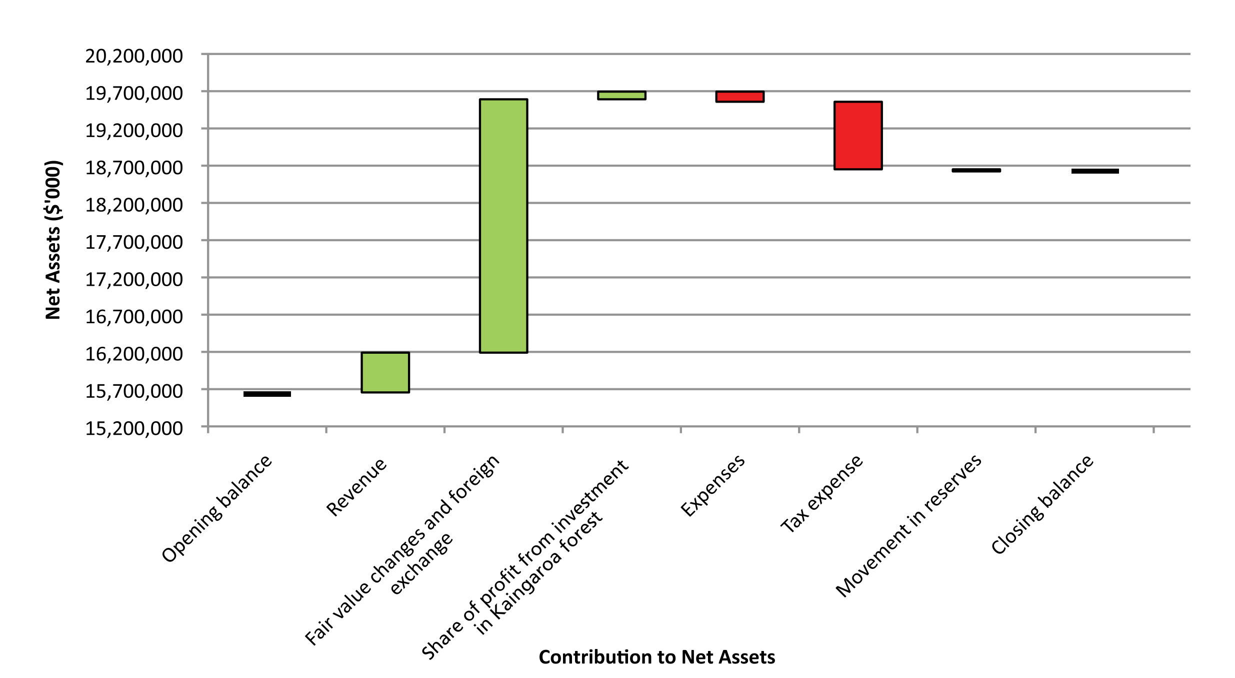
- ensuring that any fees paid to external managers of our investments are commensurate with the complexity of the investment and with the market standards for fees at the time. We also seek to use our negotiating ability – arising from our attractiveness as a genuine long-term investor, including our ability to tolerate illiquidity – in this regard.
- assessing whether portfolio management activity, such as cash management, should be done internally rather than externally.
- including the cost of due diligence in our assessment of whether the investment opportunity we are evaluating adds better risk-adjusted value than would another opportunity. This then becomes part of the key decision about whether the opportunity is worth pursuing.
- choosing cost-effective access points for all investment opportunities we decide to pursue e.g. managed by our staff, by investment managers, through derivatives.
- comparing our cost structure with our peers, via the CEM survey and in the general course of business. This includes comparing the cost of internal and external management and the fees we pay our Custodian. Comparisons are not simple because cost structure is always a function of an investor's purpose, which drives their appetite for risk, the structure of their portfolio, what investment styles they seek and the level of skill internally and externally they need to access. In comparing costs we are conscious that higher relative costs are not automatically bad and lower costs are not automatically good – what matters is why and how they are incurred and the value added after costs are taken into account. So while we want to avoid paying above market costs, it would be self-defeating to indiscriminately prune costs relating to important tasks such as adding value, due diligence and research.
- acknowledging that while the CEM Survey is the best available external assessment for cost structure and value add, it is not perfect. We are looking to develop additional cost efficiency benchmarks and measures to reinforce those present in the CEM survey (as discussed in our 2011 SOI, which we report on in our 2012 Annual Report).

We note that cost management is an important part of the independent review of our governance of the Fund that happens every five years. Certainly it was a focus – in particular fees paid to external managers – of the latest review in 2009. In that review Mercer concluded that our investment management fee levels and structures were competitive for a fund of our size and type and that most external investment mandates were at or below Mercer's expected median levels for the relevant assets classes.

CHANGE IN NET ASSETS UNDER MANAGEMENT

Total net assets increased during the year by $3.0 billion, comprised primarily of gains on investments. The figures below highlight changes in our expenses (the expenses bar includes those of the Board) and our net asset movements.

Movement in Net Assets (post-tax) for Year Ended 30 June 2011



Performance

In this section we have set out what the Fund is invested in and how the investments have performed in the financial year to 30 June 2011. We also compare that performance to our two key benchmarks: 90-day Treasury Bills and the Reference Portfolio. Finally, we set out the work we have done during the financial year to refine our understanding of the sources of risk in the Fund and therefore the sources of volatility in its returns.

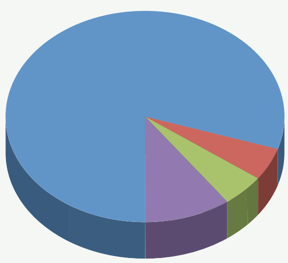
Exposures in the Fund

We believe it is useful to briefly recap the concept of the Reference Portfolio as it is the foundation of our portfolio construction. The Reference Portfolio is our best effort at a 'shadow' portfolio which is appropriate to the Fund's long-term investment horizon and associated risk profile, and which is capable of achieving the Fund's objective with simple, low-cost investments (they are all passive, listed asset classes). These characteristics make the Reference Portfolio an important benchmark of whether we are adding value with investment activities – 'active' investment activities – which are more complex and/or more expensive.

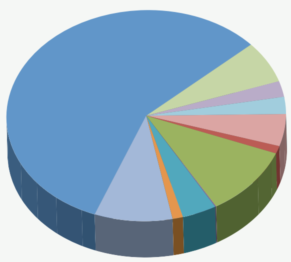
Because the Reference Portfolio is limited to listed passive asset classes, we regard it as being constrained. We believe we can better serve our mandate by considering and pursuing additional investment activities. We define all such activities as value-adding investments and they are the difference between the Reference Portfolio and the Actual Portfolio. We pursue them only when we strongly believe that, over time, the Fund will be better off – relative to the Reference Portfolio – for doing so. By 'better off' we mean it will achieve larger returns, or the same returns for less risk (we discuss this key assessment further in this section. The Sharpe Ratio explained in the sidebar is central to that assessment).

Our belief that the Fund will be better off as a result of our value-adding investment activity is constantly tested by the performance of the Reference Portfolio. And it is a public test; in each Annual Report we publish the performance of both.

Reference portfolio at 30 June 2011



Actual portfolio at 30 June 2011



IMPROVING THE SHARPE RATIO OF THE FUND

All of our active investment aims to improve what is known as the Sharpe Ratio of the Fund.

The Sharpe Ratio of the Fund is

$$\frac{\textbf{Total Return - risk free return}}{\textbf{Risk}}$$

'Total Return' is a combination of Excess Return and Active Return

Excess Return = the return premium earned on financial assets such as equities and property over and above what would be possible to earn investing in cash (a 'risk-free' investment). This is the contribution of the Reference Portfolio and is why cash is netted off.

Active Return = the additional return earned by deviating from the Reference Portfolio. This is the contribution of our value-adding strategies.

Risk = the level of risk collectively brought into the Fund by the sum of all investment activity in the Actual Portfolio. Risk is measured by the volatility (standard deviation) of returns.

The formula above makes clear that if the risk denominator is high, the returns must be higher. So each active investment we undertake must raise the sum of the top line, reduce the sum of the bottom line, or do both.

Fund return

In this section we analyse the performance of the Fund in the year to 30 June 2011 and set that performance in the context of how the Fund has performed since its inception.

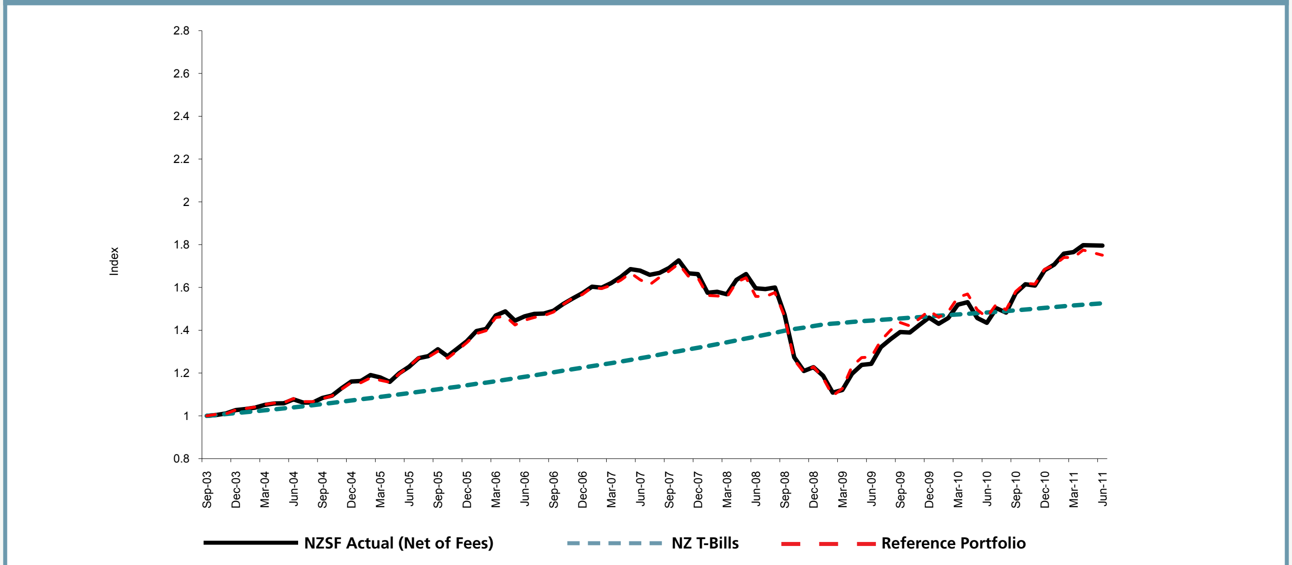
Performance since inception relative to 90-day Treasury Bills and Reference Portfolio

We compare the performance of the Fund to 90-day Treasury Bills because they proxy the 'opportunity cost' to the Government of contributing capital to the Fund, instead of using the money to retire debt. This is because Treasury Bills represent the interest cost to the Government of borrowing.

Over time, the Fund is expected to earn more for the Government in investment returns than it would save in debt servicing i.e. it is expected to add to Crown wealth, putting future governments in a better position to meet the increased cost of New Zealand Superannuation commitments.

We have explained on the previous page why the Reference Portfolio is an important performance benchmark for the Fund.

Cumulative Fund Return relative to T-Bills and Reference Portfolio to 30 June 2011



Financial year	Fund Return	Treasury Bills	Excess return relative to risk-free rate	Reference Portfolio return	Value Added by active investment
2004	7.69%	3.76%	3.76%	8.07%	-0.38%
2005	14.13%	6.33%	7.80%	13.88%	0.25%
2006	19.21%	6.77%	12.43%	17.56%	1.65%
2007	14.58%	7.21%	7.37%	13.07%	1.51%
2008	-4.92%	7.97%	-12.89%	-4.73%	-0.18%
2009	-22.14%	5.49%	-27.63%	-18.25%	-3.89%
2010	15.45%	2.60%	12.85%	14.62%	0.83%
2011	25.05%	2.89%	22.16%	19.48%	5.58%
Since inception	7.83% p.a.	5.60% p.a.	2.23% p.a.	7.44% p.a.	0.38% p.a.

Performance - continued

Value-add in 2010/11

This section details the contribution that active investments made to the Fund in the financial year.

	Value-added activities				
Reference Portfolio return	Capturing active returns	Strategic tilting	Portfolio completion	Actual portfolio return	Value added by active investment
19.48%	5.63%	(1.55%)	1.49%	25.05%	5.57% (+$887 million)

CAPTURING ACTIVE RETURNS +5.63%

- **Active investment managers +1.56%.** This pleasing result continues to build on the positive returns from the prior financial year. The Fund's overall stable of investment managers again beat their individual investment benchmarks and the main contributors to this were managers using multistrategy approaches (an approach hit particularly hard during the Global Financial Crisis) and market neutral approaches.
- **Private markets relative to public markets +3.94%**. The main contributions to this strong performance were 'Z' Energy – as the Shell network was rebranded during the year – and Kaingaroa Forest. Both assets performed well during the year and consequently had strong valuation uplifts. These are dealt with in further detail in discussion of our New Zealand investments on pages 29 and 30. This was offset by poorer returns from NZ property and private equity.
- **Benchmark mismatch (or using alternative tracking indices) + 0.02%.** This is where we choose to have index – i.e. passive – exposures that are not exactly the same as those specified in the Reference Portfolio.
- **Internally executed arbitrage + 0.11%.** This is where we take advantage of pricing differentials between two things that are economically the same e.g. a security may be dual-listed and we can generate returns by buying it on one exchange and selling it on the other for a higher price.

STRATEGIC TILTING -1.55%

We have provided a case study of Strategic Tilting on page 27. The main factor in this result was currency tilting due to our position on the NZD (as discussed elsewhere the Reference Portfolio is 100% hedged to the NZD) and its ongoing strength relative to most other currencies. This outweighed returns from tilts into equity and away from sovereign debt (which returned +0.41%) and credit tilting (which returned +0.24%). It's important to recognise that tilting is undertaken with a long-term horizon. We do not expect to precisely time the top or the bottom of markets.

PORTFOLIO COMPLETION +1.49%

This refers to activities we undertake with the objective of avoiding unnecessary cost. We seek to capture the most cost-effective means of gaining access to, and managing, investments.

- **Portfolio completion + 0.75%.** This reflects our efforts to add value through using passive investment managers and derivatives to gain equity market. Derivatives can be very attractively priced relative to physical exposures. We have provided more detail on our use of derivatives in the side bar on the facing page.
- **Currency return +0.83%.** This reflects the return generated from how we implement our currency hedging.
- Other portfolio completion activities together contributed **-0.09%**

What are derivatives?

Derivatives are financial instruments that replicate the behaviour and performance of certain types of investments. Typically, they are linked to:

- individual securities such as equities
- indexes on bonds and equities, such as the MSCI world, which aggregate the performance of a group of securities
- reference rates (such as exchange rates or interest rates)

There are many types of derivatives and many reasons to use them, including to manage risk and liquidity; to lower transaction costs and as added-value investments in their own right.

Using derivatives to manage risk and liquidity

The foreign exchange component of our Reference Portfolio is, generally, 100% hedged back to New Zealand dollars. We do this to get the benefits of New Zealand interest rates being higher than offshore interest rates. We are indifferent to fluctuations in the NZD relative to other currencies. Currency derivatives, such as forward contracts, allow us to manage this hedging position efficiently.

In addition, the actual portfolio tends to "drift" away from its target exposures through time due to differential performance of the asset classes we own and also due to changes in exchange rates. In other words, the portfolio's actual risk can drift away from the desired risk. Derivatives are a convenient way of re-balancing the portfolio back to its targeted risk level.

Derivatives can also help us to manage our liquidity. When we enter into a derivative contract, we sometimes are not required to make any deposit on this exposure. Where we are required to set aside a deposit, it is often a relatively small percentage of the underlying exposure. This means we hold a pool of collateral within the Fund, while maintaining the desired market exposures through the derivative. In instances where we require liquidity at short notice, closing the derivative position allows us to access an immediate source of cash.

Using derivatives to lower transaction costs

Derivatives can lower transaction costs because index derivatives are often cheaper to buy than the individual physical securities making up the index; and commissions are generally negligible.

Using derivatives to add value to investment

Derivatives allow us to add value to the Fund in some instances. For example, derivative counterparties may offer attractive terms to the Fund for entering into certain types of derivative contracts. Total return swaps on global equities, for example, involves us contracting to receive the total return on the global equity index and to pay an interest rate back to the counterparty. The interest rate we pay, is to compensate the counterparty for the cost of funding the equity position.

In some total return swap transactions, value derives from a combination of the counterparty quoting us an interest rate below the market standard interest rate and us being being able to earn a return on the cash collateral that we hold, that is above the standard interest rate. The net effect of the swap transaction is for the Fund to receive the return on global equities plus an additional margin reflecting the difference between the relatively high interest rate we earn on our collateral and the relatively low interest rate we pay to the counterparty. The alternative way of obtaining global equity exposure, through physical purchase of the equities, generally involves the Fund generating the same return on the index but having to pay all the associated expenses of buying and managing the securities.

Performance - continued

Risk in the Fund

Any picture of the performance of the Fund is incomplete without understanding the risk taken in the course of trying to capture that performance.

Our mandate requires us to maximise return without undue risk, so the analysis we do to optimise the balance of the returns we seek, relative to the risk we believe it is prudent to accept, is crucial. Hence, improving the Fund's Sharpe Ratio (see the sidebar on page 16) is at the core of our value-added investment activity.

As that sidebar says, when we say risk in this context we mean our expectation of the volatility – i.e. differences both up and down – of the Fund's returns over time.

Because the Reference Portfolio requires a weighting toward growth assets to achieve the Fund's purpose, and growth assets bring market risk, a certain amount of market volatility is present within the Fund. We accept this, as the Board and CEO Statements have discussed in depth.

However in the past year our Portfolio Design team has been working to deepen our understanding of the components of that market risk. That allows us to further enhance our understanding of all sources of risk within the actual Fund and how each investment, and various combinations of investments, are likely to impact the total volatility of the Fund over any given period.

This includes being able to assess the likely volatility of the Reference Portfolio over time.

Importantly, it also assists our analysis of what other risks (for example illiquidity risk arising from certain types of unlisted assets, such as timber) we bring into the Fund by deviating from the Reference Portfolio with value-adding activities. By doing so we understand:

- what impact value-adding activities have on the volatility of the Fund; and
- what compensation we are getting for the additional volatility.

It is worthwhile revisiting the Sharpe Ratio on this point. Any value-adding investment must:

- reduce the overall level of intrinsic risk in the Fund, or;
- increase the overall level of expected returns for the Fund, or, preferably;
- do both.

The Reference Portfolio plus our value-added activities equals our Actual Portfolio. At any one time, the composition, and therefore the volatility, of the Actual Portfolio could deviate considerably from the Reference Portfolio (volatility in the Actual Portfolio could actually be less than that which is hardwired into the Reference Portfolio).

What volatility is acceptable?

Management understanding the risk implications of any given investment is only part of the process. It is also very important to establish our appetite for risk. That is a decision for the Board.

We have a long-term investment perspective so we accept that volatility is part and parcel of a portfolio designed consistent with that perspective. However, the Board has set a number of risk limits – all of which are disclosed in our Statement of Investment Policies, Standards and Procedures on the Fund's website – which govern how the Fund is invested, including the volatility the Board is prepared to tolerate.

A number of judgements are involved, but their effect is that the Board will accept that returns will fluctuate within a range around our average expected return over time. The breadth of this range is the crucial judgement for the Board.

The breadth of the range of expected returns of an investment reflects its risk. Low risk investments like Treasury Bills have a very narrow range of likely returns. Higher risk investments like venture capital have a very wide range of possible returns.

The common measure of volatility of investments is a statistical measure called 'standard deviation'. Usually when we talk about risk or volatility we are talking about the standard deviation of expected returns.

If we look at a table of returns over a very long term we can measure the average return and the standard deviation of returns. Approximately two-thirds of returns will lie within a range of +/- one standard deviation of the average return. Approximately 95% of returns will lie within a range of +/- two standard deviations. So by looking at standard deviations we can get a good idea of where most return outcomes will fall.

By using statistical modelling techniques we can refine these estimates and examine more closely the expected distribution of returns. Importantly, we can examine what happens in events beyond two standard deviations. We know that these '1 in 100' outcomes actually occur more often than that and our modelling gives us a better feel for what to expect in reality.

Risk analysis

On the following pages we use illustrative figures to demonstrate for interested readers how the risk analysis works. We will be using these graphs to enhance how we forecast investment risk in our Statements of Intent, and report on actual investment risk in our Annual Reports. The 2012 Statement of Intent and 2013 Annual Report will be the first to have this additional information (which will include measurement and discussion of the impact of investment risk on the Sharpe Ratio of the Fund).

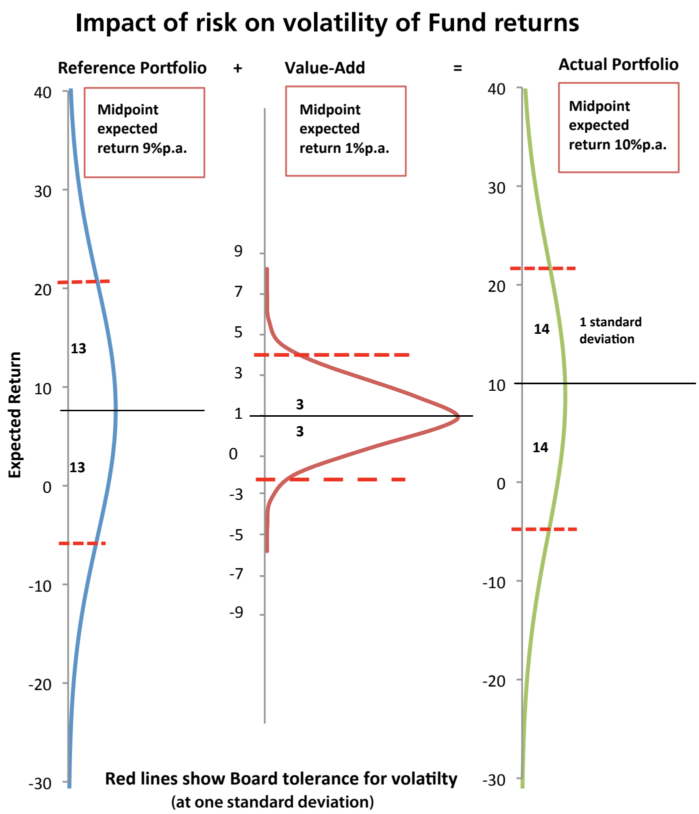
For the graphs we have assumed certain illustrative levels of returns over time. It is important to note that, as we explain carefully in each SOI, the figures we use are derived from long-term forecasting and so have far more relevance over longer time periods. For the purposes of this exercise we have assumed as follows:

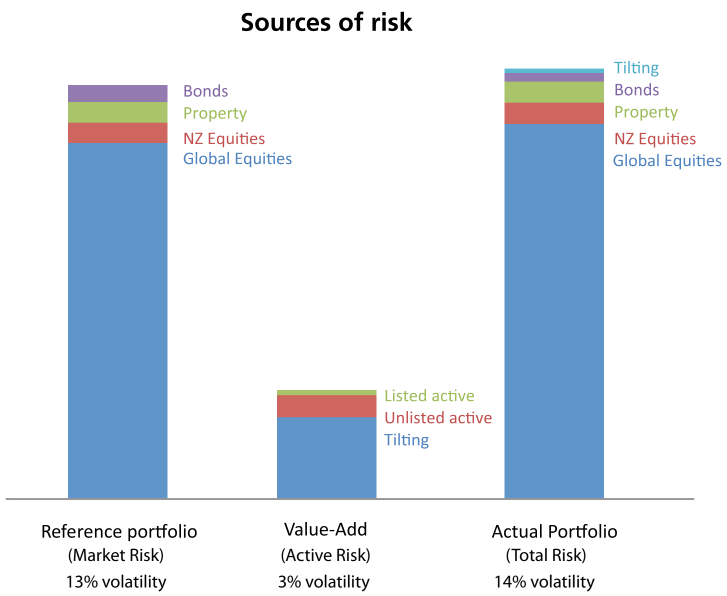
- expected average annual returns over time for the Reference Portfolio of 9% p.a. (this return comprises Treasury Bill returns plus an excess return for the market risk within the Reference Portfolio);
- expected average annual returns over time for our value-added activities of 1% p.a., and;
- expected average annual returns over time for the Actual Fund of 10% p.a. (Reference Portfolio + Value Add).

These expected returns all come with expected risk, which we explain further on the following pages.

Performance - continued

Risk and Volatility





What the graphs show

It is important to note:

1. the graphs use illustrative figures
2. the graphs show what applies at a certain point in time. So, for example, while tilting might be a primary influence in one graph, it is unlikely to be in most graphs because the nature of the activity means it is most effective in stressed market conditions (see page 27 for more information)
3. the risk in the Reference Portfolio and within our value-added activities behaves separately. So it is quite feasible for our Reference Portfolio to perform toward the top of its range (or even outside that) and for our value-added activities to perform towards the bottom of their range – and vice versa – in the same period.

