

2008

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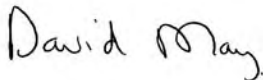
Financial Statements

Statement of Responsibility

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

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

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements for the year ended 30 June 2008 fairly reflect the financial position, operations, and cash flows of the New Zealand Superannuation Fund and Group.



DAVID MAY

Chairman

15 September 2008



ADRIAN ORR

Chief Executive Officer

15 September 2008

Statement of Financial Performance

For the year ended 30 June 2008

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

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

Statement of Financial Position

As at 30 June 2008

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

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

Statement of Changes in Public Equity

For the year ended 30 June 2008

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

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

Statement of Cash Flows

For the year ended 30 June 2008

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

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

Notes to the Financial Statements

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

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

The consolidated financial statements comprise the Fund and its subsidiaries (Group).

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

The Crown is required to make capital contributions to the Fund for investment based on a percentage of GDP as set out in the Act. Capital contributions are made by the Crown into the Fund on a fortnightly basis for the purpose of investment, and funding the net cost of New Zealand superannuation entitlements.

The Fund is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 142.

STATEMENT OF COMPLIANCE

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

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

BASIS OF PREPARATION

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

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2008. The standards and interpretations applicable to the Fund are outlined in the table below.

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

* Designates the beginning of the applicable annual reporting period.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(a) Capital contributions

(i) Fund capital contributions

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

(ii) Superannuation entitlement payments

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

(b) Capital withdrawals

(i) Fund capital withdrawals

In terms of Section 47 of the Act no withdrawals of Fund capital contributions are permitted in any financial year before 1 July 2020.

(ii) Superannuation entitlement payments

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

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

(c) Income tax

In accordance with section 76 of the Act the Group is treated as if it is a body corporate for tax purposes and is therefore subject to income tax on any income derived from investments, and that income is treated as gross income of the Fund under the Income Tax Act 2004.

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

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

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

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

- (i) except for a deferred income tax liability arising from the initial recognition of goodwill;
- (ii) except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (iii) in respect of taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income tax (continued)

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

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

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

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

Income tax relating to items recognised directly in equity is recognised in equity and not in the statement of financial performance.

(d) Financial instruments

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

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

(e) Investments

Investments are represented by the following:

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

Financial instrument investments (other than investments accounted for using the equity method and available for sale financial assets) are initially recognised at fair value on a trade date basis. Transaction costs, for example trading commission, are expensed immediately in the statement of financial performance. Subsequent to initial recognition, these investments are recorded at fair value and are classified into the category "at fair value through profit or loss". The Guardians manage and evaluate the performance of these investments on a fair value basis in accordance with the Fund's investment strategy and information about the investments is provided internally on this basis to the Guardians' key management personnel. Changes in fair value are recognised in the statement of financial performance.

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investments (continued)

- i) Listed equities are valued at the last quoted bid price on the relevant exchange as of the close of business at balance date. The fair value of unlisted equities is determined using a variety of methods, including independent valuations, valuation models based on the price of recent investments, earnings multiples, or discounted cash flows.
- ii) Fixed interest securities are valued at the last quoted bid price by a reputable pricing vendor or broker as of the close of business at balance date.
- iii) Fair value for derivatives is outlined under "Derivatives" below.
- iv) Investments in multi-strategy funds (unlisted investment funds) are valued at the last price of the unit or security as provided by the administrators at balance date. The price is based on the fair value of the underlying net assets or securities of the relevant multi-strategy fund.
- v) Investments in certain private equity funds (unlisted investment funds) which are designated at fair value through profit or loss, are valued at the last price of the unit or security as provided by the investment managers or administrators at balance date. The price is based on the fair value of underlying net assets of the private equity fund. Fair value is determined using a variety of methods, including independent valuations, valuation models based on the price of recent investments, earnings multiples, or discounted cash flows. Certain private equity funds are classified as available for sale. The accounting policy for these investments is outlined under vii).
- vi) Investments in unlisted unit trusts are valued at the last bid price of the unit or security as provided by the administrators at balance date. The price is based on the fair value of the underlying net assets or securities of the relevant unlisted unit trust.
- vii) Certain private equity funds that do not have a quoted market price in an active market and whose fair value cannot be reliably measured using the valuation methods outlined in v) above are classified as available for sale and are measured at cost less impairment. Transaction costs are included in the cost of the investment. Management has determined that fair value for these funds cannot be reliably measured where the fund's financial statements have not been prepared under either IFRS or a recognised and reliable accounting basis such as US GAAP.