Reference Portfolio

- our exposure to equities is the main source of risk in the Reference Portfolio in this snapshot
- the resulting expected annual average volatility of the Reference Portfolio returns is 13%. Remembering that the acceptable range of volatility is one standard deviation away from the midpoint, that means we expect returns to vary up to 13% either side of our expected return for the Reference Portfolio much (about two-thirds) of the time (i.e. they range from -5% p.a. to +21% p.a.) and to vary up to 26% most (about 95%) of the time.

Value-added activities

- active risk makes up only 3% of total risk
- the main source of active risk is Strategic Tilting in this snapshot
- the expected annual average volatility of returns from our value-added activities is 3% either side of our expected return for value-adding activities (i.e. 1% p.a.) much of the time and up to 6% most of the time.

Actual Portfolio Total risk

- equities and strategic tilting are the main sources of risk in this snapshot
- the resulting expected annual average volatility of the returns from the Actual Portfolio is 14% much of the time and by up to 28% most of the time
- in our illustrative graph the overall impact of our value-added activities does not materially increase the overall risk of the Fund. This is usually the case and the reason is that the returns of value-added activity usually behave differently to the returns of the Reference Portfolio. For example, the value added by a timber manager through good selection of forestry assets and timing of harvesting relative to market prices for logs, is usually independent of the ups and downs of the sharemarket. In some of our strategic tilting positions we will add value when the sharemarket goes down (and vice versa). In those instances active risk might actually reduce total Fund risk.

Making investment decisions

Given the importance of the Fund's purpose to multiple generations of New Zealanders, having a robust investment decision-making framework is crucial. Consistent with the strategic priorities we identified in our 2010 Statement of Intent – and continued in our 2011 Statement of Intent – we have focussed this year on further strengthening our investment decision-making processes. We believe that doing so enables us to:

- make investment decisions that represent the best returns, net of costs and adjusted for the risk accepted into the Fund; and which therefore maximise the value added to the Fund;
- have the capability and flexibility to have and use a dynamic approach to investing;
- organise our team and financial resources to focus on activities which add the most value; and
- monitor, assess and where appropriate report the results.

In particular, we have focussed on developing and rolling out an Investment Framework.

The Investment Framework

The Investment Framework was an initiative of our investment teams and refines our existing investment approach. The Framework itself was completed this year and establishes a common investment language so that when any of our team members are discussing concepts such as risk, opportunity and value-add; they are talking about the same thing. This has value when team members' employment backgrounds are diverse and when different asset classes may have specific terminology for the same basic ideas.

Most important, it seeks to use a common internal understanding of the important concepts as the foundation for a common approach to how they are applied to each investment proposal regardless of the asset class, geographical location or how it is accessed (for example, directly or through an investment manager).

This common approach is tuned to take account of the characteristics particular to the Fund: its New Zealand location, Government ownership, long horizon and that the responsibility for investing it is independent of the Government.

The Framework gives us a consistent platform for assessing

1. what risk we are bringing into the Fund with each investment proposal (the work done by our Portfolio Design team on this, as discussed from page 20, is an important part of this assessment)
2. the returns we expect for the risks – the 'Sharpe Ratio' assessment (see page 16)
3. our level of confidence in the expected returns, a judgement based on some or all of whether:
   a. the proposal assists with the diversification of the Fund
   b. the proposal is built around a genuine investment opportunity. Opportunities generally involve mispricing and examples include vendor distress, market failure, the impact of regulatory reform and exclusivity (which may arise because of the Fund's sovereign status)
   c. the proposal is built around a genuine skill, either our own skill or that of an external investment manager
4. whether we are accessing the opportunity in the ideal way

As discussed in our 2011 Statement of Intent, work will be continuing in the 2011/12 financial year to develop the necessary tools and systems to support the Investment Framework (for example, to enhance our valuation models).

We have already developed a number of tools to support the Investment Framework. The following two tables illustrate two of these:

1. the 'heat map' we use to establish whether a potential investment represents a genuine opportunity
2. the five-step process an investment proposal must go through to be approved under the Investment Framework

We have already shown in the CEO Statement how the Investment Framework was applied to an actual investment.

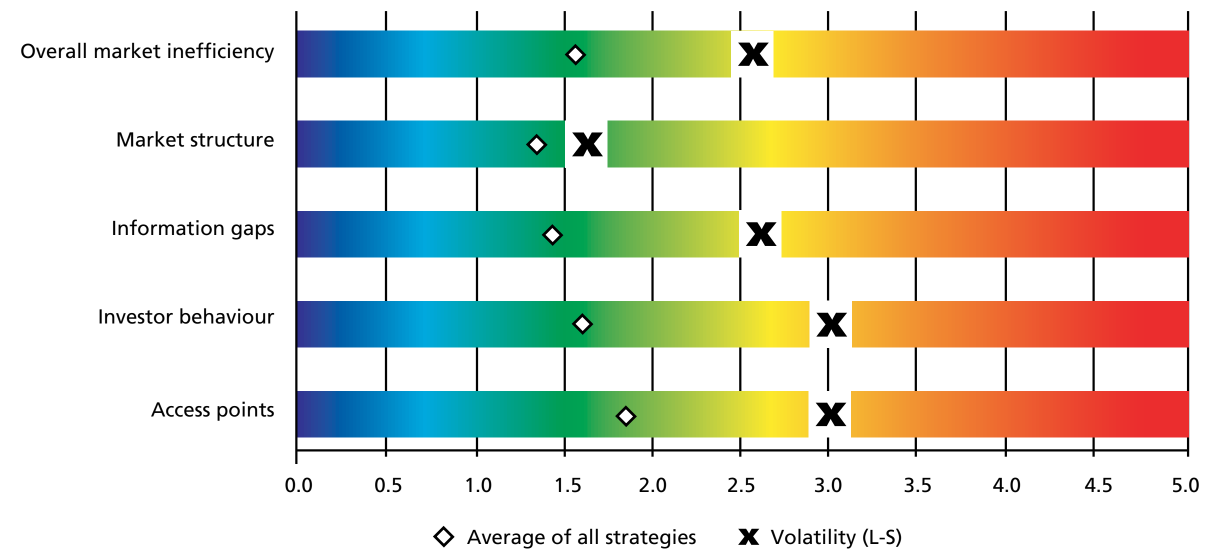
Heat mapping

This is a tool used by our investment teams to demonstrate the level of confidence they have in the potential of an investment opportunity (with zero being low and five being high). A decision to invest can be made on a stand-out rating in a single category, or a consistently good rating across several or more categories.

As per the heat map below which was used for an actual investment, opportunities can arise because of an inefficient market (where knowledgeable participants can outperform). Opportunities can also arise from diversification (what the investment returns rely upon is sufficiently uncorrelated to equity market returns); or high conviction in a manager (where the skills, experience, track record and other qualities of the investment manager persuade us that they are likely to outperform over time). Individual heat maps are used for each class of opportunity.

Assessing the existence and extent of opportunity is key to the approval process described on the following page.

Sample Investment 'heat map'



Making investment decisions - continued

The five-step approval process

If our investment teams wish to pursue an investment proposal – or wish to spend time and money establishing whether it is worth pursuing – they must follow a five-stage approval process.

Stage	What happens
1 - Strategy approval	We have a number of existing strategies including NZ Direct Investment, Rural Land, Timber, Direct Arbitrage, Private Equity and Property. If the opportunity is consistent with an existing strategy, then the process moves immediately to Stage 2. However if the opportunity is sufficiently different to what we have invested in previously, it will likely require a new strategy setting out the why, what and how of the investment type (not just the specific investment being considered). Only if and when the strategy is approved (some require approval by the Board, some do not) can the opportunity progress.
2 - Investment 'Heads Up'	This is the most important stage for considering a specific investment opportunity. The heat map discussed on the previous page is a key part of this. At this stage approval is given (or not) for due diligence – which typically incurs cost – on the proposal and/or on any investment managers involved. If a manager is involved, a screening process will likely have been completed to get the opportunity to this point. The investment team member recommending the opportunity will also have to identify the organisational and resource implications – how much legal time? How much operational time etc? – of making and managing the recommended investment. The heads up is considered by the Investment Committee. The decision to approve or decline proceeding with due diligence on the investment/investment manager is made by the relevant General Manager, following the Investment Committee discussion.
3 - Approval	The focus of this stage is the findings of the due diligence approved at Stage 2. The key features of this are: • that the proposed investment actually reflects the originally identified opportunity • a final, financial estimate of the value and risk expected to be added to the Fund by the investment • confirmation that we have conviction in any investment managers involved • confirmation that the assessment of organisational and resource and risk implications made in Stage 2 is robust This stage is managed by the Investment Committee and, based on their recommendation, is approved (or not) by the General Manager of Investments or of Asset Allocation (depending on the proposal). This stage may also require Board approval.
4 - Completion	The investment team member confirms to the Investment Committee that the investment deal has been made (or not), and the status of any matters raised at stage 3 but not yet resolved.
5 - Implementation Review	All investment strategies – and therefore the investment made under them – are reviewed on a regular, ongoing basis by teams of non-investment staff. The reviews are overseen by our Risk Committee and focus on whether the results produced match what we expected.

Strategic Tilting – how it works

Strategic Tilting is an investment strategy which will often be deployed in times of market stress or market excess. It is based on our investment belief that investment returns revert to our mean expectations over time.

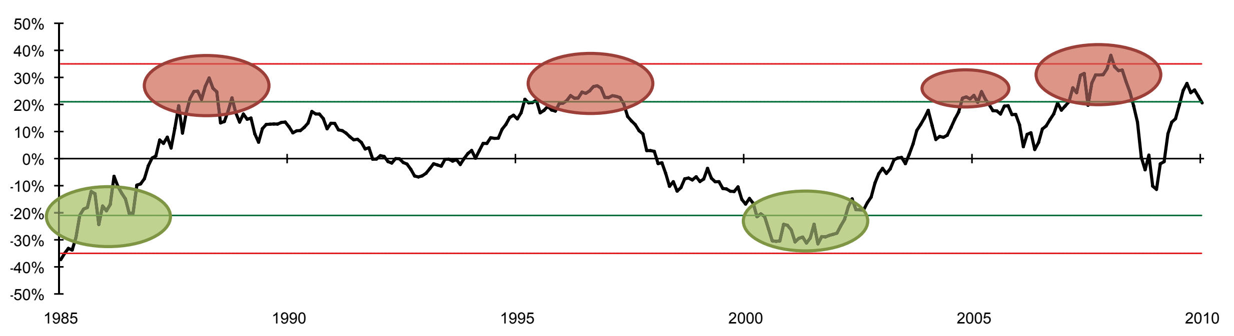
For Strategic Tilting, the mean is the intrinsic long-term expected return of an asset class. Investment opportunities arise when the market value of a particular asset class is materially different to that mean; the returns arise when the market value begins to revert to the mean.

In the below graph we illustrate how tilting works; in this example, currency tilting. Broadly, it should be clear from the graph that when we tilt we are not trying to time the market. Rather, we are positioning the Fund over the long-term relative to our views of where fundamental value lies. In relation to currency, the graph shows the NZD:USD exchange rate over time, where the middle line is the average exchange rate over that time. The green lines either side of the middle line illustrate where the exchange rate differential has entered extreme territory – when the tilting 'signal' would be activated. The red lines at the top and bottom of the graph show the maximum tilt possible.

The circles show logical tilting signals in the period covered by the graph. The red circles above the line denote periods where we would have shorted – sold – the NZD and bought USD because in our view the NZD is overvalued and, in the long term, we will make more money for the Fund by holding more USD as its value relative to the NZD returns to the average. The green circles below the line show periods where we would have gone long on – bought – NZD and sold USD because in our view the NZD is undervalued and that holding more NZD will position the Fund better as the value of the NZD relative to the USD returns to the average.

Because it demands a long-term perspective and an ability to weather the short-term volatility in returns – up or down – that often accompanies long-term positions, Strategic Tilting is almost perfectly suited to us. An additional attraction of the strategy is that it is relatively inexpensive to execute – we manage tilts internally. Accordingly, we expect Strategic Tilting to be a significant contributor to the value our active investment activity adds to the Fund over time.

Tilting signals: NZD vs. USD over time



Investment activity

Non-New Zealand investment activity

The table below shows the investments we have made outside New Zealand in the past 12 months, either directly, through a third party fund, or through giving a mandate to an investment manager (the full list of our investment managers is on page 31). It also shows where we have committed funds, but those funds have not yet been drawn down to make actual investments, as at 30 June 2011.

New commitments or investments made to 30 June 2011	**Opportunities under consideration at 30 June 2011**
Commitment to Paris-based private equity fund managed by Astorg Partners specialising in midmarket and expansion capital buyouts in France.	
Investment in passive, fixed-income mandates managed by BlackRock Investment Management (UK) Ltd.	
Commitment to Hong Kong-based private equity property fund managed by Gaw Capital specialising in commercial and residential real estate in second-tier cities in mainland China.	
Commitment to London-based private equity property fund managed by Mountgrange Investment Management specialising in adding value to commercial real estate.	
Investment in active equities mandates managed by QS Investors, LLC.	
Commitment to New York-based private equity property fund managed by Savanna specialising in real estate investments in the major markets surrounding key east-coast US cities.	
Commitment to Sweden-based private equity property fund managed by Sveafastigheter AB specialising in property investment across the Nordic region.	
Commitment to a California-based fund managed by Canyon Capital Advisors specialising in opportunities in distressed fixed income securities, including debt.	
Commitment to US-based timber fund managed by Global Forest Partners, LP, specialising in timber plantations in New Zealand, Australia, Asia, Africa and South America.	
NZD$1.4 billion invested **NZD$196.7 million committed but not yet invested**	**NZD$242.1 million under consideration**

New Zealand investment activity

We are required to report annually on our progress on the New Zealand Investment Directive received from the Minister of Finance in 2009. This section of the Annual Report meets that requirement.
The following table updates the table from our 2010 Annual Report. It summarises what we have done to identify, consider and make investments in New Zealand assets.

Opportunities reviewed to 30 June 2011	**New commitments or investments made to 30 June 2011**
We consider a large number of opportunities to invest in New Zealand. In this column we count only those opportunities we seriously reviewed and/or proceeded with in the financial year.	Commitment to New Zealand rural land (eight dairy properties, Southland, Otago, Canterbury and the Waikato). Mandate managed by FarmRight Ltd.
	Commitment to private equity property fund managed by Willis Bond specialising in New Zealand commercial real estate.
	Commitment to consortium led by Direct Capital to acquire 79.7% of Scales Corporation Limited[2].
	Appointment of Devon Funds Management Ltd to manage an active New Zealand equities mandate.
TOTAL 25	**NZD$50.2 million invested** **NZD$79.8 million committed but not yet invested**

SNAPSHOT: Value of NZ investments at 30 June 2011

We note that this table shows only what financial reporting standards would regard as New Zealand investments (i.e. investment value and cash flows in and out of investments); it does not include funds committed but not drawn, debtors' and creditors' balances and other items. It also omits swaps, FX and other influences as they are noise in the balance sheet at one point in time and so provide little of analytical value.

	30 June 2011	**1 July 2010**	**1 July 2009**
Auckland Airport	292.2m	248.8m	191.2m
Listed equities	826.5m	804.9m	690.4m
Private equity	35.1m	47.3m	47.8m
Property	238.1m	267.6m	292.2m
Timber	1,115.8m	1,026.6m	991.1m
Fixed income	88.3m	347.2m	145.6m
Shell NZ 'Z' assets	560.6m	209.8m	n/a
Rural land and associated assets	32.9m	n/a	n/a
TOTAL INVESTMENTS	**3,189.5m**	**2,952.2m**	**2,358.3m**

2 With our investment in Scales approved by Scales Shareholders past balance date, this commitment is now an investment.

Investment activity - continued

Z and Kaingaroa

We have a 40% holding in the Kaingaroa forest (specifically, the tree crop) which is our largest single investment. We also have a 50% holding in what was Shell's NZ business, which during the financial year was rebranded Z Energy.

Both assets performed well during the year. Log prices have been strong, largely courtesy of high appetite from China (we note that in the table setting out the value of NZ investments on page 29 the increase in valuation is hidden somewhat by the effect of the strong NZ dollar at the time the 2011 valuation was made).

Z Energy has performed above initial expectations and has been revalued from its acquisition cost (which was significantly below where we percieved value to be at the time we bought it). We also note that Z Energy received the Energy Company of the Year Award at the Deloitte Energy Excellence Awards in August 2011.

How we assess the fair value of private market assets

Both assets are private market assets, which – very basically – means that they are not listed on the stock exchange and therefore we do not have a 'market' price for them. We are required to value unlisted assets on an annual basis. We use a 'mark-to-market' approach to do this, which means we assess their fair value based (among other things) on the price for similar, listed assets. Clearly, this valuation reflects market price at one point in time.

It is important to note that the fair value assessments are done by independent valuers. Further, before the independent valuation is booked, the methods used to obtain it are checked by our internal Valuation Working Group, comprising senior members of our Investments and Finance teams. The Working Group liases with our external auditors.

Managers and custodians

We are required to show our full stable of investment managers and custodians, and to identify where new managers or custodians have been appointed or existing managers or custodians terminated, for the past 12 months. Note that this table does not show investments made (which has been summarised in the tables on pages 28 and 29).

Managers appointed during financial year	Mandate
BlackRock Inc	Fixed income, passive
Direct Capital	NZ private equity, active
FarmRight Ltd	New Zealand rural land, active
QS Investors, LLC	Large-cap global equities, active
Devon Funds Management Ltd	New Zealand equities, active
Managers/mandates terminated during financial year	
Vanguard Investments Australia Limited	Global credit, passive Global listed property, passive
Numeric Investors, LLC (one mandate only)	US small-cap equities, active (note Numeric retains a multistrategy equities mandate, as set out below)
Managers retained during financial year	
AMP Capital Investors	NZ equities, active NZ property, active
AQR Capital Management	Multistrategy equities, active Convertible bonds, active
CP2	Global infrastructure, active
Elementum Advisors, LLC	Catastrophe-linked securities, active
Global Forest Partners	Global timber, active
GMO Renewable Resources	NZ timber, active
Hancock Timber Resource Group	NZ timber, active US timber, active
LSV Asset Management Limited	Global equities, active Emerging markets equities, active
Milford Asset Management	NZ equities, active
Morrison & Co Funds Management Limited	Global infrastructure, active
Numeric Investors LLC	Multistrategy equities, active
State Street Global Advisors	Global large-cap equities, passive
Thompson, Siegel & Walmsley, Inc.	US small-cap equities, active
Western Asset Management	Global credit, active
Custodians during the financial year	
Direct Capital	Holding shares in Scales Corporation Limited as custodian
Northern Trust Company	Master Custodian for the Fund's public market assets.
From time to time the Guardians appoint custodians for a particular purpose. Details of these custodians are set out below.	
Wells Fargo and Bank of New York Mellon	Holding collateral associated with our investment in insurance-linked securities (including catastrophe bonds).
Euroclear Bank NA/SV	Holding collateral required under sale and repurchase (repo) transactions
The New Zealand Guardian Trust Company of New Zealand Limited, the Public Trust Limited and Perpetual Trust Limited	Trustees for holding money relevant to tax pooling arrangements.

Note: A Statement of Investment Policies, Standards and Procedures (SIPSP) is published on our website www.nzsuperfund.co.nz. On behalf of the Board and Management of the Guardians of New Zealand Superannuation we hereby certify to the best of our knowledge that the SIPSP has been complied with throughout the 2010/11 financial year.

David May

David May

Adrian Orr

Statement of Service Performance

This Statement of Service Performance (SSP) measures our progress against objective and measurements set out in the Forecast Statement of Service Performance in our 2010/11 Statement of Intent (SOI). As set out in our SOI, the single output of the Guardians is managing the Fund. That output comprises five work programmes covering expected investment returns; risk management; cost control; governance and organisational development. For each work programme we have set performance measures which, collectively, are performance measures for our output. While Government cash contributions to the Fund are suspended, we receive no funding from the Crown other than an appropriation to meet the cost of our Board (an appropriation required by our legislation). Our cost control therefore relates to the management of costs met from within the Fund.

OUTCOME MEASURES

The Fund's outcome is an investment outcome: reducing the tax burden on future New Zealand taxpayers arising from the cost of New Zealand Superannuation. That is a long-term outcome, the tangible results of which will be when the Government starts withdrawals from the Fund (currently in 2031). For the shorter term, we focus on maximising return without undue risk, which facilitates the Fund's ultimate impact on future New Zealanders' tax burden.

Measure	Expected outcome	Actual result	Comment
Reference Portfolio returns relative to Treasury Bills (per annum)	+3.2%	+16.59%	See page 2
Actual Portfolio returns relative to Reference Portfolio (after costs)	+0.55%	+5.57%	See analysis on page 18
Expected worst-case downside return[4]	-31%	+25.05%	See page 2

OUTPUT MEASURES

Work programme	Measure	Expected outcome	Actual result	Comment
Investment	Measures and targets are the same as for Outcome measures across this programme			
Cost control	Costs relative to peers in CEM survey	Rating of 'median cost, value-adding' in CEM survey	See comment	The CEM document was not available when this report went to print. We will disclose our rating on the website as soon as possible
Risk management	Expected worst-case downside return	Measures and targets are the same as under Outcome		
	Transparency ratings over time (at least Linaburg-Maduell)	10/10 Linaburg, results as appropriate to other surveys	10/10 Linaburg	See our website and the website of the Sovereign Wealth Fund Institute
			Top-rating Sovereign Wealth Fund in Santiago Compliance Index 2011 edition	See our website and the website of Geoeconomica
			Top three for transparency in Sovereign Wealth Fund Scorecard 2011 edition	See our website and the website of the Petersen Institute for International Economics
	Annual updating of report on implementation of 'Santiago Principles'	Completed	Completed	See our website and the website of the International Forum of Sovereign Wealth Funds
	United Nations Principles for Responsible Investment assessment	Top quartile	Top quartile	See page 44
	Published records of voting and Responsible Investment Report	Published	Published	See our website
Governance	Outcome of independent reviews	Positive review	N/A – done five yearly	See our website for the results of the two reviews done since our inception
Organisational capability	Key persons risks identified and covered	Achieved	Achieved	See page 57
	Key performance indicators achieved	Achieved	Achieved	See page 58

4. A scenario with a 1 in 100 chance of occurring within the specified timeframe. It is based on a 30-year investment horizon

Statement of Service Performance - continued

SPECIFIC INITIATIVES FOR 2010/11

This table reports progress against the important initiatives contributing to the various work programmes, and ultimately to the Fund's purpose, in the 2010/11 financial year. We note that, as set out in our 2010/11 SOI, most of these initiatives also apply to 2012 (therefore to be registered in the Achievement column as 100% Achieved, an initiative must either have been completed in the 2010/11 financial year or, where it is a multi-year initiative, be on-track relative to our expectations). The initiatives are derived from our Strategic Plan, which we have closely aligned to our Service Performance reporting.

Strategic Long-term Initiatives	Work in 2010/11 (and 2011/12)	Relevant SOI work programmes	Achievement	Comment
Peer collaboration project	Working more closely with peer funds to access skills and investment opportunities advantageous to the Fund. Incorporates comparison and benchmarking, co-operation on issues of mutual interest (e.g. Responsible Investment) and co-investment.	Investment Cost control Risk management Governance Organisational capability	**100% Achieved** • Agreed co-investment protocol with selected peers • Developed peer group prioritisation and plans, implementation well underway • Invited members of key international groups e.g. Public Funds Forum, World Bank Advisory Group • Established and chaired the Crown Financial Institutions Collaboration Forum	Retained as an ongoing objective. See 'Collaboration with peers' in the Forecast Statement of Service Performance (FSSP) in 2011 Statement of Intent (SOI).
Excellence in investment opportunity search, evaluation and selection	Refining our ability to identify, assess and capture investment opportunities; including jointly with other funds and fellow Crown Financial Institutions.	Investment Risk management Organisational capability	**100% Achieved** • Widened tilting ranges for Foreign Exchange, equity and credit • Progressed assessment of 3 investment themes • Reviewed 7 active return opportunity sets • Invested with 2 managers, restructured 2 existing managers, divested 1 investment as returns achieved and opportunity narrowed • Established a common language framework • Established an "investment framework"	Retained as an ongoing objective. See objective of same name in FSSP in 2011 SOI.

Initiative	Explanation	Relevant work programmes	Achievement	Comment
Capturing the illiquidity premium	Refining our processes for identifying opportunities with appropriate rewards for accepting illiquidity risk. Ensuring low-cost, passive alternatives are identified and assessed and, if proceeding, to structure illiquid investments to ensure the illiquidity premium is delivered.	Investment	**100% Achieved** • Updated the infrastructure strategy • Reviewed the private equity, private real estate and timber strategies • Increased capacity and investments in unlisted assets, including NZ Direct • Made commitments to a further $650m of unlisted assets	Retained – and broadened – as an ongoing objective. See 'Significantly progress implementing value-add strategies' in FSSP in 2011 SOI.
Excellence in portfolio completion	Improving our ability to identify and address potentially unnecessary investment costs.	Investment Cost control	**100% Achieved** • Implemented a liquidity framework • Moved to Fund-level hedging • Developed a rebalancing tool • Increased the number of active counterparties from 11 to 17 • Appointed a transition panel of 4 members	Sufficiently embedded to now be a business-as-usual contributor to cost control and investment programmes.
Complete HR Strategy implementation	Review of organisational design, new performance-based remuneration programme, key talent management and ongoing capability development.	Organisational development	**100% Achieved** • Reviewed and revised organisational structure • Implemented new bonus plan • Developed key person risk mitigation • Extended leadership development • Established target organisational culture	The completion of a succession plan has been carried over into 2011/12. Overall objective retained and broadened. See 'Building and maintaining a Great Team' in FSSP in 2011 SOI.

Responsible Investment

What is Responsible Investment?

Like many institutional investors, we invest with a long-term focus. We recognise that environmental, social, and governance (ESG) issues are long-term factors that can be highly relevant to investment performance. ESG issues present regulatory, market, reputational, and operational risks and opportunities which shareholders should consider to fully understand the companies in which they invest.

Responsible Investment (RI) is, therefore, the integration of ESG considerations into investment management practices in the belief that these factors can have an impact on financial performance.

Revising our Responsible Investment Framework

As discussed in the CEO Statement, in the past financial year we reviewed our policy framework including those which contribute to governing our Responsible Investment approach. The Act states that our overall Statement of Investment Policies, Standards and Procedures (SIPSP) must cover:

- ethical investment including policies, standards and procedures for avoiding prejudice to New Zealand's reputation as a responsible member of the world community; and
- the retention, exercise or delegation of voting rights acquired through investments

Previously, we met this requirement with a separate statement of Responsible Investment Policies, Standards and Procedures (RIPSP) which was published on our website. Subsequent to the review of our policy framework, we now meet this requirement in two ways:

1. Responsible Investment policies, standards and procedures are now incorporated within the relevant investment policies. Additionally, there is a Responsible Investment section within the SIPSP itself. We regard that as a further important step toward truly embedding the assessment and management of ESG factors within our investment processes, and;
2. To ensure there is public visibility of how we approach Responsible Investment, we continue to publish the SIPSP on our website. We have also published a separate document, a Responsible Investment Framework, which is part of the SIPSP and brings together everything that we do in one place.

What does the Responsible Investment Framework cover?

The Framework sets out the various work streams that we follow under our Responsible Investment programme. Importantly, it also closely aligns those work streams with the UN Principles for Responsible Investment (UNPRI). These include six broad principles as guidance on how to best integrate ESG issues in the management of the Fund. We have adopted the UNPRI as the internationally accepted benchmark of how institutional investors should manage ESG issues in a manner consistent with improving long-term investment returns.

The table below demonstrates the alignment between our work streams, the different UNPRI principles, and what activities come under each.

Our RI workstream	Relevant UNPRI principle(s)	Typical activities covered
Integration Developing guidelines to integrate ESG considerations across different types of investments Effective engagement with the external investment managers and manager selection advisers we use and the companies we invest in Considering investments which provide positive social returns in addition to the required financial return	**Principle 1** We will incorporate ESG issues into investment analysis and decision-making processes	Integrate RI guidelines across asset classes Apply exclusions Positive Investment & social rating Investment manager due diligence; monitoring and conviction
Ownership Being an active owner of securities in which we invest by exercising our voting rights Maintaining a robust analytical and decision making process in responding to investee companies breaching our Responsible Investment standards	**Principle 2** We will be active owners and incorporate ESG issues into our ownership policies and practices.	Direct and collaborative engagements with companies Voting - reducing agency risk NZ Corporate Governance Governance guidelines for other asset classes
Disclosure (by investee companies) Raising investee companies awareness of good practice reporting standards and encouraging their own efforts in this regard	**Principle 3** We will seek appropriate disclosure on ESG issues by the entities in which we invest.	ESG Reporting standards for companies Carbon Disclosure Project Encourage good practice reporting by NZ companies
Best practice and collaboration Benchmarking our performance against the Responsible Investment standards to which we aspire	**Principle 4** We will promote acceptance and implementation of the Principles within the investment industry. **Principle 5** We will work together to enhance our effectiveness in implementing the Principles.	Participation in Forums & working groups (e.g. UNPRI) Engagement with regulators and advisors Collaboration with Crown Financial Institutions and global peers Asset and co-investment guidelines
Communication Reporting on our activities across all workstreams including the benchmarking of those activities	**Principle 6** We will each report on our activities and progress towards implementing the Principles.	Public reporting of RI activity and benchmarking Internal reporting Stakeholder engagement

Responsible Investment Report

This report uses the structure set out on the preceding page.

Principle 1 - Integration

Typical activities

- Integration of Responsible Investment (RI) guidelines across asset classes
- Applying exclusions
- Positive Investment and social rating
- Investment manager DD; monitoring and conviction

Activities in 2010/11

The revision of the RI Framework itself was the main activity in this workstream. That is discussed in more detail on page 36. We have also developed RI guidelines for our private market (unlisted) assets as a key step toward full ESG integration. The objective is to have these guidelines implemented across all Private Market asset classes such as Private Equity, Property, Timber, and Rural Land.

During the year we also examined the risks and opportunities of climate change, and how this may impact our portfolio. Our integration of climate change risk issues into our investment approach was used as a case study for the Global Investor Survey on Climate Change report. The report was published in a joint effort by Mercer, the Institutional Investors Group on Climate Change (a body representing European institutional investors), the US-based Investor Network on Climate Risk and the Australian-based Investor Group on Climate Change (IGCC) (of which we are a member). The case study is below.

Box 3 The Guardians of New Zealand Superannuation

Assessment of existing and potential managers

The Guardians of New Zealand Superannuation (Guardians) is an operationally autonomous agency of the New Zealand Government, charged with managing the New Zealand Superannuation Fund. The Guardians annually review the actions taken by investment managers with respect to RI, including climate change issues.

The Guardians' RI policy applies to all asset classes and procedures for each become more detailed as best practice standards are developed. ESG requirements are integrated in investment due diligence including assessment of climate change risks where this is particularly relevant. For property investments, climate change guidelines focus on energy efficiency; for the New Zealand direct investments, and forestry holdings, the focus is on the risks and opportunities associated with the Guardians liability to the New Zealand Emissions Trading Scheme.

When appointing property, rural or forestry managers, climate change is incorporated into due diligence of the manager and mandate. As part of its RI requirements more broadly, the Guardians include ESG requirements in all private market manager agreements. Where it is not possible to include an ESG clause directly in the head agreement, especially in the case of a limited partnership, the Guardians use a side letter. The side letter sets out the Guardians' ESG requirements and sometimes specifically requires the manager to address climate change as part of environmental risk in the execution of their mandate.

In addition to inclusion of climate change considerations within formal processes and documentation, the Guardians have established an internal climate change "think tank" group. The group's role is to assess climate change risks and opportunities for the Fund, and comprises members of the Asset Allocation, Investment, Treasury, Communications and RI teams.

Principle 2 - Ownership
Typical activities • Direct and collaborative engagements with investee companies • Voting - reducing agency risk • NZ Corporate Governance • Governance guidelines for other asset classes
Activities in 2010/11
Voting Voting rights are important for maintaining shareholder oversight of directors, boards and company policies. We aim to use our voting rights to promote best practice corporate governance in the long-term interests of the Fund and to meet our obligations under our governing legislation. We exercise our voting rights globally across the Fund's segregated equity portfolio. We regularly publish a record of how we have exercised our voting rights, on the Responsible Investment section of our website.
Engagement Engagement is when we communicate with companies, either by ourselves or collaboratively with other investors, to encourage them to address poor ESG performance. We publish to our website the engagement process we follow. Below we have provided a table of our engagement activities during the financial year (note that there are instances of the same company appearing under more than one issue. We nevertheless regard each issue as a separate engagement).

# of companies	ESG issues engaged on	Objective	Direct or Collaborative	
			Direct	*Collaborative*
27	**Human Rights**			
	Conflict zones	Developing and implementing the United Nations 'Guidance on responsible business in conflict affected and high risk areas: A Resource for companies and investors".		7
	Health and safety (Labour practices inc child labor)	Improving Working conditions and health and safety of employees/workers and banning child labour.	4	2
	Supply chain risks	Ensuring supply chain management procedures and policies exist, and are transparent and sufficiently robust to address risks of poor labour practices, human rights infractions or environmental damage.		14
19	**Severe Environmental Damage**	Improving the company's management and reporting of environmental risks (inc crisis management).	3	16
24	**Bribery and Corruption**	Seeking significant improvements in anti-bribery policies and practices, following significant incidents at the company.	3	21
5	**Cluster Munitions**	Seeking clarification if a company is a producer or manufacturer of cluster munitions or of key components of cluster munitions.		5
390	**Best Practice Reporting**			
	Climate change	Increasing the number of portfolio companies reporting on climate change risk management.		250
	ESG risks	Encouraging public reporting on ESG risks amongst emerging market companies (South Korea).		10
	UN Global Compact Standards	Comply with reporting requirements under the UN Global Compact.		130
3	NZ Corporate Governance	Improving Corporate governance at specific NZ companies.	3	
	Palm oil	Research into sustainable certification (research stage)		
Total: 468 companies			**13**	**455**

In addition to the above, there are 12 companies we have on our monitoring list. Analysis concluded ESG concerns addressed with no engagement required.

Responsible Investment Report (continued)

Engagement case studies

Engagement to improve governance on the Board of Guinness Peat Group (GPG)	This engagement sought improvements in the governance of GPG, In particular, to the independence of the GPG Board, to the structuring of the bonus scheme and to the employment contracts of Executive Directors.	Jointly with other shareholders, including AMP and Milford Asset Management, we engaged directly with the GPG Board. We succeeded in getting changes to GPG's Board and therefore to the business strategy and the company. We believe these changes will benefit all shareholders.
UNPRI Engagement on Anti-Corruption - this focuses on 21 global companies with operations in sectors or countries exposed to high level of corruption risk	This engagement seeks disclosure from major companies, notably in the defense and construction sectors, of their management policies on bribery and corruption. The investors involved believe it is very important for companies, in which they are invested to provide sufficient information and reassurance on the material risks, including corruption risks, that they face in the course of their business activities.	We are a signatory to a letter to 21 companies. The investors ask companies that have not developed relevant policies to do so as a matter of urgency. Where policies are in place we ask the company to report on how these are implemented – i.e. in the area of anti-corruption management. Such disclosure should be sufficient to enable investors and other key stakeholder to make informed judgments about the effectiveness of the company's anti-corruption measures. As of July 2011, 11 companies replied to investors' letters. Of these 11 companies – the following companies substantially improved the way they report on anti-corruption management: Dominion Resources, Tesco, AT&T, Belgacom, Eiffage and Schneider Electric. Communication is continuing between investors and the other companies on the list (with follow up engagement with those companies that have not responded). Progress is closely monitored.
UNPRI engagement – targeting 130 companies who are participants to the UN Global Compact	This engagement targets companies that are participants of the UN Global. Being a participant requires companies to report on their progress - Communication on Progress (COP) annually. Those that do not produce a COP are taken off from the UNGC as a participating company. Every year, more and more companies are taken off the UNGC list due to their lack of reporting. The objective of the engagement is to: welcome particularly good practice, or, conversely, challenge non-conforming companies to regain full participant status	The targeted companies in 2010 included 44 leaders and 86 laggards (non-conforming companies). These companies received letters, emails, and phone calls regarding their inactive UNGC status. As a result, 40% (up from 33% in 2008) of the companies submitted a COP and regained active status as UNGC participants. Investors in collaboration also held a joint webinar with laggard companies in concert with the COP team at the UNGC.

Principle 3 - Disclosure by investee companies

Typical activities

- ESG Reporting standards for companies
- Carbon Disclosure Project
- Encourage good practice reporting by NZ companies

Activities in 2010/11

We continue to support the Carbon Disclosure Project (CDP) as an investor participant, The CDP seeks information on climate change management and carbon emissions from the world's largest companies, including those listed on the NZX 50. Together with Investor Group Climate Change (IGCC), we encouraged listed companies in New Zealand to respond to the CDP request. The responses from these companies are still to be publicly released. Nevertheless our active participation in CDP has nevertheless helped to ensure that NZX 50 companies have some presence in the global universe covered by the CDP project. We believe that our participation in the CDP has been important in raising awareness amongst NZ companies that investors globally are interested in the economic impacts of climate change and its potential effects on long-term shareholder value.

Principle 4 and Principle 5 - Best-practice and collaboration

Typical activities

- Participation in Forums and working groups (e.g. UNPRI, the IGCC and the RIAA)
- Engagement with regulators & advisors
- Collaboration with CFIs and global peers
- Asset and Co-investment guidelines

Activities in 2010/11

We seek to promote and encourage best practice management of ESG matters by our stable of investment managers. A key part of this effort is an annual survey of our investment managers to gauge what progress they are making.

For the past financial year we reviewed 33 managers (22 managing unlisted assets and the remainder managing listed assets). We were pleased to see that 11% of our managers are also UNPRI signatories, compared to 5% of our managers in 2009/10.

Key findings included:

- Managers of listed assets have an increasing appetite to include ESG factors in their investment analysis, largely because of their perception of a link between good governance and good risk management practices and company performance. Many are passive investors (where the composition and performance of their portfolios is determined by what companies are included within particular market indices, rather than by stock picking which is active). That means that the performance of their portfolios relies on a high common standard of management across the relevant index as a whole.
- There is more work to do on encouraging managers of listed assets to engage on ESG matters. Many companies identified by screening agencies, such as MSCI, as breaching ESG standards are unlikely to be sold from passive portfolios unless they are removed from the index tracked by the portfolio. Therefore, managers can play an important role in screening their portfolios and engaging with companies to improve ESG performance.
- Managers of unlisted assets are becoming increasingly active in integrating ESG factors. Of the 22 who responded to our survey, 18 have ESG or related policies or are in the process of developing them.
- Property managers identified environmental factors, such as energy efficiency, as key issues for their portfolios.
- Private equity managers identified governance issues as being most material.
- Managers of unlisted assets said that, where their investment in a company was not of sufficient size to give Board representations, they often found it difficult to influence company conduct on ESG matters.

The agreement we have with our fellow Crown Financial Institutions (CFIs) to collaborate on our Responsible Investment programmes was the subject of a case study by the UNPRI (see below). The agreement, which we have referred to in previous Annual Reports, has now been successfully operating for two years. The other CFIs are the Accident Compensation Corporation, the Earthquake Commission and the Government Superannuation Fund Authority.

7 Investor Group on Climate Change

8 Responsible Investment Association of Australasia

Responsible Investment Report (continued)

New Zealand Superannuation Fund
Principle 5: Developing agreements among responsible investors to share resources

Signatory type: Superannuation fund

Country: New Zealand

Established: 2001

AUM: US$11.26 billion

Collaborating with other investors can help smaller investors improve the effectiveness of their responsible investment strategies. This case study examines the Responsible Investment Agreement between the Guardians of New Zealand Superannuation and three other Crown Financial Institutions (CFIs) in New Zealand. The agreement has helped all four funds save resources by sharing information and research and collaborating on engagements. The four Funds are:

- Accident Compensation Corporation
- Earthquake Commission
- Government Superannuation Fund Authority
- Guardians of New Zealand Superannuation.

The Responsible Investment Agreement

The Guardians and the three other CFIs all have similar mandates: to maximise returns without undue risk and avoid investments that may harm New Zealand's reputation as a responsible member of the world community. The Guardians manage the New Zealand Superannuation Fund, which is the largest of the four CFIs. While the Guardians have an internal RI team to implement its strategy, the other three CFIs cannot justify having their own dedicated RI resource.

NEW ZEALAND SUPERANNUATION FUND

As PRI signatories, a degree of collaboration was developing naturally between the other CFIs. The organisations decided to formalise a resource-sharing arrangement and were encouraged in this endeavour by the Minister of Finance. This led to the signing of the CFI RI Agreement in February 2009.

In this Agreement, the Guardians act as a Secretariat for the CFI group and provide a series of outputs related to implementing responsible investment. These outputs are based on their RI Policies, including the six principles of the PRI as follows:

- Research and policy development
- Integration of ESG factors in investment including investment manager selection and monitoring
- Portfolio monitoring, which involves updating exclusion lists, identification, analysis and prioritising high RI risks with investments and issues, and proposing actions
- Active share-ownership activities through developing a framework and implementing an engagement programme with companies and other investors
- Assisting the CFIs with communication and collaboration. All the CFIs are responsible for their own communication but the Guardians help them report internally and externally on common RI activities. The Guardians also share information such as presentations, research report press releases, letters, and media articles as appropriate.

The CFI Agreement in practice – how it works

During the first few meetings of the CFI group, discussions focused on agreeing ESG priority issues for engagement. As ESG issues are broad, creating a feasible work plan required the group to narrow the priority issues to severe environmental risks and concerns, human rights, and bribery and corruption. These were seen as issues particularly relevant to New Zealand's reputation as a responsible investor.

"Banding together with other investors with similar characteristics and priorities can enhance the cost-efficiency and effectiveness of responsible investment activities."

Anne-Maree O'Connor and Arti Prasad-Naidu
Guardians of *New Zealand Superannuation Fund*

From Back left (facing you): *Earthquake Commission (EQC), Michael Daly (Manager, Investment Strategy), Annuitas, Government Superannuation Fund (GSF), Paul Bevin (General Manager, Investments), Accident Compensation Corporation (ACC), Atholl Law (Manager, External Managed Funds)* Front left to right (facing you): *New Zealand Superannuation Fund (GNZS), Anne-Maree O'Connor (Head of Responsible Investment), Arti Prasad-Naidu (Responsible Investment Analyst)*

The group also set some principles on how it should prioritise its approach to engagement with companies. The CFIs also agree on recurring agenda items, such as integration and research, portfolio monitoring, engagement and communications.

The CFIs pay the Guardians an annual fee as part of the Agreement. This fee contributes to the cost of the time the Guardians spend on the Group's RI activities and reflects the cost savings the other CFIs enjoy by not needing dedicated staff for this function. Furthermore, the CFI group saves on the total costs of buying ESG research by selecting common RI suppliers. This has roughly halved total costs.

The fee provided by the CFIs helps support their Principle 4 and 5 activities through the Guardians' participation in working groups, conference-speaking and other wider industry activities on their behalf.

The group meets quarterly with a set agenda and papers. Outside of these meetings, the group is in regular contact via phone and email. The Guardians use the PRI assessment results as one way to oversee group performance.

Key takeaways

The Guardians recommend three places to start for signatories interested in creating a similar agreement. Signatories should:

- Have similar objectives. It is important that signatories have similar mandates or objectives. Being part of the PRI may be enough. For funds already involved with the PRI, begin direct discussions with senior management.
- Identify what they have in common. For example, on prioritising corporate engagements, common holdings are a logical place to start.
- Have a streamlined approval process for engagements. In the establishment phase, focus on signoff and delegated lines of approvals and responsibility. This will help the group to meet deadlines. It is also beneficial for the signatories to develop a standard reporting template for RI meetings and activities.

More information:
www.nzsuperfund.co.nz

Responsible Investment Report (continued)

Principle 6 - Communication

Typical activities

- Public reporting of RI activity & benchmarking
- Internal reporting
- Stakeholder engagement

Activities in 2010/11

The UNPRI conducts an annual survey of signatories' progress against the UNPRI's six principles for Responsible Investment. We report annually on our performance and on the ratings subsequently awarded by the UNPRI. The ratings assess the extent to which signatories are actually delivering against the principles they have signed up to; and how well they are doing relative to other signatories.

Scores are calculated based on a self-assessment (a full version of which is published on the Responsible Investment section of our website) and using the scoring methodology approved by the PRI Assessment Group[9]. Each year some self-assessments are subject to a limited verification exercise, but responses are not independently audited. We note that in 2009 we were included in the group of signatories subject to verification, which resulted in the UNPRI raising the scores we had given ourselves.

Our results for the 2011 survey are set out in the below table, which shows how we have progressed since 2008 (and how the number of asset owner participants in each survey has also grown significantly). We continue to be one of the top performing funds globally across all six principles.

As the number of participants grows, and the policies and practices mature, it will be harder to maintain top quartile rankings. We are focused on this, however, as a key external measure of the quality of our Responsible Investment programme and an important indicator of whether we are consistent with best-practice.

Our performance against all asset owners, 2008-2011

Quartile summary	2008	2009	2010	2011
GPS	n/a	1	1	1
Principle 1	3	3	1	1
Principle 2	1	1	1	1
Principle 3	2	3	1	1
Principle 4	1	1	1	1
Principle 5	2	1	1	1
Principle 6	2	1	1	1
Number of peers	**74**	**128**	**168**	**198**

Top quartile 1 (green), quartile 2 (yellow), quartile 3 (orange), bottom quartile 4 (red)

9. Consistent with UNPRI requirements we note that scores have been calculated based on signatories' self-assessment and using the scoring methodology approved by the PRI Assessment Group. Although a limited verification exercise was undertaken with a proportion of signatories, responses have not been independently audited by the PRI Secretariat, PRI Assessment Group, or any other third party. Individual results including comparisons to the overall results (quartiles) are indicative and do not imply an endorsement of signatory activity. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of information presented, and no responsibility or liability can be accepted for any error, omission or inaccuracy in this information.

Implementation of our Environmental Policy

We have published an assessment of the environmental footprint of our organisation in our two previous Annual Reports. We expressed this as the emissions of greenhouse gases, per person, arising from our overall consumption of energy and resources arising from our office buildings and our travel. The footprint uses power bills, taxi receipts and travel data to produce baseline data which we have updated for the past financial year. Our task then is to try to reduce our per person emissions, reflecting that our organisation is growing and that Team member has a role in implementing the Environmental Policy.

New premises

On 13 June 2011 we moved into new premises at 21 Queen Street. This means that the report for this year is based mostly on our former premises but partially also on our new premises. It also means that we have to establish new baselines for the new building, not least because the new building carries a 5-star Green rating from the New Zealand Building Council. This is particularly relevant for the waste recycling programme.

Footprint

There has been an increase in the overall per person emissions of greenhouse gases[10] from 12.41 to 13.46 tonnes per FTE. Again, this is entirely due to increased airline travel, which is an inevitable consequence of being an international investor. We note that despite an increase in FTE our taxi usage has remained essentially flat and our power usage has decreased. We also note that if actual staff numbers at 30 June 2011 are used i.e. 70 people (as opposed to FTE which measures full-time working hours) the total emmissions per person drops to 12.88 tonnes per person.

ACTIVITY	Greenhouse gas emissions to 30 June 2010	Emissions per person to 30 June 2010	Emissions to 30 June 2011	Emissions per person to 30 June 2011
Power usage	31.5	0.49	31.6	0.47
Taxi usage[11]	6.0	0.09	6.5	0.10
Flights[12]	757.0	11.83	863.8	12.89
TOTAL	**794.5**	**12.41**	**901.9**	**13.46**

Relevant activities and information

- Our FTE increased from 64 at 30 June 2010 to 67 at 30 June 2011
- We moved to our new premises on 13 June 2011 which means that the data above contains 17 days of data from the new building (which is most relevant to the power usage). We note that the green practices followed by the building management at the new premises, together with new printers which permit enhanced power and paper saving, are already having an impact on the data we are recording for the 2011/12 financial year and which we will disclose in the 2012 Annual Report.

Portfolio footprint

In the 2010 Annual Report we said that we would report on work we are doing to assess the broader footprint of our portfolio – i.e. of the companies and enterprises in which we are invested. We have identified a number of work streams:

- Implications for our local holdings and investments of the proposed New Zealand Emissions Trading Scheme
- What useful guidelines for our reporting exist in global tools such as the Climate Disclosure Project

10. All emissions calculations via Climate Friendly at www.climatefriendly.com
11. Taxi data represents 3.9 tonnes in 5-litre cars and 2.6 tonnes in four-litre cars
12. All domestic and international travel

Implementation of our Environmental Policy (continued)

- A broader analysis of our direct and indirect exposures to climate change risks and opportunities
- What climate change mitigation actions are being undertaken by our peer funds.

Part of the outcome for assessing and managing our portfolio footprint from climate change risk and opportunity has been published as a case study for the Global Investor Survey on Climate Change report (see page 38). This will further be supplemented by the implementation of our RI guidelines across private market assets.

We are continuously working with our peers in sharing ideas and strategies. This was particularly beneficial in the area of climate change, especially in understanding how this theme would impact our portfolio. Seeing what others have done has lead us into establishing an internal climate change "think tank" group. This comprises members of the Asset Allocation, Investment, Portfolio Completion, Communications and RI teams. The group's role is to assess climate change risks and opportunities for the Fund.

Waste

As we have moved into new premises we will be conducting a waste audit which will establish a new baseline. In the new building we separate food/organic waste, recyclables such as glass, cans and certain types of plastic and landfill rubbish. We already have some preliminary information which indicates that we produce close to 500kg of waste a month.

We will aim to recycle the majority of that through a combination of the building's recycling programme and our existing paper shredding and recycling programme which we transferred from the previous premises.

Governance

In this section we report on how the Guardians observed each of the Securities' Commission's corporate governance principles in the year to 30 June 2011.