Derivatives

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk (forward foreign exchange contracts), and achieve exposure to assets and asset classes (futures contracts, options, equity swaps and commodity swaps). The use of derivatives is governed by the Fund's Statement of Investment Policies, Standards and Procedures as approved by the Guardians, which provides written principles on the use of derivatives by the Group.

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

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

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

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

(f) Securities lending

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

(g) Consolidation of subsidiaries

Subsidiaries are those entities that are controlled by the Fund.

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

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

(h) Investments in associates

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Investments in associates (continued)

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

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

(i) Timber investments - forests

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

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

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

(j) Receivables

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

(k) Property, plant, and equipment

Initial recording

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

Subsequent measurement

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

Land is measured at fair value. Fair value is determined on the basis of an independent valuation prepared by external valuation experts, based on discounted cash flows or capitalisation of net income (as appropriate).

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

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

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

Independent valuations of land are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at balance date.

Disposal

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Impairment

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

Where the carrying amount is assessed to be greater than its recoverable amount, the item is written down to its recoverable amount.

The write down is recognised in the statement of financial performance unless it relates to land in which case it is treated as a revaluation decrease.

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

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

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

(l) Depreciation

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

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

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

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

(m) Intangible assets

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

(n) Payables

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

(o) Provisions

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

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

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

(p) Income recognition

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income recognition (continued)

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

Securities lending fees are recognised as earned.

(q) Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currency at balance date are translated at the rate of exchange ruling as at that date. The resulting exchange differences are recognised separately in the statement of financial performance.

(r) Translation of the financial statements of independent foreign operations

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

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

On disposal of an independent foreign operation, the accumulated amount of the exchange differences taken to the foreign currency translation reserve that relate to the foreign operation is transferred out of the foreign currency translation reserve and recognised in the statement of financial performance when the gain or loss on disposal of the foreign operation is recognised.

(s) Statement of cash flows

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

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

Investing activities are those activities relating to the acquisition, holding, and disposal of investments. Investments include securities not falling within the definition of cash, including those cash flows from the settlement of forward foreign exchange contracts.

Financing activities are those activities relating to capital contributions and to payments of superannuation entitlements (from 2020).

As the current funding by the Crown of superannuation entitlements flows directly from the Treasury to the Ministry of Social Development it is not considered cash flow of the Group and is accordingly not recorded in the statement of cash flows.

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

(t) Goods and Services Tax (GST)

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

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

(u) Impact of adoption of NZ IFRS

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

(v) Changes in accounting policies

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

(w) Significant estimates and judgements

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

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

6. INCOME TAXES

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

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

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

7. INVESTMENTS (continued)

(B) RESTRICTIONS

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

(C) FAIR VALUES

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

(D) GEOGRAPHIC DISTRIBUTION

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

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

(E) INVESTMENTS IN SUBSIDIARIES

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

	GROUP ACTUAL		BUDGET	
	2008 NZ\$000	2007 NZ\$000	2008 NZ\$000	
7. INVESTMENTS (continued)				
(F) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD				
Investments in associates	510,228	290,294	520,750	
NAME OF ENTITY	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
			2008 %	2007 %
Kaingaroa Timberlands Partnership	30 June	New Zealand	30%	20%
	GROUP ACTUAL		BUDGET	
	2008 NZ\$000	2007 NZ\$000	2008 NZ\$000	
Associates				
Carrying amount at start of year	290,294	-	350,995	
Acquisition of associate	147,094	265,740	140,232	
Share of recognised revenues and expenses	80,408	25,632	29,523	
Return of capital	(7,568)	(1,078)		
Carrying amount at end of year	510,228	290,294	520,750	
Goodwill at the start of the year	-	-		
Goodwill at the end of the year	-	-		
Current assets	48,223	50,595		
Non-current assets	1,947,940	1,662,774		
	1,996,163	1,713,369		
Current liabilities	13,578	10,171		
Non-current liabilities	-	-		
	13,578	10,171		
Net assets	1,982,585	1,703,198		
Revenue	457,603	453,091		
Net profit	347,744	386,922		
Share of associate's profit/(loss)	80,408	25,632	29,523	