Principle 1 Directors should observe and foster high ethical standards

The Board has adopted a Board Charter incorporating a Code of Conduct for Board members. The Charter is available on our website under *Who We Are/Our Board.*

Employees also have a Code of Conduct. The Code provides 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.

A copy of the Code of Conduct for employees is available on our website under Who We Are/Our Management.

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

Principle 2 There should be a balance of independence, skills, knowledge, experience and perspectives among directors so that the Board works effectively

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

Board members are appointed by the Governor-General on the recommendation of the Minister of Finance. The Minister's recommendation follows nominations from 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.

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 2011 with details of individual Board members' background is set out in the table below. We note that Gavin Walker joined the Board in July 2010, Professor John Evans retired in May 2011, David Newman left after completing his second term and Dr Craig Ansley joined the Board after the end of the financial year, in September 2011.

Governance - continued

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 Annuitas Management Limited.
Skills, experience, and expertise	David has 43 years' experience in the financial services, superannuation, and insurance industries, including 31 years with Colonial Group, most recently as Managing Director of Colonial Life NZ Ltd (1995–2000).
Standing Board committee membership	Chairman of the Employee Policy and Remuneration Committee.

Name	**David Newman, Deputy Chair**
Term of office	Appointed September 2004 for five years and reappointed November 2009 until September 2011. Completed term and left Board in September 2011.
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, 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 Audit Committee.

Name	**Professor John Evans**
Term of office	Appointed December 2006 for five years and retired in May 2011.
External directorships	John is Chairman of Vertex Capital Ltd and is Managing Director of PGE Australasia Pty, an actuarial company specialising in the application of quantitative techniques to investment business. He also holds a number of 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 holds a Master of Business Administration from the University of Sydney. He is also Associate Professor in actuarial studies at the University of New South Wales and Director of the Centre for Pensions and Superannuation.
Standing Board committee membership	Member of the Audit Committee.

Name	**Mark Tume**
Term of office	Appointed April 2006 for five years. Reappointed August 2011 for five years.
External directorships	Director of the New Zealand Railways Corporation (KiwiRail), Infratil Limited and The New Zealand Refining Company
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.
Standing Board committee membership	Member of the Audit Committee[5]

Name	**Catherine Savage**
Term of office	Appointed November 2009 for five years.
External directorships	Managing Director of CMS Capital Limited, Director of Todd Family Office Limited, Comrad Holdings, NZX Incognito and Pathfinder Asset Management. Chairman of the National Provident Fund.
Skills, experience and expertise	Catherine was Treasurer of the National Gas Corporation from 1991-1993 prior to moving to AMP Capital Investors (NZ) Ltd where she worked in various senior management roles to 2000 when she became the Managing Director - AMP's youngest and only female country manager.
Standing Board committee membership	Member of Employee Policy and Remuneration Committee.

Name	**Stephen Moir**
Term of office	Appointed November 2009 for five years.
External directorships	Stephen is a non-executive director of the Bank of New Zealand and a member of the NZX Discipline Panel
Skills, experience and expertise	Stephen has more than 25 years of experience in financial services, including being the General Manager of the Westpac Institutional Bank from 1998-2001, preceded by senior positions with Credit Suisse in Singapore and Citibank in Singapore, Bangkok and Sydney.
Standing Board committee membership	Member of Audit Committee until July 2010. Member of Employee Policy and Remuneration Committee from July 2010.

Governance - continued

Name	**Gavin Walker**
Term of office	Appointed July 2010 for three years.
External directorships	Gavin is Chairman of ASB Bank and Sovereign Insurance and also chairs the Boards of Commonwealth Securities Pty Ltd and Australian Investment Exchange Ltd. He has been a director of Lion Nathan National Foods (formerly Lion Nathan Ltd) since 2000 and is also a director of Rimu SA.
Skills, experience and expertise	Gavin has extensive experience in investment banking and funds management including being CEO of the Banker's Trust in both New Zealand and Australia. He is a past chairman of the Foreign Direct Investment Advisory Board and a past director of BT Investment Management Limited, the Southern Cross Building Society and of Goodman Fielder Limited. Gavin has a BCA from Victoria University. He is a member of the New Zealand and Australian Institutes of Directors and the Institute of Financial Professionals.
Standing Board committee membership	Audit Committee from July 2010

The Guardians' governing legislation and the Board Charter 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 regularly reviews its delegations and governance priorities. This year a full review of the Guardians' policies including those relating to Human Resources, outsourcing and risk management was carried out, jointly by the Board and management. The Board also completed a self-assessment, with the assistance of an international expert, to gauge where it stood in relation to international best practice in investment governance.

The Board also hear directly from a range of external experts on investment markets and regularly visit international peer funds for the purpose of assessing developments in best practice. We have significantly progressed a Board member education programme in the 2010/11 financial year. We actively identify further education opportunities for our Board members. In the coming year four Board members will take part in a joint International Centre for Pension Management/Rotman course relating to governance of long-term investment funds.

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

The Board had two standing Board committees during the 2010/11 financial year:

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

The roles and responsibilities of the Board committees are set out in the respective Committee's Terms of Reference. Copies of the Terms of Reference are available on the Fund's website. Minutes of the Committee's meetings are provided to the Board. In addition, all Board members are able to attend any Committee meeting.

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 6 times during FY 2010/11, and its standing committees held nine 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.

Meeting Type	Board	Audit Committee	Employee Policy and Remuneration Committee
Number of meetings	6	5	3
David May	6	n/a	3
David Newman	5	4	n/a
Mark Tume	6	5	n/a
John Evans*	3	4	n/a
Gavin Walker	6	4	n/a
Catherine Savage	6	n/a	3
Stephen Moir	6	n/a	3

*John Evans left the Board during the financial year.

Principle 4 The Board should demand integrity both in financial reporting and in the timeliness and balance of disclosures on entity affairs

As a Crown entity the Guardians must meet all its obligations in respect of the Guardians and the Fund under the Act, the Crown Entities Act 2004, and the Public Finance Act 1989, including tabling the Annual Report for the Guardians and the Fund in the House of Representatives. The Annual Report is available to the public in hard copy and on our website. The financial statements for the Guardians are signed by the Chairman of the Board and the Chairman (or nominee) of the Audit Committee. The Financial Statements for the Fund are signed by the Chairman of the Board, 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 five years from 2011 to 2016 was tabled in the House on 23 May 2011. 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 13 to the Guardians' financial statements. We also note a new discretionary bonus scheme applies from 1 July 2010 onward, this is outlined on page 57.

Governance - continued

Principle 6 The Board should regularly verify that the entity has appropriate processes that identify and manage potential and relevant risks

The Board is responsible for reviewing and approving the Guardians' risk management strategy. 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 Committee reviews the reports of management and the external and internal auditors on the effectiveness of systems for internal control, financial reporting, and operational and legislative risk management. The Committee reports to the Board on changes to the risk management framework and to those risk records overseen by the Audit Committee. To assist in discharging this responsibility, the Board has in place a number of strategies designed to safeguard the Fund's and Guardians' assets and interests and ensure the integrity of reporting.

Principle 7 The Board should ensure the quality and independence of the external audit process

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

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

The Auditor-General appoints the external auditors of the Guardians and the Fund. The Guardians' external auditor is Brent Penrose of Ernst & Young who audits the Fund and 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 its 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 five years from 2011 to 2016 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 it proposes to do this, as well as report the direction in the Annual Report. Any direction given by the Minister must be tabled in Parliament. We received a direction in May 2009 but have received no directions in the current financial year.

The Act and the Crown Entities Act 2004 provide more information on the role and responsibilities 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 its Statement of Intent under the Crown Entities Act 2004 in May 2011. This set out the broad parameters of work for the five years from 2011 to 2016 and a detailed plan for FY2011/12.

Objectives set out in the Statement of Intent for the 2010-11 financial year are reported against from page 32 of this report.

Adrian Orr

Neil Williams

Matt Whineray

MANAGEMENT TEAM

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

- Leadership Team: dealing with the business operations of the Guardians;
- Investment Committee: advising on the investment decisions of the Guardians; and
- Risk Committee: advising on the performance of the Fund and the Guardians' service providers.

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 to 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 the cost of doing business is managed appropriately.

Below are brief profiles of the Leadership Team.

Adrian Orr, Chief Executive Officer: Responsible for general management of the Guardians 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. Adrian is New Zealand's representative on the International Forum of Sovereign Wealth Funds and a member of the investment council for the World Economic Forum and of the Expert Advosory Group for the World Bank's Treasury.

Neil Williams, General Manager Asset Allocation: Responsible for investment in listed markets and for the overall Fund investment completion (i.e. the use of derivatives, cash management and rebalancing). Neil joined the Guardians in May 2008 from UBS Global Asset Management in London where he was Global Head of Asset Allocation and a Managing Director in Global Investment Solutions. Neil was previously Chief Global Strategist, Executive Director for Goldman Sachs International (London).

Matt Whineray, General Manager Investments: Responsible for investment activity in alternative assets and the appointment of investment managers. 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 a Managing Director of First NZ Capital and a Vice President at Credit Suisse First Boston (New York). Matt began his career as a Barrister and Solicitor with Russell McVeagh.

Governance - continued

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.

Tim Mitchell

Mark Fennell, General Manager Operations: Responsible for developing and overseeing investment operations and information technology. 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).

Mark Fennell

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.

Stewart Brooks

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 HR consultancy business. Previously Janet held senior HR positions with Lion Nathan, NZI Life and New Zealand Dairy Foods.

Janet Gallagher

Our Team

We recognise the benefits to our organisation of having a breadth of skills and experience among our employees. We also recognise the benefits of being able to recruit, retain and develop high-quality people. To us this means our people must enjoy and feel safe in their workplace; trust the processes and procedures around their development, recognition, promotion and exit; and be enthused about and professionally satisfied by their roles.

If we can consistently achieve this for our people we believe that we will succeed in achieving our long term business goals, and continue to improve our Good Employer and Equal Employment Opportunity practices.

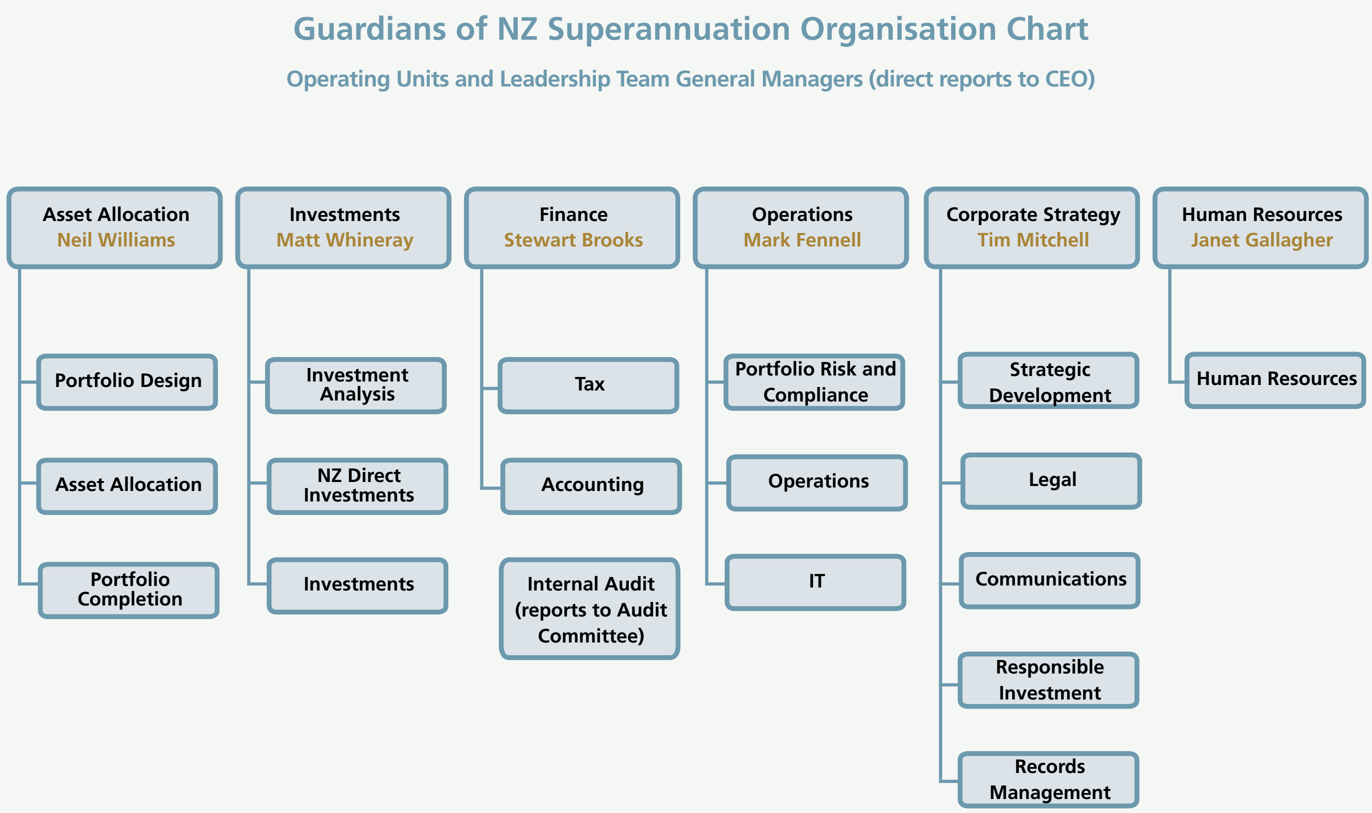
EEO Statistics

As part of regular reporting requirements, we monitor and report on the profile of our workforce. We have presented our FTE equivalent numbers and the numbers of people whose work comprises the FTE hours in the table below. As at 30 June 2011, our workplace profile is as follows:

Headcount (FTE)	**66**	
Full-time (FTE)	61	92%
Part-time (FTE)	5	8%
Gender (Number of people comprising FTE working hours)		
Women	24	34%
Men	46	66%
Senior Management (Number of people)*		
Women	11	37%
Men	19	63%
Age (Number of people)		
Under 20	0	0%
20 – 29	5	7%
30 - 39	27	39%
40 – 49	31	44%
50 – 59	7	10%
Over 60	0	0%
Undeclared	0	0%

* senior management includes General Managers, Heads of Departments and Senior Investment Analysts

Our Team - continued



1. Completing HR Strategy implementation

Cultural development programme

We have an ongoing focus on developing an investment team culture. Any single investment involves a lot of our team members' knowledge and experience. So we need to function as an integrated team to maximise our investment potential. Our culture is crucial to that.

In the past year we surveyed, our board, leadership team, and staff on their desired culture. They were unanimous that they preferred a culture strongly oriented toward achieving our goals in a supportive and constructive workplace.

Subsequently, we have included clear guidelines in all of our position descriptions on how to achieve our goals as a team, and will be holding each other accountable to these on an ongoing basis.

Key person risk identified and covered

We have developed a key person risk framework to ensure that we identify, obtain, keep and develop the talent that we need. The framework is reviewed twice a year by our Employee Policy and Remuneration Committee (EPRC) and is designed to identify the roles within the team that are critical to the purpose of the Fund and any risk to those roles not being performed as we require them to be. That includes identifying potential succession gaps and setting out the planning required to develop and promote talent from within the team. The framework also identifies those people outside the organisation who we believe have the skills and experience that would add value to the Fund.

EPRC has concluded that we are currently well positioned to provide internal cover for any mission-critical position, should it become vacant at short notice, for at least a three-to-six-month period.

2. New discretionary bonus scheme

Guardians' Remuneration Framework

Our remuneration framework was revised in July 2010 and has two components: base remuneration and an incentive. The framework is benchmarked to relevant New Zealand salary comparisons using third-party data.

The incentive element

The incentive element is based on two components (corporate staff e.g. those in operations and corporate strategy are eligible only for the first component; the CEO, GMs and investment staff are eligible for both):

1. Individual performance against targets specific to their role.

These targets are derived from an agreement between an employee and their manager as to what measurable, tangible efforts they can make over and above their standard role, but relevant to that role, to contribute to the relevant period's strategic objectives. As such, the targets are directly relevant to, and are controllable by, the employee.

2. The medium-term financial performance of the Fund.

This portion of the incentive element is based on the rolling four-year financial performance of the Fund relative to the same two public benchmarks we use for the performance of the Fund itself. The four-year benchmarks are:

- relative to return on 90-day Treasury Bills. The payment is capped when this return is ahead of 90-day Treasury Bills by 4 percent. If the return is below 90-day Treasury Bills the payment is zero, and;
- relative to the Reference Portfolio or the 'value add' return. This is a key measure of the value we're adding to the Fund through taking active investment decisions. The payment is capped when this return is 0.75% ahead of the Reference Portfolio. If value-add is zero or negative, the payment is zero.

How does the framework work?

In the below table we have set out the three categories of eligibility and the maximum bonus payments available to each (as a percent of gross remuneration):

Scheme since July 2010	Corporate Staff	Investments Staff	CEO and General Managers
Short-term	20%	30%	20%
Long-term Financial Performance	n/a	30%	20%

Prior to July 2010, all staff were eligible for a 7.5% short-term and a 22.5% long-term bonus. The long-term bonus was similarly based on Fund performance relative to benchmarks and was also paid on a rolling four-year basis.

Our Team - continued

Results

Individual KPIs

Employees agree individual targets which are relevant to their role and are therefore controllable by the employee. Each employee is then rated according to what they achieved, and how they went about doing it.

Across all employees, 71% of individual targets were achieved for the financial year. This reflects that the targets are not designed to be simple to achieve. We believe this is a positive start to the new incentive scheme.

Fund Financial Performance

Given that the long-term incentive is based on a rolling four-year period, there are currently a number of bonus 'vintages' in operation. Below we have shown the effect of these vintages which also shows that two different bonus schemes are in force.

Vintages Financial Year	**Maximum Payment** % average base gross remuneration	**Actual Payment** % average base gross remuneration	Comment
1. 2006-2009	22.5% all staff	8.6% all staff	Completed last year
2. 2007-2010	22.5% all staff	11.7% all staff	fully vested this year
3. 2008-2011	22.5% all staff	14.7% all staff	¾ vested
4. 2009-2012	22.5% all staff	11.3% all staff	½ vested
New bonus scheme in force from 1 July 2010			
5. 2010-2014	20% CEO/GMs 30% Investments	5% 7.5%	¼ vested

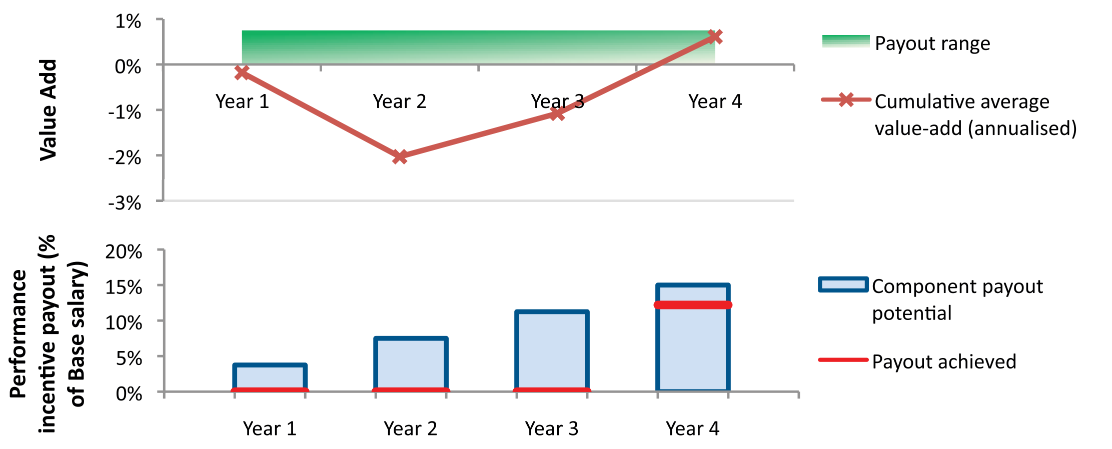
Catch-up effect

Where Fund underperformance or negative performance has meant that there has been no payment within a vintage, it is possible for subsequent strong performance within the same vintage to cancel out some or all of that underperformance. This could be sufficient for performance to 'catch up' on the relevant benchmark and for a bonus payment to be triggered for that portion of the vintage which has outperformed the benchmark.

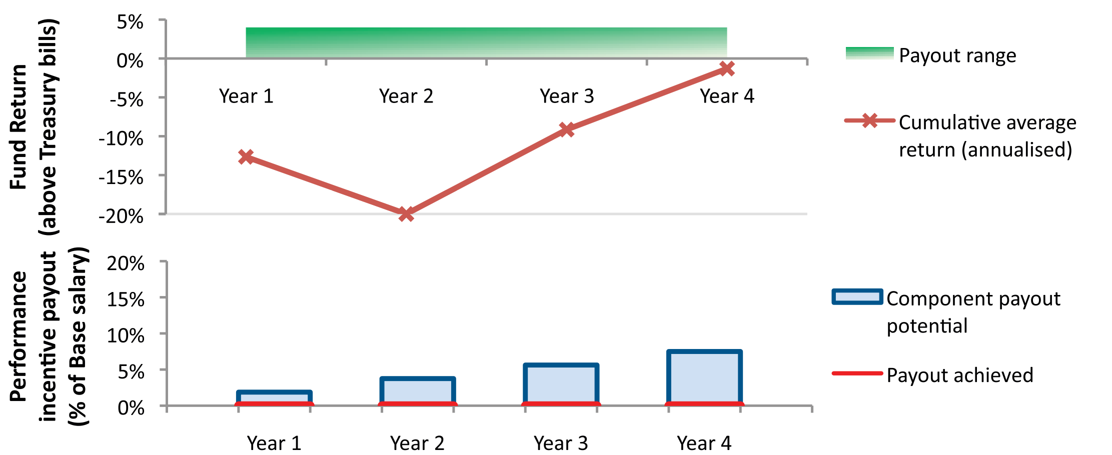
This has occurred for the 2007-10 vintage. For the first three years of that vintage, which included the Global Financial Crisis, the Fund's underperformance was such that no long-term incentive payments were made. However, the Fund's performance in 2010/11, the final year of that vintage, was of sufficient scale to lift the entire period's performance to a position triggering a payment of the value-add component of the long-term bonus. The effect of this was that all payments of the value-add component for the four-year period were made in the 2010/11 year, rather than being spread over the full four-year period. However, no payments were triggered for the Total Return component, which remained out of payment range.

This is shown in the graphs on the facing page.

Value-add Component



Total Return Component



Our Team - continued

3. Review of Human Resources Policy and Staff Code of Conduct

During the year we reviewed our policy framework and this included the Human Resources Policy – which sets out how we attract, retain, remunerate, develop and exit staff – and the Staff Code of Conduct, which sets our expectations of staff conduct.

As a result the two are now combined, with the Code of Conduct a schedule to the Human Resources Policy. Both are available on our website.

4. New premises

Shortly before the end of the financial year we moved in to new premises at 21 Queen Street in Auckland's CBD. We made the move because space was getting too tight for us at our previous home in the AMP Building on the next block; and with a weak commercial property market the timing was right to move within AMP's stable of properties.

We needed additional space because of our recent efforts to bring more of our investment activity in-house to manage our costs effectively, widen our investment capability, and continue to meet our mandate including direct investment capability in NZ. Doing so has had, and will continue to have, a favourable impact on cost control and net return of the Fund.

We believe the new tenancy more effectively future-proofs our space requirements than did the tenancy in the AMP Building.

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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 2011 fairly reflect the financial position, operations and cash flows of the New Zealand Superannuation Fund and Group.

David May

DAVID MAY
Chairman
12 September 2011

ADRIAN ORR
Chief Executive Officer
12 September 2011

Statement of Comprehensive Income

For the year ended 30 June 2011

		GROUP ACTUAL		BUDGET (UNAUDITED)
		2011	2010	2011
	Note	NZ$000	NZ$000	NZ$000
Interest income	2(a)	236,131	164,303	127,661
Dividend income		224,695	218,288	370,302
Timber sales	4	64,114	43,758	22,428
Fair value changes in investments held at fair value through profit or loss	3	3,589,873	1,492,632	922,291
Net foreign exchange gain/(loss)		(179,239)	196,768	-
Fair value changes in forests	4	(9,481)	11,618	1,763
Fair value changes in livestock	7(h)	72	-	-
Share of profit of investments accounted for using the equity method	7(f)	102,819	51,510	54,091
Other income		8,217	6,603	-
NET OPERATING INCOME/(LOSS)		**4,037,201**	**2,185,480**	**1,498,536**
Operating expenses	2(b)	134,904	99,499	110,835
PROFIT/(LOSS) FOR THE YEAR BEFORE INCOME TAX EXPENSE		**3,902,297**	**2,085,981**	**1,387,701**
Income tax expense/(credit)	6	906,837	378,202	334,552
PROFIT/(LOSS) FOR THE YEAR AFTER INCOME TAX EXPENSE		**2,995,460**	**1,707,779**	**1,053,149**
Other comprehensive income				
Net fair value gains/(losses) on available-for-sale financial assets		(584)	3,866	4,624
Gain/(loss) on revaluation of assets		927	(282)	-
Translation of foreign operations		-	9,193	-
Income tax on items of other comprehensive income		-	(2,754)	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**343**	**10,023**	**4,624**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,995,803**	**1,717,802**	**1,057,773**

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

Statement of Financial Position

As at 30 June 2011

		GROUP ACTUAL		BUDGET (UNAUDITED)
	Note	2011 NZ$000	2010 NZ$000	2011 NZ$000
ASSETS				
Cash and cash equivalents	19	2,903,094	1,942,798	621,009
Trade and other receivables	8	165,519	584,352	297,805
Other assets	9	2,375	63	-
Investments				
Investments – derivative financial instrument assets	7	1,396,938	604,342	126,458
Investments – other financial assets	7	14,207,800	12,465,339	15,340,669
Investments accounted for using the equity method	7	907,883	856,585	888,057
Agricultural assets	7	138,657	147,016	160,951
Total investments		**16,651,278**	**14,073,282**	**16,516,135**
Taxation receivable		-	69,277	-
Property, plant and equipment	10	80,305	47,929	47,566
Intangible assets	11	8,697	702	706
TOTAL ASSETS		**19,811,268**	**16,718,403**	**17,483,221**
LIABILITIES				
Trade and other payables	12	165,661	492,617	88,839
Investments – derivative financial instrument liabilities	7	601,037	530,048	-
Taxation payable		250,831	-	149,512
Provisions	13	12,348	3,306	26,249
Deferred tax liability	6	129,877	36,721	94,420
TOTAL LIABILITIES		**1,159,754**	**1,062,692**	**359,020**
NET ASSETS		**18,651,514**	**15,655,711**	**17,124,201**
PUBLIC EQUITY				
Retained surplus		3,757,355	761,895	2,226,286
Available-for-sale reserve		3,282	3,866	7,669
Asset revaluation reserve		8,798	7,871	8,167
Contributed capital	15	14,882,079	14,882,079	14,882,079
TOTAL PUBLIC EQUITY		**18,651,514**	**15,655,711**	**17,124,201**

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 2011

	Notes	FOREIGN CURRENCY TRANSLATION RESERVE NZ$000	ASSET REVALUATION RESERVE NZ$000	AVAILABLE-FOR-SALE RESERVE NZ$000	CONTRIBUTED CAPITAL NZ$000	RETAINED SURPLUS/ (DEFICIT) NZ$000	TOTAL NZ$000
Balance at 1 July 2009		**(6,435)**	**8,149**	**-**	**14,632,079**	**(945,884)**	**13,687,909**
Profit for the year						1,707,779	1,707,779
Other comprehensive income		9,193	(282)	3,866			12,777
Income tax on items of other comprehensive income		(2,758)	4	-			(2,754)
Total comprehensive income for the year		6,435	(278)	3,866	-	1,707,779	1,717,802
Fund capital contributions from the Crown					250,000		250,000
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15				8,289,830		8,289,830
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15				(8,289,830)		(8,289,830)
Balance at 30 June 2010		**-**	**7,871**	**3,866**	**14,882,079**	**761,895**	**15,655,711**
Profit for the year						2,995,460	2,995,460
Other comprehensive income		-	927	(584)			343
Total comprehensive income for the year		-	927	(584)	-	2,995,460	2,995,803
Fund capital contributions from the Crown					-		-
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15				8,830,246		8,830,246
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15				(8,830,246)		(8,830,246)
Balance at 30 June 2011		**-**	**8,798**	**3,282**	**14,882,079**	**3,757,355**	**18,651,514**

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 2011

	Note	GROUP ACTUAL 2011 NZ$000	GROUP ACTUAL 2010 NZ$000	BUDGET (UNAUDITED) 2011 NZ$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of investments		21,601,429	19,109,963	13,599,978
Proceeds from sale of forests		1,682	3,670	-
Proceeds from sale of associates		51,521	32,573	-
Dividends received		212,286	210,837	368,056
Interest received		245,120	137,496	129,632
Receipts from customers		61,647	41,847	15,052
Miscellaneous income		2,903	1,696	-
Total cash inflow from operating activities		**22,176,588**	**19,538,082**	**14,112,718**
Cash was applied to:				
Purchases of investments		(20,474,562)	(18,700,288)	(13,766,794)
Purchases of forests		(39)	(447)	-
Purchases of livestock		(2,926)	-	-
Managers' fees		(34,790)	(40,704)	(44,621)
Payments to suppliers		(52,196)	(52,255)	(46,817)
Income taxation paid		(487,059)	(65,415)	(223,034)
Goods and Services Tax		(3,375)	(1,444)	-
Total cash outflow from operating activities		**(21,054,947)**	**(18,860,553)**	**(14,081,266)**
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	19(c)	**1,121,641**	**677,529**	**31,452**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of property, plant and equipment		63	1	-
Total cash inflow from investing activities		**63**	**1**	**-**
Cash was applied to:				
Purchases of property, plant and equipment		(33,046)	(488)	(1,150)
Purchases of intangible assets		(777)	(941)	(650)
Total cash outflow from investing activities		**(33,823)**	**(1,429)**	**(1,800)**
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		**(33,760)**	**(1,428)**	**(1,800)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Capital contributions from the Crown		-	250,000	-
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES		**-**	**250,000**	**-**
Net increase/(decrease) in cash and cash equivalents		**1,087,881**	**926,101**	**29,652**
Cash and cash equivalents at the beginning of the financial year		1,942,798	1,060,920	591,357
Effects of exchange rate changes on the balance of cash held in foreign currencies		(127,585)	(44,223)	-
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	19(a)	**2,903,094**	**1,942,798**	**621,009**

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 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

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

The consolidated financial statements comprise the Fund and its subsidiaries.

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

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

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 140.

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 2011 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 12 September 2011.

BASIS OF PREPARATION

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

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

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 2011. The standards and interpretations applicable to the Fund are outlined in the table below.

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
NZ IAS 24	Related Party Disclosures (Revised 2009)	The amendments simplify the definition of a related party and provide a partial exemption from the disclosure requirements for government-related entities.	1 January 2011	The amendments will have an impact on the Group's related party disclosures. It is expected that the number of disclosures will reduce on adoption of the revised standard.	1 July 2011
NZ IFRS 9	Financial Instruments	NZ IFRS 9 (2009) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace NZ IAS 39 Financial Instruments: Recognition and Measurement. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39. The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: (a) Two categories for financial assets being amortised cost or fair value (b) Removal of the requirement to separate embedded derivatives in financial assets (c) Strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (i) the contractual cash flows from the instrument represent principal and interest and (ii) the entity's purpose for holding the instrument is to collect the contractual cash flows (d) An option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition (e) Reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes (f) Changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income.	1 January 2013	NZ IFRS 9 will affect the classification and measurement of the Group's financial assets.	1 July 2013
Improvements to NZ Equivalents to IFRS (2010)	Amendments to New Zealand Accounting Standards arising from the Annual Improvements Project (2010)	The amendments to NZ IFRS 7 emphasise the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The amendments to quantitative and credit risk disclosures are as follows: (a) Clarify that only financial assets whose carrying amount does not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk (b) Require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g. a description of the extent to which collateral mitigates credit risk) (c) Remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired (d) Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired (e) Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.	1 January 2011	The amendments will have an impact on the Group's financial instrument disclosures. It is expected that the number of disclosures will reduce on adoption of the amendments.	1 July 2011

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
Improvements to NZ Equivalents to IFRS (2010)	Amendments to New Zealand Accounting Standards arising from the Annual Improvements Project (2010)	The amendments to NZ IAS 1 clarify that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.	1 January 2011	The amendments will have an impact on the Group's financial statements as the Group currently presents this analysis in the statement of changes in equity.	1 July 2011
NZ IAS 12	Amendments to NZ IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets	These amendments update NZ IAS 12 to include: (a) A rebuttable presumption that deferred tax on investment property measured using the fair value model in NZ IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale (b) A requirement that deferred tax on non-depreciable assets, measured using the revaluation model in NZ IAS 16, should always be measured on a sale basis. The amendments incorporate NZ SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets into NZ IAS 12 for non-depreciable assets measured using the revaluation model in NZ IAS 16 Property, Plant and Equipment.	1 January 2012	The amendments will have no impact on the Group's financial statements as the Group does not hold any investment property and non-depreciable assets measured using the revaluation model in NZ IAS 16 are already reflected in deferred tax on a sale basis.	1 July 2012
NZ IAS 28	Investments in Associates and Joint Ventures	NZ IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) supersedes NZ IAS 28 Investments in Associates (2004), as a result of the issue of NZ IFRS 11 Joint Arrangements and NZ IFRS 12 Disclosure of Interests in Other Entities. NZ IAS 28 (as amended in 2011) prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Disclosure requirements relating to these investments are now contained in NZ IFRS 12.	1 January 2013	The amendment will have an impact on the Group's associate and joint venture disclosures.	1 July 2013
NZ IFRS 7	Amendments to NZ IFRS 7 Financial Instruments: Disclosures	The amendments to NZ IFRS 7 enhance the transparency of disclosure requirements for the transfer of financial assets. For transferred financial assets that are derecognised in their entirety but where the entity has a continuing involvement in them, the amendments require disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. For transferred financial assets that are not derecognised in their entirety, the amendments require disclosure of information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. All the information will need to be presented in a single note in an entity's financial statements.	1 July 2011	The amendment will have an impact on the Group's financial statement disclosures.	1 July 2011

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
NZ IFRS 10	Consolidated Financial Statements	NZ IFRS 10 establishes a new control model. It replaces parts of NZ IAS 27 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to control another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This could lead to more entities being consolidated.	1 January 2013	The new standard may result in the Group consolidating entities which is does not currently consolidate under NZ IAS 27.	1 July 2013
NZ IFRS 11	Joint Arrangements	NZ IFRS 11 replaces NZ IAS 31 Interests in Joint Ventures and SIC-13 Jointly-Controlled Entities – Non-monetary Contributions by Ventures. NZ IFRS 11 uses the principle of control in NZ IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition NZ IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves are accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets are accounted for using the equity method. This may result in a change in the accounting for joint arrangements.	1 January 2013	The new standard is unlikely to impact the recognition and measurement of the Group's joint ventures, but it may impact financial statement disclosures.	1 July 2013
NZ IFRS 12	Disclosure of Interests in Other Entities	NZ IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	The new standard will have an impact on the Group's subsidiary, associate and joint venture disclosures.	1 July 2013
NZ IFRS 13	Fair Value Measurement	NZ IFRS 13 establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by NZ IFRS. Application of the guidance may result in different fair values being determined for the relevant assets. NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	1 January 2013	The new standard may lead to changes in the recognition, measurement and disclosure of assets and liabilities held at fair value.	1 July 2013
FRS 44	New Zealand Additional Disclosures	FRS 44 is a consequence of the joint Trans-Tasman Convergence project of the Australian Accounting Standards Board (AASB) and Financial Reporting Standards Board (FRSB). This standard relocates New Zealand specific disclosures from other standards to one place and revises disclosures in the following areas: (a) Compliance with NZ IFRS (b) The statutory basis or reporting framework for financial statements (c) Audit fees (d) Imputation credits (e) Reconciliation of net operating cash flow to profit/(loss) (f) Prospective financial statements (g) Elements in the statement of service performance.	1 July 2011	The new standard will impact disclosures in the financial statements.	1 July 2011

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
Harmonisation Amendments	Amendments to NZ IFRS to Harmonise with IFRS and Australian Accounting Standards [NZ IAS 1, 7, 8, 12, 16, 20, 28, 31, 34 and 40]	These amendments (a) Remove the disclosures which have been relocated to FRS 44 (b) Harmonise audit fee disclosure requirements in NZ IFRS 1 with AASB 101 (c) Harmonise imputation/franking credits' disclosure requirements in NZ IAS 12 with AASB 101 (d) Introduce the option to use the indirect method of reporting cash flows in NZ IAS 7 (e) Introduce an accounting policy choice to use the cost model for investment property under NZ IAS 40 (f) Remove the requirement to use an independent valuer and the related disclosure requirements currently in NZ IAS 16 and NZ IAS 40 (g) Remove some NZ-specific disclosures	1 July 2011	The new standard will impact disclosures in the financial statements.	1 July 2011

* Designates the beginning of the applicable annual reporting period.

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

(a) Capital contributions

(i) Fund capital contributions

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

(ii) Superannuation entitlement payments

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

(b) Capital withdrawals

(i) Fund capital withdrawals

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

(ii) Superannuation entitlement payments

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

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

(c) Income tax

In accordance with Section 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 income of the Group under the Income Tax Act 2007.

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income tax (continued)

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, the carry-forward of unused tax assets and unused tax losses can be utilised:

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

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

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

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

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

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

(d) Financial instruments

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

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

(e) Investments

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investments (continued)

Financial instruments at fair value through profit or loss

Initial recording

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

Subsequent measurement

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

Determination of fair value

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

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

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

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

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

v) Certain private equity investments (unlisted investment funds and unlisted equity investments), which are designated at fair value through profit or loss, are valued at the last price of the unit or security as provided by the investment managers or administrators at balance date. The price is based on the fair value of underlying net assets of the private equity investment. Fair value is determined using a variety of methods, including independent valuations, valuation models based on the price of recent investments, earnings multiples or discounted cash flows. Certain private equity investments are classified as available-for-sale. The accounting policy for these investments is outlined under viii).

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

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

Available-for-sale financial instruments

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

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

Loans and receivables

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investments (continued)

Derivatives

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

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

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

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

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

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

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

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

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

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

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

'Day 1' gains and losses

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

(f) Securities lending

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

(g) Repurchase and reverse repurchase agreements

Securities sold under agreement to repurchase at a specified future date are not derecognised from the statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate.

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Consolidation of subsidiaries

Subsidiaries are those entities that are controlled by the Fund.

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

All inter-entity transactions, balances and unrealised profits are eliminated on consolidation.

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

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

(i) Investments in associates

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

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

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

(j) Investments in joint ventures

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

At inception, certain of the Fund's joint ventures are designated at fair value through profit or loss under NZ IAS 39 Financial Instruments: Recognition and Measurement (in accordance with paragraph 1 of NZ IAS 31 Interests in Joint Ventures). All other joint ventures are equity accounted in accordance with NZ IAS 31 Interests in Joint Ventures. The designation is made with reference to how the Guardians intend to manage the investment and the extent to which the Guardians will be involved in the management of the investment.

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

(k) Forests

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

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

The fair value of the forest assets is measured as the present value of cash flows from one growth cycle based on productive forest land, taking into consideration environmental, operational and market restrictions. Forests are valued separately from the underlying freehold land. Further details on the valuation basis is set out in note 7(g).

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Livestock

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

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

(m) Inventory

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

(n) Receivables

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

(o) Property, plant and equipment

Initial recording

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

Subsequent measurement

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

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

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged.

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

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

Disposal

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

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

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

Impairment

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Property, plant and equipment (continued)

Impairment (continued)

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

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

(p) Depreciation

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

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

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

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

(q) Intangible assets

Software

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

Carbon credits

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

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

(r) Operating leases

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

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

Where there are contingent lease payments, the contingent rental is recognised as an expense when the value can be reliably estimated.

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Payables

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

(t) 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.

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

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

Securities lending fees are recognised as earned.

(v) 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 profit or loss in the statement of comprehensive income.

(w) Translation of the financial statements of foreign operations

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

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

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

(x) Statement of cash flows

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

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

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

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

Cash and cash equivalents

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) 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.

(z) Changes in accounting policies

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

Certain prior year comparatives have been restated to conform with current year presentation.

(aa) Significant estimates and judgements

In preparing these financial statements, estimates and judgements have been made concerning the future. These estimates and judgements may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are detailed within the following accounting policies and notes:

- Note 1 (e) Investments. In particular: fixed interest securities where the market is illiquid; private equity funds; unlisted unit trusts; derivatives; 'day 1' gains and losses.
- Note 1 (k) Timber investments – forests
- Note 1 (l) Livestock
- Note 1 (o) Property, plant and equipment – valuation of land and buildings
- Note 1 (q) Intangible assets
- Note 7 Investments
- Note 10 Property, plant and equipment
- Note 11 Intangible assets
- Note 20 Financial instruments

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

	GROUP ACTUAL	
	2011 NZ$000	2010 NZ$000
2. PROFIT/(LOSS) FROM OPERATIONS		
(A) INTEREST INCOME		
Interest income – financial instruments held at fair value through profit or loss		
Interest income – State-Owned Entities	14,996	108
Interest income – Other	139,692	127,075
	154,688	127,183
Interest income – financial instruments not at fair value through profit or loss		
Other interest	81,443	37,120
Total interest income	**236,131**	**164,303**
(B) OPERATING EXPENSES		
Profit/(loss) before income tax has been arrived at after charging/(crediting):		
Timber harvesting and operating expenses	21,416	19,758
Farm operating expenses	542	-
Depreciation of property, plant and equipment (note 10)	1,329	920
Loss on disposal of property, plant and equipment	407	33
Loss on disposal of intangible assets	-	16
Loss on revaluation of property, plant and equipment	-	1,561
Amortisation of intangible assets (note 11)	679	478
Managers' fees – base	34,651	36,322
Managers' fees – performance	35,102	1,363
Custody fees	4,829	4,569
Auditor's remuneration (note 5)	293	283
Reimbursement of Guardians' expenses	21,317	15,973
Trade expenses	6,617	8,511
Other expenses	7,722	9,712
	134,904	**99,499**
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	1,799,106	1,591,322
Financial assets or liabilities held for trading recognised at fair value through profit or loss	1,790,767	(98,690)
	3,589,873	**1,492,632**
4. TIMBER OPERATIONS		
Timber sales	64,114	43,758
Harvesting and operating expenses	(21,416)	(19,758)
Receipt of carbon credits from the Crown	7,897	-
Depreciation – land improvements (note 10)	(536)	(531)
Net trading result	**50,059**	**23,469**
Fair value changes in forests	(9,497)	9,842
Gain on disposal of forests	16	1,776
Timber net surplus (excluding managers' fees)	**40,578**	**35,087**

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

	GROUP ACTUAL 2011 NZ$000	GROUP ACTUAL 2010 NZ$000
5. REMUNERATION OF AUDITOR		
Auditor of the parent entity		
Audit of the financial statements – Attest	277	269
Audit of Fund subsidiaries	2	2
Audit of Guardians subsidiaries	14	12
	293	**283**

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

	GROUP ACTUAL 2011 NZ$000	GROUP ACTUAL 2010 NZ$000
6. INCOME TAXES		
Income tax expense		
Current tax – current year	811,861	6,869
Current tax – prior year	(5,366)	(34,249)
Deferred tax – current year	102,333	495,649
Deferred tax – prior year	(1,991)	(90,067)
Income tax expense	**906,837**	**378,202**
Profit/(loss) for the year before income tax	3,902,297	2,085,981
Income tax calculated at 30%	1,170,689	625,794
Fair Dividend Regime	(97,326)	(112,090)
PIE Regime	(152,835)	(834)
CFC Regime	5,429	-
Imputation credits	(7,090)	(10,422)
Reduction in tax rate to 28% [i]	(2,321)	(7,017)
Foreign tax credits	(6,960)	-
Foreign tax credits unable to be claimed	-	6,633
Prior period adjustment	(7,357)	(124,317)
Other items	4,608	455
Income tax expense	**906,837**	**378,202**
Deferred tax assets are attributed to the following:		
New Zealand income tax losses	-	63,667
Unrealised loss on non-portfolio grey list FIF's	7,149	4,560
Other	461	1,441
Set off against deferred tax liability	(7,610)	(69,668)
Balance at the end of the year	**-**	**-**
Movements		
Balance at the beginning of the year	-	371,490
Prior year adjustments	7,098	91,134
Other	-	124
Credited to profit or loss	(69,156)	(481,603)
Set off against deferred tax liability	62,058	18,855
Balance at the end of the year	**-**	**-**

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

	GROUP ACTUAL 2011 NZ$000	GROUP ACTUAL 2010 NZ$000
6. INCOME TAXES (continued)		
Deferred tax liabilities are attributed to the following:		
Timber investments – forest revaluation	(129,786)	(103,005)
Amounts recognised directly in equity	(2,569)	(2,309)
Other	(5,132)	(1,075)
Set off against deferred tax asset	7,610	69,668
Balance at the end of the year	**(129,877)**	**(36,721)**
Movements		
Balance at the beginning of the year	(36,721)	-
Prior year adjustments	(5,107)	(1,066)
Amount recognised directly in foreign currency translation reserve	-	(2,758)
Amount recognised directly in asset revaluation reserve	260	4
Prior year transfer of losses to current tax	5,366	-
Devaluation for change in tax rates	2,321	-
Other movements	(761)	-
Set off against deferred tax asset	(62,058)	(18,855)
Credited to profit or loss	(33,177)	(14,046)
Balance at the end of the year	**(129,877)**	**(36,721)**
7. INVESTMENTS		
(A) INVESTMENTS BY ASSET TYPE		
Financial assets		
Derivative financial instrument assets:		
Forward foreign exchange contracts	643,918	348,963
Cross currency swaps	361,588	101,619
Asset swaps	6,255	301
Longevity contingent swaps	95,870	108,913
Futures contracts	-	-
Equity swaps	69,873	39
Commodity swaps	-	2,084
Credit default swaps	210,335	35,368
Insurance-linked swaps	3,535	7,055
Options	5,339	-
Interest rate swaps	170	-
Other OTC swaps	55	-
Total derivative financial instrument assets	**1,396,938**	**604,342**

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

7. INVESTMENTS (continued)

(A) INVESTMENTS BY ASSET TYPE (continued)

	GROUP ACTUAL 2011 NZ$000	GROUP ACTUAL 2010 NZ$000
Other financial assets:		
New Zealand equities – State-Owned Entities	11,718	11,052
New Zealand equities – Other	1,106,978	1,042,653
Global equities	5,341,243	4,645,336
Total equities	**6,459,939**	**5,699,041**
New Zealand fixed income – Crown	-	199,045
New Zealand fixed income – State-Owned Entities	22,291	20,954
Other fixed income	3,452,396	3,984,945
Total fixed income	**3,474,687**	**4,204,944**
Collective investment funds	1,517,411	1,650,283
Equity-linked notes	587,828	-
Reverse repurchase agreements	727,887	-
Insurance-linked investments – catastrophe bonds	257,276	187,896
Private equity	887,137	398,060
Redeemable preference shares	57,500	57,500
Unlisted unit trusts	238,135	267,615
Total other financial assets	**14,207,800**	**12,465,339**
Total financial assets	**15,604,738**	**13,069,681**
Investments accounted for using the equity method	**907,883**	**856,585**
Agricultural assets		
Forests	135,650	147,016
Livestock and crops	3,007	-
Total agricultural assets	**138,657**	**147,016**
Total investments	**16,651,278**	**14,073,282**
Financial liabilities		
Derivative financial instrument liabilities:		
Forward foreign exchange contracts	100,066	178,242
Cross currency swaps	-	21,739
Asset swaps	88,761	88,193
Futures contracts	-	-
Equity swaps	79,345	194,286
Credit default swaps	219,247	38,610
Insurance-linked options	919	814
Insurance-linked swaps	8,596	8,164
Interest rate swaps	955	-
Options	1,594	-
Other OTC Swaps	101,554	-
Total derivative financial instrument liabilities	**601,037**	**530,048**
Net investments	**16,050,241**	**13,543,234**

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

7. INVESTMENTS (continued)

(B) RESTRICTIONS

For restrictions on investment balances, refer to note 21.

(C) FAIR VALUES

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

(D) ILLIQUID SECURITIES

The Group holds asset-backed securities, medium-term notes and corporate bonds for which the market is illiquid. The fair value of these securities is $51,208,000 (2010:$90,631,000), which is included in the other fixed income asset category. Securities with a fair value of $nil (2010:$3,712,000) are currently past due. Securities with a fair value of $nil (2010:$9,853,000) have had their terms renegotiated and are no longer past due.

(E) INVESTMENTS IN SUBSIDIARIES

				OWNERSHIP INTEREST	
NAME OF SUBSIDIARY	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	2011 %	2010 %
CNI Timber Operating Company Limited	(i)	30 June	New Zealand	0%	0%
Separate Account NZ0001 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	100%
Separate Account NZ0002 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	100%
Separate Account NZ0003 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account NZ0004 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account NZ0005 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	0%

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

(ii) Horseshoe Re Limited acting for, and for the benefit of, the separate accounts enters into agreements relating to the Fund's investments in insurance-linked products. Section 59 of the Act restricts the Fund from taking an enduring controlling interest in any other entity. As a matter of Bermudan law, a segregated account is not a "legal person" and has no existence separate from the segregated account company. In addition, the Fund does not control the segregated account company. Therefore even though the separate accounts have been consolidated into these financial statements they are not "entities" for the purposes of section 59 of the Act and accordingly the interest held does not constitute a breach of that section. During the year, the Fund established additional separate accounts (NZ0003, NZ0004 and NZ0005) in the Bermudan segregated account company, Horseshoe Re Limited. NZ0003 was established on 29 December 2010, NZ0004 was established on 20 April 2011 and NZ0005 was established on 1 May 2011.