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

7. INVESTMENTS (continued)

(G) NON-FINANCIAL ASSETS - TIMBER INVESTMENTS

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

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

At 30 June 2008, the Group's forests measured approximately 6,920 million m³ (2007: 6,675 million m³). During the year ended 30 June 2008, the Group harvested 0.4 million m³ (year ended 30 June 2007: 0.6 million m³), which had a fair value less estimated point-of-sale costs of NZ\$15.4 million (year ended 30 June 2007: NZ\$23.2 million).

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

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

- 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.
- Notional land rental costs have been included for freehold land based on current government valuations.
- The net present value is calculated using a pre-tax discount rate of 5.5-9.0% (2007: 6.5-9.0%).
- The cash flows do not take into account income tax.
- No allowance for inflation has been provided.
- 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.
- Costs are current average costs. No allowance has been made for cost improvements in future operations.
- The net change in value arising from harvest, growth, and change in prices by log grade category is taken as the change in fair market value of the crop and is included in the statement of financial performance.
- Estimated point of sale costs of 1% have been deducted from the fair valuation.

Forest financial risk management strategy

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

Trade receivables have standard 30 day terms.

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

12. TRADE AND OTHER PAYABLES

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

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

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

13. PROVISION FOR PERFORMANCE-BASED FEES

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

Investment managers earn performance-based fees once agreed hurdles are reached. The payout of the current year fee is capped, with the remainder of the fee being held by the Group for possible payout in future periods. Poor performance in the following years may lead to a reduction in the entitlement that is being held. Thus the amount and timing of the eventual payout is uncertain.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

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

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

15. MANAGEMENT OF FUND CAPITAL

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

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

FUNDING – INVESTMENT CAPITAL

The Fund is the property of the Crown. Its purpose is to build a portfolio of financial assets to help reduce the impact of providing retirement income, in the form of New Zealand superannuation, to an ageing population. The Crown is required to make capital contributions to the Fund in accordance with Sections 42 to 44 inclusive of the Act. Capital contributions are made by the Crown to the Fund on a fortnightly basis for investment and for the purpose of contribution to the net cost of paying superannuation entitlements after 2020. Contributions to the Fund are based on a percentage of GDP as set out in the Act. Based on estimates prepared by The Treasury, and forming part of the May 2008 Budget, these are expected to average \$2.2 billion over the next three years.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

15. MANAGEMENT OF FUND CAPITAL (continued)

FUNDING – NET COST OF SUPERANNUATION ENTITLEMENTS

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

MANAGEMENT OF THE FUND'S CAPITAL

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

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

16. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

17. RELATED PARTY DISCLOSURES

(A) PARENT ENTITIES

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

(B) EQUITY INTERESTS IN RELATED PARTIES

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

(C) TRANSACTIONS WITH RELATED PARTIES

The Guardians have paid expenses relating to the Group, as it is required to do under the Act. A portion of these expenses is reimbursed by the Fund as is entitled under the Act. These expenses are included in the financial statements of the Guardians.

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

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

18. SUBSEQUENT EVENTS

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

19. NOTES TO THE STATEMENT OF CASH FLOWS

(A) RECONCILIATION OF CASH AND CASH EQUIVALENTS

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

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

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

(B) COLLATERAL

\$24,906,156 of cash balances (2007: \$24,569,435) are held in separate bank accounts lodged with the relevant futures exchange. These funds have been pledged as collateral for potential margin calls on futures of \$nil (2007: negative \$2,485,000) held by the Group. The counterparties are not permitted to sell or re-pledge the collateral cash balances. The pledged assets will be returned to the Group when the underlying transaction is terminated, but in the event of default the counterparty is entitled to apply the collateral in order to settle the liability.

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS

(A) FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT BASIS

Key: H4T: Held for trading

Designated at FVTPL: Designated at fair value through profit and loss

L&R: Loans and receivables

A4S: Available for sale

AC: Amortised cost/cost/or equity accounted

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

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

	H4T NZ\$000	DESIGNATED AT FVTPL NZ\$000	L&R NZ\$000	A45 NZ\$000	AC NZ\$000	TOTAL NZ\$000
2007						
Financial assets						
Investments						
Investments - derivative financial instrument assets:						
Forward foreign exchange contracts	355,938					355,938
Futures contracts	851					851
Equity swaps	4,199					4,199
Commodity swaps	12,256					12,256
Options	28,806					28,806
	402,050	-	-	-	-	402,050
Investments - other financial assets:						
Equities						
New Zealand equities - State-Owned Entities		15,402				15,402
New Zealand equities - Other		882,462				882,462
Global equities		6,319,830				6,319,830
Total equities	-	7,217,694	-	-	-	7,217,694
Fixed interest						
New Zealand fixed interest - Crown		605,092				605,092
New Zealand fixed interest - State-Owned Entities		6,402				6,402
New Zealand fixed interest - Local Bodies		70,222				70,222
New Zealand fixed interest - Other		731,736				731,736
Global fixed interest		895,287				895,287
Total fixed interest	-	2,308,739	-	-	-	2,308,739
Multi-strategy funds		1,623,253				1,623,253
Private equity		64,633		4,804		69,437
Unlisted unit trusts		550,498				550,498
	-	2,238,384	-	4,804	-	2,243,188
Investments accounted for using the equity method					290,294	290,294
Total investments	402,050	11,764,817	-	4,804	290,294	12,461,965
Trade and other receivables			82,690			82,690
Total financial assets	402,050	11,764,817	82,690	4,804	290,294	12,544,655
Financial liabilities						
Derivative financial instrument liabilities:						
Forward foreign exchange contracts	26,706					26,706
Futures contracts	3,336					3,336
Equity swaps	7,166					7,166
Commodity swaps	-					-
Total derivative financial instrument liabilities	37,208	-	-	-	-	37,208
Trade and other payables					52,276	52,276
Provisions					40,685	40,685
Total financial liabilities	37,208	-	-	-	92,961	130,169

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES

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

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

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

Strategic asset allocation

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

Derivatives

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

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

(C) SIGNIFICANT ACCOUNTING POLICIES

Details of the significant accounting policies and methods adopted, including the criteria for recognition, and the basis of measurement applied in respect of each class of financial asset, financial liability, and equity instrument are disclosed in note 1 to the financial statements.

(D) MARKET RISK

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

Market risk is managed for the Group as a whole as noted above under financial risk management objectives, policies, and processes. Market risk is further managed by requiring investment managers to manage their portfolios within defined market exposure limits. Those limits include limits on percentage weight of any particular company in the portfolio relative to its benchmark weight; limits on aggregate investment in companies not represented in the benchmark; limits on investment in any individual company not represented in the benchmark; limits on the maximum investment in any individual company; duration limits relative to the duration of the benchmark; and maximum limits on exposure to single entities.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

(D) MARKET RISK (continued)

(i) Equity price risk

The Group is exposed to changes in the price of equities listed on both New Zealand and international stock exchanges, as well as derivatives where value is determined with reference to an equity market index. The following table details the Group's sensitivity to a change of price with all other variables held constant. The analysis is performed on the same basis for 2007. The percentages used represent management's assessment of a reasonably possible change in equity prices.