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

(F) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	GROUP ACTUAL	
	2011 NZ$000	2010 NZ$000
Investments in associates	**907,883**	**856,585**

			OWNERSHIP INTEREST	
NAME OF ENTITY	BALANCE DATE	COUNTRY OF INCORPORATION	2011 %	2010 %
Kaingaroa Timberlands Partnership	30 June	New Zealand	40%	40%

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

	GROUP ACTUAL 2011 NZ$000	GROUP ACTUAL 2010 NZ$000
7. INVESTMENTS (continued)		
(F) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)		
Associate		
Carrying amount at start of the year	856,585	837,648
Share of recognised revenues and expenses	102,819	51,510
Return of capital	(51,521)	(32,573)
Carrying amount at end of the year	**907,883**	**856,585**
Goodwill at the start of the year	-	-
Goodwill at the end of the year	-	-
Summarised financial information of associate company:		
Current assets	86,910	81,245
Non-current assets	2,261,054	2,151,989
	2,347,964	2,233,234
Current liabilities	22,867	30,991
Non-current liabilities	2,296	-
	25,163	30,991
Net assets	**2,322,801**	**2,202,243**
Revenue	173,950	191,103
Net profit	265,222	158,323
Share of associate's profit	102,819	51,510
Share of associate's commitments:		
Capital commitments payable within one year	162	912
Operating commitments payable within one year	10,951	9,302
Operating commitments payable after one year but not more than five years	34,403	33,170
Operating commitments payable in greater than five years	104,801	90,289
	150,155	**132,761**

(G) AGRICULTURAL ASSETS – FORESTS

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

	GROUP ACTUAL 2011 NZ$000	GROUP ACTUAL 2010 NZ$000
Gross carrying amount – forests		
Carrying amount at start of the year	147,016	138,988
Additions	39	447
Disposals	(1,666)	(1,893)
Fair value changes due to harvesting	(21,351)	(21,500)
Other fair value changes	11,854	31,342
Other changes	(242)	(368)
Carrying amount at end of the year	**135,650**	**147,016**

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

7. INVESTMENTS (continued)

(G) AGRICULTURAL ASSETS – FORESTS (continued)

At 30 June 2011, the Group's forests measured approximately 13,732 hectares (2010: 15,065 hectares). During the year ended 30 June 2011, the Group harvested 0.30 million m^3 (2010: 0.51 million m^3).

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

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

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

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

(c) The net present value is calculated using a pre-tax discount rate of 8.6 – 9.5% (2010: 8.6 – 9.5%).

(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 profit or loss in the statement of comprehensive income.

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

Forest risk management

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.

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.

Emissions trading scheme

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

Participants in the ETS have three core obligations:

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

7. INVESTMENTS (continued)

(G) AGRICULTURAL ASSETS – FORESTS (continued)

The Group owns approximately 6,300ha of pre-1990 forest land for which participation in the ETS is mandatory. The Group also owns approximately 4,500 ha of post-1989 forest land for which participation in the ETS is voluntary. The Group has elected to opt-in for all of its post-1989 forest land.

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

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

(H) AGRICULTURAL ASSETS – LIVESTOCK

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

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

	GROUP ACTUAL	
	2011 Head	2010 Head
Livestock class		
R1 heifers	372	-
R2 heifers	295	-
Mixed age cows	1,230	-
Total head of cattle	**1,897**	**-**

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

	GROUP ACTUAL	
	2011 NZ$000	2010 NZ$000
Livestock reconciliation		
Carrying amount at start of the year	-	-
Purchases	2,926	-
Fair value changes in livestock	72	-
Carrying amount at end of the year	**2,998**	**-**

Livestock risk management

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

(I) INVESTMENTS IN JOINT VENTURES

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

			OWNERSHIP INTEREST	
JOINTLY CONTROLLED ENTITIES DESIGNATED AT FAIR VALUE	BALANCE DATE	COUNTRY OF INCORPORATION	2011 %	2010 %
Aotea Energy Holdings Limited	31 March	New Zealand	50%	50%

The Fund's share of the capital commitments of joint ventures was $38,300,000 (2010: $9,715,000).

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

	GROUP ACTUAL	
	2011 NZ$000	2010 NZ$000
7. INVESTMENTS (continued)		
(J) 'DAY 1' GAINS AND LOSSES		
Other OTC swaps reconciliation of 'day 1' gains		
'Day 1' gain at beginning of the year	-	-
Gain arising during the year	11,902	-
Effect of movement in foreign exchange rates	(734)	-
Gain recognised during the year	(585)	-
Remaining 'day 1' gain at the end of the year	**10,583**	**-**

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

	GROUP ACTUAL	
	2011 NZ$000	2010 NZ$000
8. TRADE AND OTHER RECEIVABLES		
Trade receivables	15,477	4,973
Allowance for impairment	-	-
	15,477	**4,973**
Accrued interest	50,689	62,602
Dividends receivable	25,722	19,907
Unsettled sales	73,631	475,955
GST receivable	-	207
Capital support agreements receivable	-	20,708
	165,519	**584,352**

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 evidence of impairment.

	GROUP ACTUAL	
	2011 NZ$000	2010 NZ$000
9. OTHER ASSETS		
Inventory	1,989	-
Prepayments	386	63
	2,375	**63**

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

	GROUP ACTUAL							
	LAND AND LAND IMPROVEMENTS NZ$000	BUILDINGS NZ$000	PLANT AND MACHINERY NZ$000	OFFICE EQUIPMENT NZ$000	COMPUTER EQUIPMENT NZ$000	MOTOR VEHICLES NZ$000	OFFICE FITOUT NZ$000	TOTAL NZ$000
10. PROPERTY, PLANT AND EQUIPMENT								
Gross carrying amount								
Balance at 1 July 2009	49,753	151	-	323	466	-	1,380	52,073
Additions	59	-	-	-	161	-	14	234
Disposals	-	-	-	(16)	(28)	-	(19)	(63)
Net revaluation increments/(decrements)	(1,888)	20	-	-	-	-	-	(1,868)
Balance at 30 June 2010	**47,924**	**171**	**-**	**307**	**599**	**-**	**1,375**	**50,376**
Additions	30,127	1,545	225	-	148	90	1,113	33,248
Disposals	-	-	-	(166)	(43)	-	(1,264)	(1,473)
Net revaluation increments/(decrements)	921	6	-	-	-	-	-	927
Balance at 30 June 2011	**78,972**	**1,722**	**225**	**141**	**704**	**90**	**1,224**	**83,078**
Accumulated depreciation								
Balance at 1 July 2009	994	16	-	106	209	-	231	1,556
Depreciation expense	531	5	-	41	199	-	144	920
Depreciation recovered	-	-	-	(4)	(22)	-	(3)	(29)
Balance at 30 June 2010	**1,525**	**21**	**-**	**143**	**386**	**-**	**372**	**2,447**
Depreciation expense	536	10	2	32	177	1	571	1,329
Depreciation recovered	-	-	-	(102)	(41)	-	(860)	(1,003)
Balance at 30 June 2011	**2,061**	**31**	**2**	**73**	**522**	**1**	**83**	**2,773**
Net book value								
As at 30 June 2010	46,399	150	-	164	213	-	1,003	47,929
As at 30 June 2011	**76,911**	**1,691**	**223**	**68**	**182**	**89**	**1,141**	**80,305**

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

The valuations were obtained as at 30 June 2011. The revaluation surplus has been taken to the asset revaluation reserve.

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

The carrying amount of land and buildings that would have been recognised under the cost model is $70,301,000 (2010: $40,176,000).

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

	GROUP ACTUAL COMPUTER SOFTWARE NZ$000	CARBON CREDITS NZ$000	TOTAL NZ$000
11. INTANGIBLE ASSETS			
Gross carrying amount			
Balance at 1 July 2009	477	-	477
Additions	941	-	941
Disposals	(75)	-	(75)
Balance at 30 June 2010	**1,343**	**-**	**1,343**
Additions	777	7,897	8,674
Disposals	(2)	-	(2)
Balance at 30 June 2011	**2,118**	**7,897**	**10,015**
Accumulated amortisation			
Balance at 1 July 2009	222	-	222
Amortisation expense	478	-	478
Amortisation recovered	(59)	-	(59)
Balance at 30 June 2010	**641**	**-**	**641**
Amortisation expense	679	-	679
Amortisation recovered	(2)	-	(2)
Balance at 30 June 2011	**1,318**	**-**	**1,318**
Net book value			
As at 30 June 2010	702	-	702
As at 30 June 2011	**800**	**7,897**	**8,697**

	GROUP ACTUAL 2011 NZ$000	2010 NZ$000
12. TRADE AND OTHER PAYABLES		
Trade payables	9,009	3,725
Accrued expenses	38,017	11,226
Unsettled purchases	111,766	475,722
Related party payable to the Guardians	6,658	1,944
GST payable	54	-
Deferred income	157	-
	165,661	**492,617**

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

	GROUP ACTUAL	
	2011 NZ$000	2010 NZ$000
13. PROVISION FOR PERFORMANCE-BASED FEES		
Balance brought forward	3,306	1,943
New provision during the year	11,332	1,379
Unused provision released during the year	-	(16)
Paid out during the year	(2,290)	-
Closing provision	**12,348**	**3,306**
Represented by:		
Current	-	2,343
Non-current	12,348	963
	12,348	**3,306**

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

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

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

	GROUP ACTUAL	
	2011 NZ$000	2010 NZ$000
ASSETS		
Investments		
Investments – derivative financial instrument assets	660,164	232,175
Investments – other financial assets	1,302,985	845,425
Investments accounted for using the equity method	907,883	856,585
Forests	135,650	147,016
Livestock and crops	3,007	-
Total investments	**3,009,689**	**2,081,201**
Property, plant and equipment	80,305	47,929
Intangible assets	8,697	702
Total assets	**3,098,691**	**2,129,832**
LIABILITIES		
Investments – derivative financial instrument liabilities	292,151	133,491
Provisions	12,348	963
Deferred tax liability	129,877	36,721
Total liabilities	**434,376**	**171,175**
Net assets	**2,664,315**	**1,958,657**

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

15. MANAGEMENT OF FUND CAPITAL AND RESERVES

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

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

FUNDING – INVESTMENT CAPITAL

The Fund is the property of the Crown. Its purpose is to build a portfolio of financial assets to help reduce the impact of providing retirement income, in the form of New Zealand superannuation, to an ageing population. The Crown is required to make capital contributions to the Fund in accordance with Sections 42 to 44 inclusive of the Act. The Government announced in the 2009 Budget a reduction in contributions to the Fund. Full capital contributions are projected to resume from 2016 under current Treasury modelling, however this may change based on future Fiscal and Economic Updates.

FUNDING – NET COST OF SUPERANNUATION ENTITLEMENTS

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

MANAGEMENT OF THE FUND'S CAPITAL

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

NATURE AND PURPOSE OF RESERVES

Asset revaluation reserve

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

Available-for-sale reserve

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

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

16. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

	GROUP ACTUAL	
	2011 NZ$000	2010 NZ$000
Within 1 year	112	3
After one year but not more than five years	219	11
Greater than five years	21	24
	352	**38**

At year end, the Group had outstanding commitments to private equity funds totalling $827,386,000 (2010: $718,132,000), of which $38,513,000 has been called but not yet paid (2010: $9,583,000).

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

The Group has a contingent liability in respect of both its pre-1990 and post-1989 forests which are part of the New Zealand Emissions Trading Scheme. Should the Group harvest, and not re-plant, all of its pre-1990 forests, it would have a liability under the ETS of approximately $81,036,000 determined at 30 June 2011 (2010: $85,482,000). Should the Group harvest, and not re-plant, all of its post-1989 forests, it would have a liability under the ETS of approximately $7,099,000 (2010: $nil). The amount and timing of any liability is uncertain and is dependent on the intention of the Group with respect to re-establishing forests after harvesting and the price of carbon at the time of emission.

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 prepare financial statements which are available to the public.

(B) EQUITY INTERESTS IN RELATED PARTIES

Details of the interests held in subsidiaries, associates and joint ventures are disclosed in notes 7(e), 7(f) and 7(i) (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 amount of the reimbursement to the Guardians for the financial year was $21,316,000 (2010: $15,973,000).

The Group and the New Zealand Debt Management Office (NZDMO) are consolidated into the Crown financial statements. The Group transacts with the NZDMO for a portion of its foreign exchange contracts and cross currency swaps. The rates at which the Group transacts are negotiated with the NZDMO. The fair value of outstanding contracts at year end was an asset of $906,878,000 (2010: asset $250,526,000). Gains on contracts with the NZDMO recognised in profit in the statement of comprehensive income for the year were $1,214,287,000 (2010: gains $827,554,000). 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 and equities 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

18. SUBSEQUENT EVENTS

There were no reportable events subsequent to year end.

19. NOTES TO THE STATEMENT OF CASH FLOWS

(A) RECONCILIATION OF CASH AND CASH EQUIVALENTS

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

	GROUP ACTUAL	
	2011 NZ$000	2010 NZ$000
Cash and cash equivalents	2,903,094	1,942,798

At balance date, cash of $513,662,000 (2010: $228,993,000) had been allocated and was held by Investment Managers awaiting investment.

(B) RESTRICTIONS

For restrictions on cash balances, refer to note 21.

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

	GROUP ACTUAL	
	2011 NZ$000	2010 NZ$000
Profit/(loss) for the year after income tax expense	2,995,460	1,707,779
Add/(deduct) non-cash items:		
Share of profit of investments accounted for using the equity method	(102,819)	(51,510)
Depreciation and amortisation of non-current assets	2,008	1,398
Fair value changes in agricultural assets – forests	9,497	(9,842)
Fair value changes in agricultural assets – livestock	(72)	-
Fair value changes in investments	(3,589,873)	(1,492,632)
Net foreign exchange (gain)/loss	179,239	(196,768)
Other non-cash items	4,688	14,226
Add items classified as investing activities:		
Loss on disposal of property, plant and equipment	407	33
Changes in net assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other receivables	418,833	(47,772)
Other assets	(2,312)	(4)
Increase/(decrease) in current tax balances	320,108	(102,711)
Increase/(decrease) in liabilities:		
Trade and other payables	(326,956)	81,581
Provisions	9,042	1,363
Increase/(decrease) in deferred tax balances	93,156	408,211
Add/(deduct) changes in net assets and liabilities related to operating cash flows not included in net profit/(loss):		
Unsettled sales	(402,324)	28,341
Capital support agreements receivable	(20,708)	(18,275)
Unsettled purchases	363,956	(384,739)
Collateral repayable to borrowers in the securities lending program	-	293,379
Add/(deduct) net operating cashflows not included in net profit/(loss)	1,170,311	445,471
Net cash provided by/(used in) operating activities	**1,121,641**	**677,529**

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS

(A) FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

	H4T NZ$000	DESIGNATED AT FVTPL NZ$000	L&R NZ$000	A4S NZ$000	AC NZ$000	TOTAL NZ$000
2011						
Financial assets						
Cash and cash equivalents			2,903,094			2,903,094
Trade and other receivables			165,519			165,519
Investments						
Investments – derivative financial instrument assets:						
Forward foreign exchange contracts	643,918					643,918
Cross currency swaps	361,588					361,588
Asset swaps	6,255					6,255
Longevity contingent swaps	95,870					95,870
Futures contracts	-					-
Equity swaps	69,873					69,873
Credit default swaps	210,335					210,335
Insurance-linked swaps	3,535					3,535
Interest rate swaps	170					170
Options	5,339					5,339
Other OTC swaps	55					55
	1,396,938	-	-	-	-	1,396,938
Investments – other financial assets:						
Equities						
New Zealand equities – State-Owned Entities		11,718				11,718
New Zealand equities – Other		1,106,978				1,106,978
Global equities		5,341,243				5,341,243
Total equities	-	6,459,939	-	-	-	6,459,939
Fixed income						
New Zealand fixed income – State-Owned Entities		22,291				22,291
Other fixed income		3,148,800	303,596			3,452,396
Total fixed income	-	3,171,091	303,596	-	-	3,474,687
Collective investment funds		1,517,411				1,517,411
Equity-linked notes		587,828				587,828
Reverse repurchase agreements			727,887			727,887
Insurance-linked investments – catastrophe bonds		257,276				257,276
Private equity		833,275		53,862		887,137
Redeemable preference shares			57,500			57,500
Unlisted unit trusts		238,135				238,135
	-	3,433,925	785,387	53,862	-	4,273,174
Total investments	1,396,938	13,064,955	1,088,983	53,862	-	15,604,738
Total financial assets	**1,396,938**	**13,064,955**	**4,157,596**	**53,862**	**-**	**18,673,351**

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(A) FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (continued)

	H4T NZ$000	DESIGNATED AT FVTPL NZ$000	L&R NZ$000	A4S NZ$000	AC NZ$000	TOTAL NZ$000
2011 (continued)						
Financial liabilities						
Trade and other payables					165,661	165,661
Derivative financial instrument liabilities:						
Forward foreign exchange contracts	100,066					100,066
Asset swaps	88,761					88,761
Equity swaps	79,345					79,345
Credit default swaps	219,247					219,247
Insurance-linked options	919					919
Insurance-linked swaps	8,596					8,596
Interest rate swaps	955					955
Options	1,594					1,594
Other OTC swaps	101,554					101,554
Total derivative financial instrument liabilities	601,037	-	-	-	-	601,037
Total financial liabilities	**601,037**	**-**	**-**	**-**	**165,661**	**766,698**

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(A) FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (continued)

	H4T	DESIGNATED AT FVTPL	L&R	A4S	AC	TOTAL
	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000
2010						
Financial assets						
Cash and cash equivalents			1,942,798			1,942,798
Trade and other receivables			584,352			584,352
Investments						
Investments – derivative financial instrument assets:						
Forward foreign exchange contracts	348,963					348,963
Cross currency swaps	101,619					101,619
Asset swaps	301					301
Longevity contingent swaps	108,913					108,913
Futures contracts	-					-
Equity swaps	39					39
Commodity swaps	2,084					2,084
Credit default swaps	35,368					35,368
Insurance-linked swaps	7,055					7,055
	604,342	-	-	-	-	604,342
Investments – other financial assets:						
Equities						
New Zealand equities – State-Owned Entities		11,052				11,052
New Zealand equities – Other		1,042,653				1,042,653
Global equities		4,645,336				4,645,336
Total equities	-	5,699,041	-	-	-	5,699,041
Fixed income						
New Zealand fixed income – Crown		199,045				199,045
New Zealand fixed income – State-Owned Entities		20,954				20,954
Global fixed income		3,828,277	156,668			3,984,945
Total fixed income	-	4,048,276	156,668	-	-	4,204,944
Collective investment funds		1,650,283				1,650,283
Insurance-linked investments – catastrophe bonds		187,896				187,896
Private equity		347,911		50,149		398,060
Redeemable preference shares			57,500			57,500
Unlisted unit trusts		267,615				267,615
	-	2,453,705	57,500	50,149	-	2,561,354
Total investments	604,342	12,201,022	214,168	50,149	-	13,069,681
Total financial assets	**604,342**	**12,201,022**	**2,741,318**	**50,149**	**-**	**15,596,831**

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(A) FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (continued)

	H4T NZ$000	DESIGNATED AT FVTPL NZ$000	L&R NZ$000	A4S NZ$000	AC NZ$000	TOTAL NZ$000
2010 (continued)						
Financial liabilities						
Trade and other payables					492,617	492,617
Derivative financial instrument liabilities:						
Forward foreign exchange contracts	178,242					178,242
Cross currency swaps	21,739					21,739
Asset swaps	88,193					88,193
Equity swaps	194,286					194,286
Credit default swaps	38,610					38,610
Insurance-linked options	814					814
Insurance-linked swaps	8,164					8,164
Total derivative financial instrument liabilities	530,048	-	-	-	-	530,048
Total financial liabilities	**530,048**	**-**	**-**	**-**	**492,617**	**1,022,665**

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(B) FAIR VALUE

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

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

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

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

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

	NOTES	QUOTED MARKET PRICE (LEVEL 1) NZ$000	VALUATION TECHNIQUE – MARKET OBSERVABLE INPUTS (LEVEL 2) NZ$000	VALUATION TECHNIQUE – NON MARKET OBSERVABLE INPUTS (LEVEL 3) NZ$000	TOTAL NZ$000
2011					
Financial assets					
Investments					
Investments – derivative financial instrument assets:					
Forward foreign exchange contracts			643,918		643,918
Cross currency swaps			361,588		361,588
Asset swaps			6,255		6,255
Longevity contingent swaps	(i)			95,870	95,870
Futures contracts			-		-
Equity swaps			69,873		69,873
Credit default swaps			210,335		210,335
Insurance-linked swaps			3,535		3,535
Other OTC swaps	(ii)		-	55	55
Interest rate swaps			170		170
Options			5,339		5,339
		-	1,301,013	95,925	1,396,938
Investments – other financial assets:					
Equities					
New Zealand equities – State-Owned Entities		11,718			11,718
New Zealand equities – Other		1,106,978			1,106,978
Global equities	(iii)	5,341,192		51	5,341,243
Total equities		6,459,888	-	51	6,459,939
Fixed income					
New Zealand fixed income – State-Owned Entities			22,291		22,291
Other fixed income			3,148,800	-	3,148,800
Total fixed income		-	3,171,091	-	3,171,091
Collective investment funds	(iv)	60,886	1,374,714	81,811	1,517,411
Equity-linked notes		587,828			587,828
Insurance-linked investments – catastrophe bonds			257,276		257,276
Private equity	(v)			887,137	887,137
Unlisted unit trusts	(v)			238,135	238,135
		648,714	1,631,990	1,207,083	3,487,787
Total financial assets at fair value		**7,108,602**	**6,104,094**	**1,303,059**	**14,515,755**

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(B) FAIR VALUE (continued)

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

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

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(B) FAIR VALUE (continued)

	NOTES	QUOTED MARKET PRICE (LEVEL 1) NZ$000	VALUATION TECHNIQUE – MARKET OBSERVABLE INPUTS (LEVEL 2) NZ$000	VALUATION TECHNIQUE – NON MARKET OBSERVABLE INPUTS (LEVEL 3) NZ$000	TOTAL NZ$000
2010					
Financial assets					
Investments					
Investments – derivative financial instrument assets:					
Forward foreign exchange contracts			348,963		348,963
Cross currency swaps			101,619		101,619
Asset swaps			301		301
Longevity contingent swaps	(i)			108,913	108,913
Futures contracts			-		-
Equity swaps			39		39
Commodity swaps			2,084		2,084
Credit default swaps			35,368		35,368
Insurance-linked swaps			7,055		7,055
		-	495,429	108,913	604,342
Investments – other financial assets:					
Equities					
New Zealand equities – State-Owned Entities		11,052			11,052
New Zealand equities – Other		1,042,653			1,042,653
Global equities	(ii)	4,634,780		10,556	4,645,336
Total equities		5,688,485	-	10,556	5,699,041
Fixed income					
New Zealand fixed income – Crown			199,045		199,045
New Zealand fixed income – State-Owned Entities			20,954		20,954
Other fixed income	(iii)		3,804,391	23,886	3,828,277
Total fixed income		-	4,024,390	23,886	4,048,276
Collective investment funds			1,650,283		1,650,283
Insurance-linked investments – catastrophe bonds			187,896		187,896
Private equity	(iv)			398,060	398,060
Unlisted unit trusts	(iv)			267,615	267,615
		-	1,838,179	665,675	2,503,854
Total financial assets at fair value		**5,688,485**	**6,357,998**	**809,030**	**12,855,513**
Financial liabilities					
Derivative financial instrument liabilities:					
Forward foreign exchange contracts			178,242		178,242
Cross currency swaps			21,739		21,739
Asset swaps			88,193		88,193
Equity swaps			194,286		194,286
Credit default swaps			38,610		38,610
Insurance-linked swaps			8,164		8,164
Insurance-linked options		814			814
Total financial liabilities at fair value		**814**	**529,234**	**-**	**530,048**

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(B) FAIR VALUE (continued)

(i) The fair value of longevity contingent swaps is provided by the counterparty and is calculated by reference to movements in the underlying basket of contracts. The price provided by the counterparties is a non-binding bid price based on a valuation model which uses a discount rate. If reasonably possible alternative discount rates were applied, the fair value of the swap would increase by $11,206,000 or decrease by $7,437,000.

(ii) The fair value of listed equities is determined based on the last quoted bid price on the relevant exchange as of the close of business at balance date. In some instances, where the market on which the security is traded is not highly liquid (for example the security may be listed on an emerging market stock exchange), the price is determined using non-binding broker quotes. These securities have been classified as Level 3. A reasonably likely movement in the fair value in a one year period has been determined to be 26% based on internal risk modelling, which would increase or decrease the fair value of these securities by $2,740,000.

(iii) For Level 3 fixed interest securities where the market is illiquid (largely mortgage and asset-backed securities), prices are determined by a reputable pricing vendor or broker who uses models to value these securities. The models can utilise a variety of inputs including loan level data, prepayment and default assumptions and benchmark prices for similar securities. The Group does not have access to the underlying valuation models to disclose sensitivity assumptions. However, a reasonably likely movement in the fair value in a one year period has been determined to be 50 basis points based on internal risk modelling. A 50 basis point movement would increase or decrease the fair value of these securities by $119,000.