	%	PROFIT AFTER TAX (\$000)		TOTAL EQUITY (\$000)	
		Increase	Decrease	Increase	Decrease
30 June 2008					
New Zealand equities	19%	210,115	(210,115)	210,115	(210,115)
Global large cap equities	15%	955,190	(955,190)	955,190	(955,190)
Global small cap equities	18%	144,213	(144,213)	144,213	(144,213)
Emerging markets equities	27%	111,044	(111,044)	111,044	(111,044)
30 June 2007					
New Zealand equities	19%	125,319	(125,319)	125,319	(125,319)
Global large cap equities	15%	669,103	(669,103)	669,103	(669,103)
Global small cap equities	18%	104,931	(104,931)	104,931	(104,931)
Emerging markets equities	27%	78,091	(78,091)	78,091	(78,091)
		2008	2008	2007	2007
		Face Value	Fair Value	Face Value	Fair Value
Equity swaps at fair value at balance date:		NZ\$000	NZ\$000	NZ\$000	NZ\$000
Equity swaps					
Assets		(437,830)	10,633	808,737	4,199
Liabilities		1,116,610	(69,832)	437,002	(7,166)

Contractual maturity of all swaps is within 90 days.

(ii) Foreign currency exchange rate risk

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

Currency risk is managed by:

- establishing a foreign currency hedging policy for each foreign asset class;
- specifying the bounds within which each manager may take on currency exposures relative to their benchmark; and
- engaging one or more currency execution agents to transact the Group's foreign exchange transactions, including both spot and forward transactions, at the most favourable rate.

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

(D) MARKET RISK (continued)

(ii) Foreign currency exchange rate risk (continued)

Foreign currency exposure

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

(D) MARKET RISK (continued)

(ii) Foreign currency exchange rate risk (continued)

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

All forward foreign exchange contracts mature within 12 months.

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

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

Foreign currency sensitivity

The following table details the Group's sensitivity to a change in the New Zealand dollar against the major foreign currencies, with all other variables remaining constant. The analysis has been performed only on the effective foreign currency exposure after allowing for the impact of forward foreign exchange contracts. The analysis has been performed on the same basis as 2007. The percentages used represent management's assessment of a reasonably possible change in foreign currency rates.

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

(iii) Interest rate risk

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

The Group is primarily exposed to changes in the New Zealand dollar BKBM interest rate and the US LIBOR/prime rate.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

(D) MARKET RISK (continued)

(iii) Interest rate risk (continued)

Interest rate exposure - maturity profile of financial instruments

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

Group

	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	VARIABLE INTEREST RATE NZ\$000	FIXED MATURITY DATES				
			LESS THAN 1 YEAR NZ\$000	1 - 2 YEARS NZ\$000	2 - 5 YEARS NZ\$000	5 - 10 YEARS NZ\$000	10+ YEARS NZ\$000
2008							
Financial assets							
Cash and cash equivalents	3.07%	324,103					
New Zealand Government Stock	6.59%		76,735	108,310	188,813	158,985	
New Zealand State-Owned Entities	8.53%						4,307
Other investments	5.94%	92,967	691,161	179,228	562,752	523,847	338,626
		417,070	767,896	287,538	751,565	682,832	342,933

2007

Financial assets

Cash and cash equivalents	6.55%	363,030					
New Zealand Government Stock	6.00%			94,494	227,195	196,740	86,663
New Zealand State-Owned Entities	6.59%						6,402
Other investments	2.56%	499,111	105,723	209,404	348,951	274,048	260,008
		862,141	105,723	303,898	576,146	470,788	353,073

Interest rate sensitivity

The sensitivity analysis in the table below of the effect on profit after tax and total equity has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, with all other variables remaining constant. The analysis has been performed on the same basis as 2007. The percentages used represent management's assessment of a reasonably possible change in interest rates.

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

(D) MARKET RISK (continued)

(iv) Commodity price risk

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

Commodity price risk exposure

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

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

Commodity price sensitivity

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

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

(E) CREDIT RISK MANAGEMENT

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

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

Significant concentrations of credit risk

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

(E) CREDIT RISK MANAGEMENT (continued)

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

20. FINANCIAL INSTRUMENTS (continued)

(E) CREDIT RISK MANAGEMENT (continued)

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

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

(F) LIQUIDITY RISK MANAGEMENT

Liquidity management is designed to ensure that the Group has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

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

Liquidity risk is managed by:

- requiring managers to invest primarily in securities traded on recognised exchanges with specified maximums for unlisted securities;
- requiring managers, within the terms of their individual contracts, to hold diversified portfolios; and
- limiting the credit rating of all fixed interest investments to minimum levels.

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

(G) FAIR VALUES

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(D) RETAINED EARNINGS

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

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

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

22. COMPARISON TO BUDGET

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

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

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



Chartered Accountants

AUDIT REPORT

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

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

Unqualified Opinion

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

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

The audit was completed on 15 September 2008, and is the date at which our opinion is expressed.

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

Basis of Opinion

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

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

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

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



Chartered Accountants

AUDIT REPORT (Continued)

Audit procedures generally include:

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

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

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

Responsibilities of the Guardians and the Auditor

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

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

Independence

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

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

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

A handwritten signature in black ink that reads 'Warren Allen'.

WARREN ALLEN

Ernst & Young

On behalf of the Auditor-General

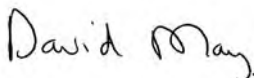
Auckland, New Zealand

Statement of Responsibility

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

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

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements and the statement of service performance for the year ended 30 June 2008, fairly reflect the financial position, operations, and cash flows of the Guardians of New Zealand Superannuation and Group.



DAVID MAY

Chairman

15 September 2008



SIR DOUGLAS GRAHAM

Deputy Chairman

15 September 2008

Statement of Financial Performance

For the year ended 30 June 2008

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

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

Statement of Financial Position

As at 30 June 2008

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

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

Statement of Changes in Public Equity

For the year ended 30 June 2008

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

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

Statement of Cash Flows

For the year ended 30 June 2008

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

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

Statement of Commitments

For the year ended 30 June 2008

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

Statement of Contingent Liabilities

For the year ended 30 June 2008

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

Notes to the Financial Statements

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

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

The Guardians are domiciled in New Zealand and the address of their principal place of business is set out in the Corporate Directory on page 142.

STATEMENT OF COMPLIANCE

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

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

BASIS OF PREPARATION

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2008. These are outlined in the table below:

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

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

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

(a) Budget figures

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation of subsidiaries

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

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

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

The Group financial statements incorporate the financial statements of the Guardians and their subsidiaries, which have been consolidated using the purchase method. The results of any subsidiaries that become or cease to be part of the Group during the year are consolidated from the date that control commenced or until the date that control ceased.

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

(c) Revenue and income

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

Rendering of services

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

New Zealand Superannuation Fund reimbursement of costs:

Stage of completion is measured by the proportion of costs incurred to date, compared to the total costs of the outputs.

Crown appropriations:

Revenue is recognised on a straight line basis over the period the appropriations relate to, because the services are performed by an indeterminate number of acts over a specified period of time.

Other service revenue:

Where outputs cannot be measured reliably, revenue is recognised only to the extent that the expenses recognised are recoverable.

Interest

Interest revenue is recognised as the interest accrues (using the effective interest method which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

(d) Goods and Services Tax (GST)

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

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

(e) Taxation

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

(f) Receivables

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

(g) Subsidiaries

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

(h) Property, plant, and equipment

Initial recording

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Subsequent expenditure

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

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

Subsequent measurement

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

Disposal

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

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

Impairment

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

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

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

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

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

Held for sale

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

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

(i) Depreciation

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Intangible assets

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

(k) Employee benefits

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

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

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

(l) Operating leases

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

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

(m) Foreign currency transactions

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

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

(n) Financial instruments

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

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

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

(o) Provisions

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

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

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

(p) Payables

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

(q) Equity

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Statement of cash flows

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

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

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

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

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

(s) Impact of adoption of NZ IFRS

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

(t) Changes in accounting policies

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

(u) Critical accounting estimates and assumptions

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

Employee entitlements - long-term incentive

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

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

3. REMUNERATION OF AUDITORS

Auditor of the parent entity

Audit of the financial statements - Attest	28	26	28
Audit of the financial statements - IFRS transition	2	3	-
	30	29	28

Auditor of entities in the Group (not including the parent entity)

Audit of the financial statements	-	-	-
Review of long-term incentive scheme	5	-	-
	5	-	-

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

Trade receivables have standard 30-day credit terms.