(iv) The fair value of private equity funds, unlisted equity investments and unlisted unit trusts are provided by the investment manager or administrators. The price is based on the underlying net assets of the investment. Fair value is determined using a variety of methods, including independent valuations, valuation models based on the price of recent investments, earnings multiples or discounted cash flows. The Group does not have access to the underlying valuation models to disclose sensitivities to assumptions. However a reasonably likely movement in the fair value in a one year period has been determined to be 25% for private equity funds, 19% for private timber funds and 16% for private infrastructure funds based on internal risk modelling. Applying these movements would increase or decrease the fair value of these investments by $116,785,000.

Transfers between categories

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

Reconciliation of Level 3 fair value movements

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

	2011 NZ$000	2010 NZ$000
Opening balance	809,030	726,239
Gains and losses – profit or loss	358,062	10,406
Gains and losses – other comprehensive income	(584)	3,866
Purchases	284,917	247,496
Sales	(45,453)	(62,139)
Settlements	(92,412)	(28,068)
Transfers from other categories	13	574
Transfers to other categories	(10,514)	(89,344)
Closing balance	**1,303,059**	**809,030**
Total gain or loss stated in the table above for assets held at the end of the period:		
- Profit/(loss)	343,415	(16,613)
- Other comprehensive income	(5,984)	3,778

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(C) FINANCIAL RISK MANAGEMENT OBJECTIVES

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

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

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

(D) DERIVATIVES

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

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

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

Forward foreign exchange contracts

	NOTIONAL VALUE – BUY/(SELL) FOREIGN CURRENCY NZ$000	FAIR VALUE NZ$000
2011		
Less than 3 months	(4,040,337)	247,513
3 to 12 months	(5,116,261)	296,339
	(9,156,598)	**543,852**
2010		
Less than 3 months	(3,063,848)	157,889
3 to 12 months	(5,766,811)	12,832
	(8,830,659)	**170,721**

All forward foreign exchange contracts are settled gross.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(D) DERIVATIVES (continued)

Cross currency swaps

	BUY/SELL	NOTIONAL VALUE NZ$000	FAIR VALUE NZ$000
2011			
Less than 1 year	NZD/JPY	44,978	2,783
2 to 5 years	NZD/USD	1,246,234	226,032
	NZD/JPY	622,192	4,225
	NZD/EUR	588,085	59,279
	NZD/GBP	154,383	25,185
5 to 10 years	NZD/USD	131,977	19,848
	NZD/EUR	87,774	11,864
	NZD/GBP	122,081	12,372
		2,997,704	**361,588**
2010			
2 to 5 years	NZD/USD	728,417	32,603
	NZD/JPY	130,288	(7,012)
	NZD/EUR	199,442	21,636
	NZD/GBP	177,462	6,222
5 to 10 years	NZD/USD	150,552	(6,390)
	NZD/EUR	298,593	32,821
		1,684,754	**79,880**

All cross currency swaps are settled gross.

Asset swaps

	2011 NOTIONAL VALUE NZ$000	2011 FAIR VALUE NZ$000	2010 NOTIONAL VALUE NZ$000	2010 FAIR VALUE NZ$000
Less than 1 year	30,270	(1,194)	-	-
2 to 5 years	205,791	(3,737)	570,234	(36,353)
5 to 10 years	382,739	(78,429)	368,213	(51,539)
Over 10 years	67,876	854	-	-
	686,676	**(82,506)**	**938,447**	**(87,892)**

All asset swaps are settled net.

Longevity contingent swaps

Over 10 years	**355,975**	**95,870**	**431,906**	**108,913**

All longevity contingent swaps are settled net.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(D) DERIVATIVES (continued)

Credit default swaps

		2011 NOTIONAL VALUE NZ$000	2011 FAIR VALUE NZ$000	2010 NOTIONAL VALUE NZ$000	2010 FAIR VALUE NZ$000
Buy protection	Less than 1 year	949,267	(1,196)	-	-
	1 to 2 years	312,386	(12,685)	1,017,960	13,855
	2 to 5 years	2,936,191	(89,438)	206,500	21,513
	5-10 years	1,172,055	40,936	-	-
		5,369,899	**(62,383)**	**1,224,460**	**35,368**
Sell protection	Less than 1 year	1,035,234	4,708	218,134	(706)
	1 to 2 years	312,386	8,625	1,134,298	(14,344)
	2 to 5 years	3,349,354	89,709	404,275	(23,560)
	5-10 years	1,172,055	(49,571)	-	-
		5,869,029	**53,471**	**1,756,707**	**(38,610)**

All credit default swaps are settled net.

Insurance-linked swaps

Buy protection	Less than 1 year	44,007	3,535	86,272	7,055
Sell protection	Less than 1 year	78,278	(8,596)	41,446	(5,590)
	1 to 2 years	-	-	14,542	(2,574)
		122,285	**(5,061)**	**142,260**	**(1,109)**

All insurance-linked swaps are settled net.

Other OTC swaps

Credit default arbitrage swaps	5-10 years	121,080	55	-	-
Cross currency total return swaps	Less than 1 year	524,388	(101,554)	-	-
		645,468	**(101,499)**	**-**	**-**

All other OTC swaps are settled net.

Options

Insurance-linked options	-	(919)	-	(814)
Equity options	120,571	3,745	-	-
	120,571	**2,826**	**-**	**(814)**

Interest rate swaps

2 to 5 years	63,888	(615)	-	-
5 to 10 years	20,000	(170)	-	-
	83,888	**(785)**	**-**	**-**

All interest rate swaps are settled net.

Equity swaps

Less than 1 year	**7,784,667**	**(9,472)**	**3,636,689**	**(194,247)**

All equity swaps are settled net.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(D) DERIVATIVES (continued)

	2011 NOTIONAL VALUE NZ$000	2011 FAIR VALUE NZ$000	2010 NOTIONAL VALUE NZ$000	2010 FAIR VALUE NZ$000
Futures				
Equity futures	1,118,253	-	932,681	-
Fixed interest futures	217,189	-	160,770	-
Insurance-linked futures	671	-	-	-
	1,336,113	**-**	**1,093,451**	**-**

The margin on futures contracts is settled daily.

Commodity swaps				
Less than 1 year	**-**	**-**	**1,324,307**	**2,084**

All commodity swaps are settled net.

Maturity profile of derivative financial liabilities

	LESS THAN 1 YEAR NZ$000	1 – 2 YEARS NZ$000	2 – 5 YEARS NZ$000	5 – 10 YEARS NZ$000	10+ YEARS NZ$00
2011					
Net settled derivatives	(195,003)	(14,509)	(159,192)	(130,968)	(1,299)
Gross settled derivatives – cash inflow	2,518,846	-	-	-	-
Gross settled derivatives – cash outflow	(2,618,912)	-	-	-	-
	(295,069)	**(14,509)**	**(159,192)**	**(130,968)**	**(1,299)**
2010					
Net settled derivatives	(201,397)	(16,918)	(59,912)	(51,840)	-
Gross settled derivatives – cash inflow	4,923,112	-	341,788	152,185	-
Gross settled derivatives – cash outflow	(5,101,353)	-	(357,138)	(158,575)	-
	(379,638)	**(16,918)**	**(75,262)**	**(58,230)**	**-**

(E) MARKET RISK

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(E) 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 or unlisted equities where value is determined with reference to an equity market index or comparable transactions in a listed equity market. The following table details the Group's sensitivity to a change of price with all other variables held constant. The percentages used represent management's assessment of a reasonably possible change in equity prices based on internal risk modelling.

The Group's exposure to the different classes of equities has been prepared on a different basis to that adopted in prior years. Comparative figures have also been restated to reflect this.

	%	PROFIT AFTER TAX (NZ$000)		OTHER COMPREHENSIVE INCOME NET OF TAX (NZ$000)	
		Increase	Decrease	Increase	Decrease
30 JUNE 2011					
New Zealand equities	18%	178,798	(178,798)	-	-
Global large cap equities	16%	1,443,187	(1,443,187)	-	-
Global small cap equities	20%	550,827	(550,827)	-	-
Emerging markets equities	26%	371,670	(371,670)	-	-
Private equity	20%	48,357	(48,357)	4,183	(4,183)
30 JUNE 2010					
New Zealand equities	18%	178,978	(178,978)	-	-
Global large cap equities	16%	1,018,193	(1,018,193)	-	-
Global small cap equities	20%	365,548	(365,548)	-	-
Emerging markets equities	26%	141,053	(141,053)	-	-
Private equity	20%	38,136	(38,136)	5,254	(5,254)

(ii) Foreign currency exchange rate risk

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

Currency risk is managed by:

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

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(E) MARKET RISK (continued)

(ii) Foreign currency exchange rate risk (continued)

	2011 ASSETS NZ$000	2010 ASSETS NZ$000
Foreign currency exposure		
Australian Dollars	187,806	74,924
Brazilian Real	205,730	78,263
Canadian Dollars	194,361	115,133
Swiss Francs	139,785	80,076
Chilean Pesos	26,052	6,673
Chinese Yuan	-	62
Colombian Peso	10,002	2,380
Czech Republic Koruny	8,009	2,038
Danish Kroner	18,728	10,885
Egyptian Pounds	5,137	3,297
European Union Euros	595,394	313,204
United Kingdom Pounds	400,120	199,511
Hong Kong Dollars	467,858	195,348
Hungarian Forints	8,389	4,514
Indonesian Rupiahs	35,031	11,064
Israeli New Shekels	28,533	22,956
Indian Rupees	103,388	46,434
Japanese Yen	373,723	249,947
South Korean Won	231,490	77,407
Moroccan Dirhams	1,779	604
Mexican Pesos	64,250	22,488
Malaysian Ringgits	44,000	13,822
Norwegian Krone	20,742	7,367
Philippines Pesos	10,160	4,673
Polish Zlotych	28,522	7,509
Russian Rubles	25,949	149
Swedish Kronor	64,369	31,404
Singaporean Dollars	103,576	82,512
Thai Baht	28,475	10,523
Turkish New Lira	23,201	11,353
Taiwanese New Dollars	173,572	61,254
United States of America Dollars	520,440	543,136
South African Rand	115,171	42,676
	4,263,742	**2,333,586**

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(E) MARKET RISK (continued)

(ii) Foreign currency exchange rate risk (continued)

The Group's exposure to foreign currency movements has been prepared on a different basis to that adopted in prior years. Comparative figures have also been restated to reflect this.

	%	PROFIT AFTER TAX (NZ$000)		OTHER COMPREHENSIVE INCOME NET OF TAX (NZ$000)	
		Increase	Decrease	Increase	Decrease
30 JUNE 2011					
NZD/USD	10%	(37,472)	37,472	(2,091)	2,091
NZD/EUR	10%	(42,868)	42,868	-	-
NZD/GBP	10%	(28,809)	28,809	-	-
NZD/JPY	10%	(26,908)	26,908	-	-
NZD/Others	10%	(170,933)	170,933	-	-
30 JUNE 2010					
NZD/USD	10%	(39,106)	39,106	(1,445)	1,445
NZD/EUR	10%	(22,551)	22,551	-	-
NZD/GBP	10%	(14,365)	14,365	-	-
NZD/JPY	10%	(17,996)	17,996	-	-
NZD/Others	10%	(73,996)	73,996	-	-

(iii) Interest rate risk

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

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

Interest rate exposure – maturity profile of financial instruments

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

	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	NON-INTEREST BEARING NZ$000
2011								
Financial assets								
Cash and cash equivalents	2.77%	2,431,243						471,851
New Zealand State-Owned Entities	6.79%		19,255				3,036	
Redeemable preference shares	8.94%			57,500				
Other fixed income investments	3.70%		249,533	290,837	751,842	1,379,584	780,600	
		2,431,243	**268,788**	**348,337**	**751,842**	**1,379,584**	**783,636**	**471,851**
2010								
Financial assets								
Cash and cash equivalents	3.64%	1,942,798						
New Zealand fixed interest – Crown	2.78%		199,045					
New Zealand State-Owned Entities	6.58%			18,000			2,954	
Other fixed income investments	3.32%	947,038	246,832	155,242	1,198,402	1,100,013	394,918	
		2,889,836	**445,877**	**173,242**	**1,198,402**	**1,100,013**	**397,872**	**-**

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(E) MARKET RISK (continued)

(iii) Interest rate risk (continued)

Interest rate sensitivity

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

	BASIS POINTS	PROFIT AFTER TAX (NZ$000)		OTHER COMPREHENSIVE INCOME NET OF TAX (NZ$000)	
		Increase	Decrease	Increase	Decrease
30 JUNE 2011					
Cash and cash equivalents	50	15,460	(15,460)	-	-
Fixed income	50	(48,369)	48,369	-	-
30 JUNE 2010					
Cash and cash equivalents	50	4,644	(4,644)	-	-
Fixed income	50	(54,380)	54,380	-	-

(iv) Commodity price risk

In the prior year, the Group was exposed to commodity price risk through its investments in commodity swaps. These investments were classified as held for trading. The commodity portfolios were designed to closely track the Dow Jones UBS Commodities Index.

Commodity price sensitivity

The following details the Group's sensitivity to a change in the commodity price index, with all other variables remaining constant. The percentages used represent management's assessment of a reasonably possible change in commodity prices.

	%	PROFIT AFTER TAX (NZ$000)		OTHER COMPREHENSIVE INCOME NET OF TAX (NZ$000)	
		Increase	Decrease	Increase	Decrease
30 JUNE 2010					
Dow Jones UBS Commodities Index	22%	113,102	(113,102)	-	-

(F) CREDIT RISK MANAGEMENT

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

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

Significant concentrations of credit risk

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

The Group seeks to mitigate credit risk by applying policies as follows:

(1) Any investment that represents exposure to a single sector within one geography or is a listed security that is over 2% of the net asset value of the Fund requires Board approval; and

(2) Total direct exposure to a counterparty is capped at 2% or 5% of the Fund's net asset value.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(F) CREDIT RISK MANAGEMENT (continued)

At balance date, the Group has industry concentration risk in respect of its investments. The table below sets out the exposures by industry for all of the Group's investments based on fair value.

	GROUP ACTUAL	
	2011	2010
	NZ$000	NZ$000
By industry		
Basic materials	1,610,546	1,481,793
Communications	102,112	89,975
Consumer – Cyclical	18,118	17,049
Consumer – Non-cyclical	937,417	902,573
Diversified	35,352	10,560
Energy	1,106,707	648,718
Financial	3,333,364	3,166,839
Funds	2,168,098	2,285,958
Government	1,267,406	1,843,400
Industrial	1,714,614	1,407,657
Healthcare	347,401	407,581
Mortgage securities	608,322	83,852
Technology	420,608	367,354
Utilities	757,682	756,695
Other	1,622,494	73,230
Net investments	**16,050,241**	**13,543,234**

At balance date, the Group has geographic concentration risk in respect of its investments. The table below sets out the exposures by geography for all of the Group's investments based on fair value.

	GROUP ACTUAL	
	2011	2010
	NZ$000	NZ$000
New Zealand	4,002,533	3,318,391
Australia	984,768	767,107
Japan	408,745	526,354
United States	5,257,237	5,428,150
Canada	197,268	208,987
Europe	3,291,456	2,576,920
Asia (excluding Japan)	1,355,162	428,085
Central & South America	459,178	224,905
Africa	86,760	46,417
Middle East	7,134	17,918
Net investments	**16,050,241**	**13,543,234**

At 30 June 2011 the Group had entered into credit default swaps where there is a risk of losing the notional in the event of any default of the underlying asset. There are 2 swaps with a notional value of $90,800,000 which are exposed to large US corporations. In addition there are 5 swaps which are exposed to synthetic credit default swap indices which comprise many different companies. These include a notional exposure of $219,400,000 to European indicies and $199,800,000 to US indicies.

At balance date, the Group has counterparty exposure in respect of its forward foreign exchange contracts, cross currency swaps, asset swaps, longevity contingent swaps, equity swaps, credit default swaps and insurance-linked swaps. The table below sets out the exposures by individual counterparty where an instrument has a positive fair value:

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(F) CREDIT RISK MANAGEMENT (continued)

	GROUP ACTUAL	
	NOTIONAL VALUE NZ$000	FAIR VALUE NZ$000
2011		
ANZ Banking Group New Zealand	38,941	233
Aon Advisors	6,054	380
Barclays Bank PLC	2,380,235	104,906
Barclays Wholesale GTS	14,913	272
BNP Paribas	884,457	14,799
Citibank	818,793	13,220
Credit Suisse First Boston	355,975	95,870
Deutsche Bank	2,151,345	24,389
Goldman Sachs	752,662	18,135
HSBC Securities Services	6,505	101
JP Morgan Chase	552,062	14,467
Morgan Stanley & Co	3,775,155	102,026
New Zealand Debt Management Office	9,489,451	987,720
Nomura International PLC	214,273	8,902
Northern Trust Singapore	1,048	3
RBS Financial Markets Treasury	11,380	187
Tokio Millenium Bermuda	6,266	1,252
UBS AG London	31,487	235
Union Bank of Switzerland	481	2
Wells Fargo Securities	31,687	1,903
Westpac Banking Corp	198,288	2,597
	21,721,458	**1,391,599**
2010		
Allied World Bermuda	13,997	1,727
Aspen Re	11,634	814
Barclays Bank PLC	481,401	22,235
Barclays Capital PLC	20,000	301
Commonwealth Bank of Australia	295	-
Credit Suisse First Boston	436,268	108,913
Deutsche Bank	1,179,871	14,639
Goldman Sachs	339,633	1,180
JP Morgan Chase	102,109	295
Morgan Stanley & Co	8,556	227
New Zealand Debt Management Office	8,679,420	445,830
Northern Trust Singapore	6,380	82
Odyssey Re	25,304	2,025
Partner Re	29,521	1,998
State Street Bank & Trust Co	493	-
Taiping Re	5,817	491
UBS AG London	81,531	2,880
UBS New York	1	-
Westpac Banking Corp	35,787	705
	11,458,018	**604,342**

The Group monitors the credit-worthiness of counterparties on a regular basis and has assessed that there is no evidence of impairment.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. FINANCIAL INSTRUMENTS (continued)

(G) LIQUIDITY RISK MANAGEMENT

The Group's liquidity management framework is designed to ensure that the Group has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

The Fund is long-term by nature (no capital withdrawals are permitted prior to 30 June 2020 and, on current assumptions, none are expected before 30 June 2030).

Liquidity risk is managed by:

(a) forecasting liquidity requirements;

(b) requiring managers, within the terms of their individual contracts, to hold diversified portfolios;

(c) requiring managers to invest primarily in securities traded on recognised exchanges with specified maximums for unlisted securities;

(d) maintaining a buffer of cash and highly liquid securities to meet short-term liquidity requirements.

Information about the contractual maturity periods of financial assets and liabilities is included at 20(d) & (e)(iii) above.

(H) FAIR VALUES

The majority of the Group's assets and liabilities are carried at fair value. For all financial assets and liabilities, carrying value is not materially different from fair value.

21. COLLATERAL

(A) FUTURES MARGIN ACCOUNTS

$86,721,000 of cash balances (2010: $58,964,000) are held in separate bank accounts lodged with the relevant futures exchange. Fixed income securities with a fair value of $116,256,000 (2010: $nil) have been lodged with a broker. The cash and fixed income securities have been pledged as collateral for potential margin calls on futures with a fair value of $nil (2010: $nil) held by the Group.

(B) COLLATERAL PLEDGED

The cash balance pledged as collateral to meet obligations under Credit Support Agreements for derivative positions is $251,319,000 (2010: $202,178,000). The counterparties are not permitted to sell or repledge the collateral balances. The pledged assets will be returned to the Group when the underlying transaction is terminated, but in the event of default the counterparty is entitled to apply the collateral in order to settle the liability.

(C) COLLATERAL RECEIVED

The cash balance received as collateral to meet obligations under Credit Support Agreements for derivative positions is $87,965,000 (2010: $93,288,000). The Group is not permitted to sell or repledge the collateral cash balances. The pledged assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the Group is entitled to apply the collateral in order to settle the liability.

The fair value of fixed income securities received as collateral to meet obligations under Global Master Repurchase Agreements is $813,609,000 (2010: $nil). The Group is not permitted to sell or repledge the collateral. The assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the Group is entitled to apply the collateral in order to settle the liability.

22. COMPARISON TO BUDGET

During the year ended 30 June 2011 market returns were higher than the medium-term return expectations on which the budget is based. Given the weight of growth assets in the Fund, we expect significant year to year variations in the Fund's returns. It is not possible to accurately predict these variations and incorporate them into our budget.

ERNST & YOUNG

Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF THE NEW ZEALAND SUPERANNUATION FUND AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

The Auditor-General is the auditor of the New Zealand Superannuation Fund (the Fund) and group. The Auditor-General has appointed me, Brent Penrose, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Fund and group on her behalf.

We have audited the financial statements of the Fund and group on pages 63 to 113, that comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in public equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion

In our opinion the financial statements of the Fund and group on pages 63 to 113

- comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Fund and group's:
    - financial position as at 30 June 2011; and
    - financial performance and cash flows for the year ended on that date.

Our audit was completed on 12 September 2011. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Guardians of New Zealand Superannuation (the Guardians) and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Fund and group's financial statements that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Fund and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Guardians;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Guardians

The Guardians are responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect the Fund and group's financial position, financial performance and cash flows.

The Guardians are also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Guardians' responsibilities arise from the New Zealand Superannuation and Retirement Income Act 2001.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the New Zealand Superannuation and Retirement Income Act 2001.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

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

BRPenrose

BRENT PENROSE
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 2011 fairly reflect the financial position, operations and cash flows of the Guardians of New Zealand Superannuation and Group.

David May

DAVID MAY
Chairman
12 September 2011

Gavin Walker
Board Member
12 September 2011

Statement of Comprehensive Income

For the year ended 30 June 2011

		PARENT AND GROUP ACTUAL		BUDGET (UNAUDITED)
		2011	2010	2011
	Note	NZ$000	NZ$000	NZ$000
Revenue	2(a)	21,767	16,500	21,745
Expenses	2(b)	21,767	16,500	21,745
Profit/(Loss) for the year		-	-	-
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	-	-

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

Statement of Financial Position

As at 30 June 2011

	Note	PARENT AND GROUP ACTUAL 2011 NZ$000	2010 NZ$000	BUDGET (UNAUDITED) 2011 NZ$000
CURRENT ASSETS				
Cash and cash equivalents	16	891	1,130	1,874
Trade and other receivables	4	196	141	113
Inter-entity receivables	4, 12	6,450	2,023	1,514
Total current assets		**7,537**	**3,294**	**3,501**
NON-CURRENT ASSETS				
Inter-entity receivables	4, 12	260	10	-
Investments in subsidiaries	11	-	-	-
Intangible assets	5	-	-	-
Property, plant and equipment	6	-	2	-
Total non-current assets		**260**	**12**	**-**
TOTAL ASSETS		**7,797**	**3,306**	**3,501**
CURRENT LIABILITIES				
Trade and other payables	7	6,141	2,392	2,566
Deferred lease incentive		75	-	-
Total current liabilities		**6,216**	**2,392**	**2,566**
NON-CURRENT LIABILITIES				
Trade and other payables	7	260	10	-
Deferred lease incentive		821	-	-
Provisions	8	-	404	435
Total non-current liabilities		**1,081**	**414**	**435**
TOTAL LIABILITIES		**7,297**	**2,806**	**3,001**
NET ASSETS		**500**	**500**	**500**
PUBLIC EQUITY				
Retained surplus		-	-	-
General equity reserve	9	500	500	500
TOTAL PUBLIC EQUITY		**500**	**500**	**500**

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

Statement of Changes in Public Equity

For the year ended 30 June 2011

	PARENT AND GROUP ACTUAL		
	GENERAL EQUITY RESERVE NZ$000	RETAINED SURPLUS NZ$000	TOTAL NZ$000
BALANCE AT 1 JULY 2009	500	-	500
Profit/(Loss) for the year	-	-	-
Total comprehensive income for the year	-	-	-
BALANCE AT 30 JUNE 2010	**500**	**-**	**500**
Profit/(Loss) for the year	-	-	-
Total comprehensive income for the year	-	-	-
BALANCE AT 30 JUNE 2011	**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 2011

	Note	PARENT AND GROUP ACTUAL 2011 NZ$000	2010 NZ$000	BUDGET (UNAUDITED) 2011 NZ$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Receipts from the Crown		320	261	516
Receipts from New Zealand Superannuation Fund		17,502	15,066	20,290
Interest received		37	53	45
Other receipts		131	128	90
Goods and Services Tax		(6)	22	456
Total cash inflow from operating activities		**17,984**	**15,530**	**21,397**
Cash was applied to:				
Payments to suppliers		(4,682)	(4,139)	(4,403)
Payments to employees		(13,543)	(11,114)	(16,398)
Total cash outflow from operating activities		**(18,225)**	**(15,253)**	**(20,801)**
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	16	**(241)**	**277**	**596**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of property, plant and equipment		2	-	-
Total cash inflow from investing activities		**2**	**-**	**-**
NET CASH PROVIDED BY INVESTING ACTIVITIES		**2**	**-**	**-**
NET CASH PROVIDED BY FINANCING ACTIVITIES		**-**	**-**	**-**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(239)**	**277**	**596**
Cash and cash equivalents at the beginning of the financial year		1,130	853	1,278
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	16	**891**	**1,130**	**1,874**

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

Statement of Commitments

As at 30 June 2011

	PARENT AND GROUP ACTUAL	
	2011	2010
	NZ$000	NZ$000
NON-CANCELLABLE OPERATING LEASE COMMITMENTS PAYABLE		
No later than 1 year	554	387
1-2 years	535	387
2-5 years	1,522	291
Later than 5 years	3,552	-
	6,163	**1,065**

Statement of Contingent Liabilities

As at 30 June 2011

There were no contingent liabilities as at 30 June 2011 (2010:nil).