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

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

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

5. INTANGIBLE ASSETS

Gross carrying amount

Opening balance	63	63	63
Additions	-	-	-
Disposals	-	-	-
Closing balance	63	63	63
Accumulated amortisation			
Opening balance	35	15	35
Amortisation expense	17	20	18
Closing balance	52	35	53
Net book value	11	28	10

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

7. TRADE AND OTHER PAYABLES (continued)

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

- (i) The average credit period on purchases is 30 days. No interest is charged on overdue balances. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.
- (ii) The Guardians have a long-term incentive scheme for all employees. A component of the scheme is a measure of the performance of the Fund, calculated based on a rolling four-year performance average. The incentive fully vests at the end of the four-year performance period. Since payments in relation to the Fund performance component of the scheme are based on four-year averages, any negative returns generated during the four year period are offset against positive returns. As such, during the first three years of the four-year calculation period, the value of the final payment is dependent on the outcome of future periods. The liability reflected in the statement of financial position reflects the present value of the Guardians obligations in respect of that liability. The liability has been calculated based on management's best estimate of the returns that will be achieved by the Fund in future years.

8. PROVISIONS

Non-current provisions

	2008 NZ\$000	2007 NZ\$000	2008 NZ\$000
Provision for refurbishment	96	19	40
	96	19	40

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

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

9. MANAGEMENT OF CAPITAL

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

10. LEASES

Operating leases

Non-cancellable operating lease commitments payable have been disclosed under the statement of commitments.

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

11. SUBSIDIARIES

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

The principal activity of each subsidiary (with the exception of CNI Timber Operating Company Limited) is to act as a nominee company holding assets and liabilities on behalf of the New Zealand Superannuation Fund. These assets and liabilities are recognised in the financial statements of the New Zealand Superannuation Fund, and accordingly are not presented in these financial statements.

The share in CNI Timber Operating Company Limited, together with the rights and benefits arising from that share, is held for and on behalf of the New Zealand Superannuation Fund. As such, this company is consolidated into the financial statements of the Fund rather than these financial statements.

12. ACQUISITION OF SUBSIDIARY

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

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

No consideration was paid for the acquisition of the company.

13. RELATED PARTY DISCLOSURES

(A) PARENT ENTITIES

The parent entity in the Group is the Guardians, which is 100% owned by the ultimate parent entity, the Crown.

(B) EQUITY INTERESTS IN RELATED PARTIES

Equity interests in subsidiaries

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

(C) TRANSACTIONS WITH RELATED PARTIES

Revenue

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

13. RELATED PARTY DISCLOSURES (continued)

(C) TRANSACTIONS WITH RELATED PARTIES (continued)

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

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

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

* Dr Anderson resigned from the Board in August 2006.

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

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

Board members' indemnity and insurance

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

The Guardians have effected Directors and Officers Liability insurance cover in respect of the liability or costs of Board members and employees.

Terms/price under which related party transactions were entered into

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

14. EMPLOYEES REMUNERATION OVER \$100,000 PER ANNUM

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

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

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

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

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

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

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

15. TERMINATION PAYMENTS

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

16. SUBSEQUENT EVENTS

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

17. NOTES TO THE STATEMENT OF CASH FLOWS

(A) RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	PARENT AND GROUP ACTUAL		BUDGET
	2008	2007	2008
	NZ\$000	NZ\$000	NZ\$000
Cash and bank	608	883	
Short-term deposits	701	1,000	
	1,309	1,883	1,215

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

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

18. FINANCIAL INSTRUMENTS

(A) FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT BASIS

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

18. FINANCIAL INSTRUMENTS (continued)

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

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

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES

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

The Guardians are risk averse. They do not hold significant financial assets or liabilities. Cash and cash equivalents are held with creditworthy institutions. Market risk, credit risk and liquidity risk are not considered significant for these reasons. Policies do not allow any transactions which are speculative in nature to be entered into.