Notes to the Financial Statements

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

These are the financial statements of the Guardians of New Zealand Superannuation (Guardians), a Crown entity in terms of the Crown Entities Act 2004.

The Guardians is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 140.

STATEMENT OF COMPLIANCE

The Guardians is a public benefit entity, as its primary purpose is to manage and administer the New Zealand Superannuation Fund (Fund). The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for public benefit entities.

The financial statements of the Guardians of New Zealand Superannuation and Subsidiaries (Group) for the year ended 30 June 2011 were authorised for issue in accordance with a resolution of the Board of Guardians of New Zealand Superannuation on 12 September 2011.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Crown Entities Act 2004 and the Public Finance Act 1989.

The financial statements have been prepared on a historical cost basis, are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (NZ$000).

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

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 2011. These are outlined in the table below:

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
NZ IAS 24	Related Party Disclosures (Revised 2009)	This Standard makes amendments to New Zealand Accounting Standard NZ IAS 24 Related Party Disclosures. The amendments simplify the definition of a related party and provide a partial exemption from the disclosure requirements for government-related entities.	1 January 2011	Reduced disclosure requirements for related party transactions.	1 July 2011
FRS 44	New Zealand Additional Disclosures	FRS 44 is a consequence of the joint Trans-Tasman Convergence project of the Australian Accounting Standards Board (AASB) and Financial Reporting Standards Board (FRSB). This standard relocates New Zealand specific disclosures from other standards to one place and revises disclosures in the following areas: (a) Compliance with NZ IFRS (b) The statutory basis or reporting framework for financial statements (c) Audit fees (d) Imputation credits (e) Reconciliation of net operating cash flow to profit (loss) (f) Prospective financial statements (g) Elements in the statement of service performance.	1 July 2011	Minor changes to disclosures in the financial statements.	1 July 2011

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
Harmonisation Amendments	Amendments to NZ IFRS to Harmonise with IFRS and Australian Accounting Standards [NZ IAS 1, 7, 8, 12, 16, 20, 28, 31, 34 and 40]	These amendments: (a) Remove the disclosures which have been relocated to FRS 44 (b) Harmonise audit fee disclosure requirements in NZ IFRS 1 with AASB 101 (c) Harmonise imputation/franking credits' disclosure requirements in NZ IAS 12 with AASB 101 (d) Introduce the option to use the indirect method of reporting cash flows in NZ IAS 7 (e) Introduce an accounting policy choice to use the cost model for investment property under NZ IAS 40 (f) Remove the requirement to use an independent valuer and the related disclosure requirements currently in NZ IAS 16 and NZ IAS 40 (g) Remove some NZ-specific disclosures.	1 July 2011	Minor changes to disclosures in the financial statements.	1 July 2011

* Designates the beginning of the applicable annual reporting period.

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

(a) Budget figures

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

(b) Consolidation of subsidiaries

The Group financial statements comprise the Guardians of New Zealand Superannuation and its subsidiaries.

Subsidiaries are those entities that are controlled by the Guardians. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of any subsidiaries that become or cease to be part of the Group during the year are consolidated from the date that control commenced or until the date that control ceased.

All inter-entity transactions, balances and unrealised profits are eliminated on consolidation.

(c) Revenue and income

The Group primarily derives revenue through the provision of outputs to the Crown and to the Fund, and also derives income from its investments. Revenue and income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion.

New Zealand Superannuation Fund reimbursement of costs:
Stage of completion is measured by the proportion of costs incurred to date, compared to the total costs of the outputs.

Crown appropriations:
Revenue is recognised on a straight-line basis over the period 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).

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goods and Services Tax (GST)

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

Cash flows are included in the cash flow statement on a gross basis. The GST 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 is a public authority in terms of the Income Tax Act 2007 and consequently are exempt from income tax.

(f) Receivables

Short-term receivables are stated at their estimated realisable value net of impairment allowance.

Collectibility of receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(g) Subsidiaries

Subsequent to initial recognition, investments in subsidiaries are measured at cost.

(h) Property, plant and equipment

Initial recording

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

Subsequent expenditure

Subsequent expenditure relating to an item of property, plant and equipment is capitalised to the initial cost of the item when the expenditure increases the economic benefits over the life of the item or where that expenditure was necessarily incurred to enable the future economic benefits to be obtained and the expenditure would have been included in the initial cost of the item had the expenditure been incurred at the time of acquisition.

All other subsequent expenditure is expensed in the period in which it is incurred.

Subsequent measurement

Subsequent to initial recognition, property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Disposal

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

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

Impairment

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

Where the carrying amount is assessed to be greater than its recoverable amount, the item is written down to its recoverable amount. The write-down is recognised in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the item is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the item in prior years. A reversal of an impairment loss is recognised in the statement of comprehensive income immediately.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Held for sale

Items of property, plant and equipment classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Items of property, plant and equipment are classified as 'held for sale' if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The sale of the asset is expected to be completed within one year from the date of classification.

(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

(j) Intangible assets

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

(k) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, incentives and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured 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

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

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

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

(m) Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currency at balance date are translated at the rate of exchange ruling as at that date. The resulting exchange differences are recognised in the statement of comprehensive income. Foreign exchange gains and losses for fair value through profit or loss investments are included within the change in their fair value.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Financial instruments

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

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group offsets financial assets and financial liabilities when the Group has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

Except for items covered by a separate accounting policy, all financial instruments are shown at their amortised cost.

(o) Provisions

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

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

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

(p) Payables

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

(q) Equity

Equity is the Crown's interest in the Guardians and is measured as the difference between total assets and total liabilities.

(r) Statement of cash flows

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

Operating activities include all activities other than investing and financing activities. The cash inflows include all receipts from the sale of goods and services, interest and other sources of revenue that support the Group's operating activities. Cash outflows include payments made to employees, suppliers and for taxes.

Investing activities are those activities relating to the acquisition, holding and disposal of current and non-current securities and any other non-current assets.

Financing activities are those activities relating to changes in equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity capital.

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

(s) Changes in accounting policies

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

(t) Critical accounting estimates and assumptions

In preparing these financial statements the Group has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Employee entitlements – long-term portion of incentive

A component of the incentive scheme is based on the long-term performance of the Fund. The calculation of this portion of the incentive liability utilises assumptions regarding the future performance of the Fund, the employee's average salary over the vesting period and the percentage of service rendered. The key variable is the performance of the Fund. Should the performance of the Fund differ from the assumption utilised in the calculation of the long-term portion of the incentive liability, this will impact the employee benefits expense in the statement of comprehensive income and the carrying amount of the incentive liability in the statement of financial position. The Group manages this risk by using a medium term expectation of Fund performance.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

	PARENT AND GROUP ACTUAL 2011 NZ$000	2010 NZ$000
2. PROFIT/(LOSS) FROM OPERATIONS		
(A) REVENUE		
Revenue from operations consisted of the following items:		
Revenue from the Crown	294	354
Cost reimbursement from New Zealand Superannuation Fund	21,316	15,973
Other revenue	120	120
Interest revenue	37	53
	21,767	**16,500**
(B) EXPENSES		
Profit/(Loss) has been arrived at after charging for/(crediting):		
Depreciation and amortisation of non-current assets (note 5 and note 6)	-	-
Auditors' remuneration (note 3)	38	37
Finance charge – provision discount rate adjustment	19	19
Reversal of provision for refurbishment	(406)	-
Board members' fees (note 12)	216	206
Employee benefit expense*:		
Employee remuneration and related expenses	12,959	11,493
Employee incentives	5,138	1,330
Employer contributions to Kiwisaver	198	158
Operating lease rental expenses:		
Minimum lease payments	436	411
Professional fees	85	48
Other expenses	3,084	2,798
	21,767	**16,500**

* Compensation of key management personnel of the entity is specifically disclosed in note 12.

	2011	2010
3. REMUNERATION OF AUDITOR		
Auditor of the parent entity		
Audit of the financial statements – Attest current year	38	37
	38	**37**
Auditor of entities in the Group (not including the parent entity)		
Audit of the financial statements	-	-
	-	**-**

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

The auditor of all entities in the Group is Brent Penrose of Ernst & Young, on behalf of the Auditor-General.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

	PARENT AND GROUP ACTUAL 2011 NZ$000	2010 NZ$000
4. TRADE AND OTHER RECEIVABLES		
Current receivables		
Trade receivables	4	2
Goods and Services Tax (GST) receivable	63	56
Prepayments	129	83
Allowance for impairment	-	-
	196	**141**
Inter-entity receivables:		
Accident Compensation Corporation	11	11
Government Superannuation Fund Authority	-	11
The Treasury	41	67
New Zealand Superannuation Fund	6,398	1,934
	6,450	**2,023**
Non-current receivables		
Inter-entity receivables:		
New Zealand Superannuation Fund	260	10
	260	**10**

Trade receivables have standard 30-day credit terms.

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

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

	PARENT AND GROUP ACTUAL 2011 NZ$000	2010 NZ$000
5. INTANGIBLE ASSETS		
Gross carrying amount		
Opening balance	21	63
Disposals	-	(42)
Closing balance	**21**	**21**
Accumulated amortisation		
Opening balance	21	63
Accumulated amortisation reversed on disposals	-	(42)
Closing balance	**21**	**21**
Net book value	**-**	**-**

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 2011

	PARENT AND GROUP ACTUAL		
	OFFICE EQUIPMENT NZ$000	COMPUTER EQUIPMENT NZ$000	TOTAL NZ$000
6. PROPERTY, PLANT AND EQUIPMENT			
Gross carrying amount			
Balance at 1 July 2009	247	244	491
Disposals	(1)	(186)	(187)
Balance at 30 June 2010	**246**	**58**	**304**
Disposals	(90)	(12)	(102)
Balance at 30 June 2011	**156**	**46**	**202**
Accumulated depreciation			
Balance at 1 July 2009	245	244	489
Accumulated depreciation reversed on disposals	(1)	(186)	(187)
Balance at 30 June 2010	**244**	**58**	**302**
Depreciation expense	-	-	-
Accumulated depreciation reversed on disposals	(88)	(12)	(100)
Balance at 30 June 2011	**156**	**46**	**202**
Net book value			
As at 30 June 2010	2	-	2
As at 30 June 2011	**-**	**-**	**-**

	PARENT AND GROUP ACTUAL	
	2011 NZ$000	2010 NZ$000
7. TRADE AND OTHER PAYABLES		
Current payables and accruals		
Trade payables [i]	314	209
Employee entitlements – annual leave (key management personnel)	133	130
Employee entitlements – annual leave (other)	444	391
Employee entitlements – accrued salary (key management personnel)	38	26
Employee entitlements – accrued salary (other)	151	101
Employee entitlements – incentives (key management personnel) [ii]	1,325	328
Employee entitlements – incentives (other) [ii]	3,554	1,022
Accrued expenses	182	185
	6,141	**2,392**
Non-current payables and accruals		
Employee entitlements – incentives (key management personnel) [ii]	64	2
Employee entitlements – incentives (other) [ii]	196	8
	260	**10**

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

[ii] The Guardians has an incentive scheme for all employees. A component of the scheme is based on the performance of the Fund. This part of the incentive vests progressively over a rolling four-year performance period. During the first three years of the four-year calculation period, the value of the accrual is dependent on the outcome of future periods. The liability reflected in the statement of financial position reflects the present value of the Guardians obligations in respect of that liability. The liability has been calculated based on a medium term expectation of Fund performance.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

	PARENT AND GROUP ACTUAL 2011 NZ$000	2010 NZ$000
8. PROVISIONS		
Non-current provisions		
Provision for refurbishment	-	404
	-	**404**

	PARENT AND GROUP REFURBISHMENT NZ$000
Balance at 1 July 2010	404
Unwinding and discount rate adjustment	19
Utilised	(17)
Unused provision released	(406)
Balance at 30 June 2011	**-**

The provision for refurbishment was released during the year. The Guardians has surrendered the lease that the provision relates to without having to undertake major refurbishment of the premises.

9. MANAGEMENT OF CAPITAL

As a public benefit entity which is fully funded by Crown appropriations (for budgeted Board and audit costs) and by Fund reimbursements (for all other operating costs), the Group has no specific liquidity policies, procedures or targets. Operating budgets are set on an annual basis, with an emphasis upon cost control. The Group is not permitted to borrow and ensures a positive cash position at all times through collection of appropriations and reimbursements.

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 with remaining terms of 12 years and 18 months. The Group does not have an option to purchase any of the leased assets at the expiry of the lease periods.

11. SUBSIDIARIES

NAME OF ENTITY	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST AND VOTING RIGHTS 2011 %	2010 %
Subsidiaries				
New Zealand Superannuation Fund Nominees Limited	30 June	New Zealand	100	100
NZSF Timber Investments (No 1) Limited	30 June	New Zealand	100	100
NZSF Timber Investments (No 2) Limited	30 June	New Zealand	100	100
NZSF Timber Investments (No 3) Limited	30 June	New Zealand	100	100
NZSF Timber Investments (No 4) Limited	30 June	New Zealand	100	100
NZSF Private Equity Investments (No 1) Limited	30 June	New Zealand	100	100
CNI Timber Operating Company Limited	30 June	New Zealand	100	100
NZSF Rural Investments (No 1) Limited *	30 June	New Zealand	100	0

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.

* On 23 December 2010, the Guardians established a subsidiary company, being NZSF Rural Investments (No 1) Limited. The Guardians own 100% of the equity in this Company. The assets and liabilities of the consolidated entity did not change as a result of the establishment of this subsidiary.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

12. 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 Board and audit costs) and reimbursement of costs from the Fund are the main sources of revenue. Other revenue is gained from sharing outputs with other Crown Entities.

	PARENT AND GROUP ACTUAL	
	2011 NZ$000	2010 NZ$000
Appropriations from the Crown	294	354
Cost reimbursement from New Zealand Superannuation Fund	21,316	15,973
Other income from Crown Entities:		
Accident Compensation Corporation	40	40
Government Superannuation Fund Authority	40	40
Earthquake Commission	40	40
	21,730	**16,447**

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

In conducting its activities, the Group is required to pay various taxes and levies (such as GST, FBT, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Group is exempt from paying income tax.

The Group has entered into a number of transactions with other government entities on an arm's length basis. These transactions relate to the purchase of goods and services from Air New Zealand, New Zealand Post and the Department of Internal Affairs. In addition the Group has utilised the services of Crown Law and provided sponsorship to the Retirement Commission. For the year ended 30 June 2011 these purchases totalled $931,686 (2010: $768,980).

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

12. RELATED PARTY DISCLOSURES (continued)

(C) TRANSACTIONS WITH RELATED PARTIES (continued)

Employee benefits

The compensation of the Board, executives and other key management personnel is set out below:

	PARENT AND GROUP ACTUAL 2011 NZ$000	2010 NZ$000
Employee benefits (including salaries and Board member fees)	2,611	2,821
Employee incentive scheme	1,388	328
	3,999	**3,149**
Board members' fees		
Board members earned the following fees during the year:		
D May (Chairman)	54	54
B Liddell [(i)]	-	25
D Newman (Deputy Chairman) [(ii)]	34	31
G Saunders [(iii)]	-	6
M Tume	27	27
J Evans [(iv)]	20	27
C Savage [(v)]	27	18
S Moir [(v)]	27	18
G Walker [(vi)]	27	-
	216	**206**

(i) Bridget Liddell retired from the Board in May 2010
(ii) David Newman was appointed Deputy Chairman in November 2009
(iii) Glen Saunders retired from the Board in September 2009
(iv) John Evans retired from the Board in March 2011
(v) Catherine Savage and Stephen Moir were appointed to the Board in November 2009
(vi) Gavin Walker was appointed to the Board in July 2010

Board members' indemnity and insurance

The Guardians has indemnified Board members in respect of any liability incurred where that Board member has breached one of the individual duties set out in Sections 53 to 57 of the Crown Entities Act 2004 (subject to certain limitations). Liability in respect of a breach of these duties is excluded from the scope of the statutory immunity provided in Section 121 of the Crown Entities Act 2004. Each Board member is also indemnified in respect of costs incurred by that Board member in defending or settling any claim or proceeding.

The Guardians has 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 impairment relating to debts due from related parties at reporting date (2010: $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 2011

13. EMPLOYEES' REMUNERATION OVER $100,000 PER ANNUM

For a full discussion of the Guardians remuneration framework, please refer to page 57 of the Annual Report.

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

The total remuneration bands and benefits listed below are annual amounts. As some employees commenced part way through the year, the actual remuneration they received during the year is less than the amount shown. For employees who left during the year, the actual remuneration paid has been reported, rather than annual remuneration.

The employee incentive has both individual performance and financial performance targets of the Fund. The financial performance component is based on rolling four-year periods of returns against thresholds and benchmarks.

TOTAL REMUNERATION AND BENEFITS

PARENT AND GROUP ACTUAL					
BASE REMUNERATION RANGE NZ$000	NUMBER OF EMPLOYEES 2011	NUMBER OF EMPLOYEES 2010	TOTAL REMUNERATION RANGE NZ$000	NUMBER OF EMPLOYEES 2011	NUMBER OF EMPLOYEES 2010
100 – 110	5	2	100 – 110	-	3
110 – 120	3	2	110 – 120	7	3
120 – 130	4	2	120 – 130	-	1
130 – 140	1	3	130 – 140	1	3
140 – 150	2	3	140 – 150	5	3
150 – 160	3	4	150 – 160	1	2
160 – 170	2	3	160 – 170	3	3
170 – 180	1	2	170 – 180	1	3
180 – 190	3	1	180 – 190	1	2
190 – 200	2	4	190 – 200	-	1
200 – 210	4	2	200 – 210	2	1
210 – 220	3	2	210 – 220	4	6
220 – 230	4	-	220 – 230	4	1
230 – 240	3	1	230 – 240	3	2
240 – 250	1	4	240 – 250	1	-
250 – 260	-	3	250 – 260	-	3
260 – 270	1	1	260 – 270	1	3
270 – 280	4	3	270 – 280	-	1
280 – 290	-	1	280 – 290	1	1
290 – 300	-	-	290 – 300	1	4
300 – 310	3	-	300 – 310	2	2
310 – 320	1	1	310 – 320	2	-
320 – 330	-	1	320 – 330	-	-
330 – 340	-	-	330 – 340	3	2
340 – 350	-	-	340 – 350	2	1
350 – 360	-	1	350 – 360	3	-
360 – 370	1	-	360 – 370	1	-
370 – 380	-	-	370 – 380	2	-
390 – 400	-	-	390 – 400	1	1
400 – 410	-	-	400 – 410	1	-
410 – 420	2	2	410 – 420	1	-
430 – 440	-	1	430 – 440	-	-
450 – 460	-	-	450 – 460	-	2
460 – 470	-	-	460 – 470	1	-
470 – 480	1	-	470 – 480	1	-
			480 – 490	-	1
			540 – 550	1	-
			640 – 650	1	-
			650 – 660	1	-
			710 – 720	1	-
	54	**49**		**60**	**55**

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

14. REDUNDANCY PAYMENTS

There were two payments made in respect of employees whose positions were made redundant during the year. These payments totalled $165,337 (2010: $nil).

15. SUBSEQUENT EVENTS

There were no reportable events subsequent to year end (2010:nil).

16. 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	
	2011 NZ$000	2010 NZ$000
Cash and cash equivalents	891	1,130
	891	**1,130**
(B) RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) for the year	-	-
Add/(Deduct) non-cash items:		
Depreciation and amortisation of non-current assets	-	-
Changes in working capital:		
(Increase)/Decrease in assets:		
Receivables	(4,732)	(896)
Increase/(Decrease) in liabilities:		
Payables and accruals	3,999	1,154
Deferred lease incentive	896	-
Provisions	(404)	19
Net cash provided by/(used in) operating activities	**(241)**	**277**

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

17. FINANCIAL INSTRUMENTS

(A) FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

Key:

L&R: Loans and receivables

AC: Financial liabilities at amortised cost

	PARENT AND GROUP ACTUAL		
	L&R NZ$000	AC NZ$000	TOTAL NZ$000
2011			
Financial assets			
Cash and cash equivalents	891	-	891
Receivables	4	-	4
Inter-entity receivables	6,710	-	6,710
Total financial assets	**7,605**	**-**	**7,605**
Financial liabilities			
Payables and accruals	-	6,401	6,401
Deferred lease incentive	-	896	896
Total financial liabilities	**-**	**7,297**	**7,297**
2010			
Financial assets			
Cash and cash equivalents	1,130	-	1,130
Receivables	2	-	2
Inter-entity receivables	2,033	-	2,033
Total financial assets	**3,165**	**-**	**3,165**
Financial liabilities			
Payables and accruals	-	2,402	2,402
Total financial liabilities	**-**	**2,402**	**2,402**

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES

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

The Guardians does 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

17. FINANCIAL INSTRUMENTS (continued)

(D) MARKET RISK

The market risk that the Guardians is primarily exposed to is interest rate risk (primarily to changes in New Zealand interest rates).

The Guardians does not hold significant interest-bearing assets and has no interest-bearing liabilities. The Guardians invest cash and cash equivalents with the The National Bank of New Zealand, ensuring a fair market return on any cash position, but does not seek to speculate on interest returns and do not specifically monitor exposure to interest rates or interest rate returns.

Interest rate risk

Interest rate risk is the risk that the future cash flows of the Guardians' investments in cash and cash equivalents will fluctuate due to changes in market interest rates. There are no interest rate options or interest rate swap options in place as at 30 June 2011 (30 June 2010: $nil). The Board does not consider that there is any significant interest exposure on the Group's investments.

Interest rate exposure – maturity profile of financial instruments

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

	PARENT AND GROUP ACTUAL	
	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	CASH AT VARIABLE INTEREST RATE NZ$000
2011		
Financial assets		
Cash and cash equivalents	2.60	891
	2.60	**891**
2010		
Financial assets		
Cash and cash equivalents	2.38	1,130
	2.38	**1,130**

Interest rate sensitivity

The sensitivity analysis in the table below of the effect on profit/(loss) has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis point change is used when reporting interest rate risk internally to key management personnel and represents the Guardians' assessment of a reasonably possible change in interest rates.

		PROFIT/(LOSS) AND EQUITY	
	Basis points	2011 NZ$000	2010 NZ$000
Cash and cash equivalents	+ 100 bps	9	11
Cash and cash equivalents	- 100 bps	(9)	(11)

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

17. FINANCIAL INSTRUMENTS (continued)

(E) CREDIT RISK

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

Liquidity risk 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 recovers all expenditure from the Crown or the New Zealand Superannuation Fund, and as the Guardians has 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.

18. COMPARISON TO BUDGET

	ACTUAL 2011 NZ$000	BUDGET (UNAUDITED) 2011 NZ$000	FAVOURABLE/ (UNFAVOURABLE) VARIANCE 2011 NZ$000
Statement of Comprehensive Income – expenses [i]	21,767	21,745	(22)
Statement of Changes in Public Equity	500	500	-
Statement of Financial Position	500	500	-

[i] Expenses were higher than budget predominantly due to a larger employee incentive expense than was assumed in the budget. This was a result of the exceptional performance of the Fund. This expense was partially offset by lower remuneration costs, and the unbudgeted reversal of the provision for refurbishment.

Ernst & Young Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF THE GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2011

The Auditor-General is the auditor of the Guardians of New Zealand Superannuation (the Guardians) and group. The Auditor-General has appointed me, Brent Penrose, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and statement of service performance of the Guardians and group on her behalf.

We have audited:

- the financial statements of the Guardians and group on pages 117 to 137, that comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the Guardians and group on pages 32 to 35.

Opinion

In our opinion:

- the financial statements of the Guardians and group on pages 117 to 137:
    - comply with generally accepted accounting practice in New Zealand; and
    - fairly reflect the Guardians and group's:
        - financial position as at 30 June 2011; and
        - financial performance and cash flows for the year ended on that date.
- the statement of service performance of the Guardians and group on pages 32 to 35:
    - complies with generally accepted accounting practice in New Zealand; and
    - fairly reflects, for each class of outputs for the year ended 30 June 2011, the Guardian and group's:
        - service performance compared with the forecasts in the statement of forecast service performance for the financial year; and
        - actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 12 September 2011. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Guardians and group's preparation of the financial statements and statement of service performance that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Guardians and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Guardians and group's financial position, financial performance and cash flows; and
- fairly reflect the Guardians and group's service performance.

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error.

The Board's responsibilities arise from the Crown Entities Act 2004 and the New Zealand Superannuation and Retirement Income Act 2001.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

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

B Penrose

BRENT PENROSE
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

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The National Bank of New Zealand

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