(C) SIGNIFICANT ACCOUNTING POLICIES

Details of the significant accounting policies and methods adopted, including the criteria for recognition, and the basis of measurement applied in respect of each class of financial asset, financial liability, and equity instrument are disclosed in note 1 to the financial statements.

(D) MARKET RISK

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

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

Interest rate risk

Interest rate risk is the risk that the value of the Guardians' investments in cash and cash equivalents will fluctuate due to changes in market interest rates. There are no interest rate options or interest rate swap options in place as at 30 June 2008 (30 June 2007: \$nil). The Board does not consider that there is any significant interest exposure on the Group's investments.

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

Interest rate exposure - maturity profile of financial instruments

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

18. FINANCIAL INSTRUMENTS (continued)

(D) MARKET RISK (continued)

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

Interest rate sensitivity

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

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

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

(E) CREDIT RISK MANAGEMENT

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

The Group places its investments with institutions that have a high credit rating. The Group believes that this policy reduces the risk of any loss which could arise from its investment activities. The Group does not require any collateral or security to support financial instruments.

Significant concentrations of credit risk

The Group primarily invests cash balances with The National Bank of New Zealand, which is considered to be a low credit risk institution. The maximum amount of credit risk for each class is the carrying amount in the statement of financial position.

(F) LIQUIDITY RISK MANAGEMENT

Liquidity management is designed to ensure that the Group has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

Because the Guardians recover all expenditure from the Crown or the New Zealand Superannuation Fund, and as the Guardians have a positive cash position, no specific liquidity policies have been developed.

Information about the contractual maturity periods of financial assets and financial liabilities is included above.

(G) FAIR VALUES

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

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

(D) RETAINED EARNINGS

The above adjustments had nil effect on retained earnings.

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

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

20. COMPARISON TO BUDGET

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

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

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

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

Audit Report

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

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

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

UNQUALIFIED OPINION

In our opinion:

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

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

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

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

The audit was completed on 15 September 2008, and is the date at which our opinion is expressed.

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

BASIS OF OPINION

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

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

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

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

Audit Report (continued)

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

Audit procedures generally include:

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

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

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

RESPONSIBILITIES OF THE BOARD AND THE AUDITOR


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

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

INDEPENDENCE

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

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



F CAETANO

Audit New Zealand

On behalf of the Auditor General

Auckland, New Zealand

SECTION 17

Glossary

Absolute Return

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

Active Management

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

Active Return

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

Active Risk

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

Alpha

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

Annualised Rate of Return

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

Assets

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

Asset Classes

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

Asset Mix

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

Basis Point

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

Benchmark

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

Bond

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

Commodities

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

Custodian

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

Derivatives

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

Diversification

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

Equities

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

Fund Manager (aka Asset Manager or Investment Manager)

Invests and manages the assets of others.

Hedge or Hedging

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

Hedge Fund

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

Index

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

Investment

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

Investment Horizon

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

Investment Proxies

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

Mark-to-market

The revaluation of an instrument to current market prices.

Market Neutral

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

Passive Management

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

Portfolio

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

Private Equity

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

Private Markets

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

Proxy

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

Public Markets

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

REIT

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

Responsible Investment

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

Return

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

Risk

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

Risk Adjusted Return

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

Risk Budget

The allocation between different types of risk.

Risk-free Rate

The return on New Zealand Treasury bills (for the Guardians' purpose).

Risk Management

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

Risk Tolerance

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

Shareholder

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

Stocks

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

Strategic Asset Allocation (SAA)

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

Voting Right

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

Yield

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

SECTION 18

Corporate Directory

NEW ZEALAND SUPERANNUATION FUND

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NEW ZEALAND SUPERANNUATION FUND

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BANKERS

GUARDIANS OF NEW ZEALAND SUPERANNUATION

The National Bank of New Zealand

NEW ZEALAND SUPERANNUATION FUND

Westpac Banking Corporation

SOLICITORS

DLA Phillips Fox
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GLOBAL CUSTODIAN

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Canary Wharf
London E14 5NT

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