

# Financial Statements

## **FINANCIAL STATEMENTS** 33

### **NEW ZEALAND SUPERANNUATION FUND**

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### **GUARDIANS OF NEW ZEALAND SUPERANNUATION**

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## Statement of Responsibility

The Board and management of the Guardians of New Zealand Superannuation accepts responsibility for the preparation of the annual Financial Statements of the New Zealand Superannuation Fund and Group and the judgments used in them.

The Board and management of the Guardians of New Zealand Superannuation accepts 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 2006, fairly reflect the financial position, operations and cash flows of the New Zealand Superannuation Fund and Group.



**D MAY**

Chairman

Date: 11 September 2006



**P COSTELLO**

Chief Executive

Date: 11 September 2006

# Statement of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	GROUP ACTUAL		BUDGET
		2006 \$'000	2005 \$'000	2006 \$'000
<b>REVENUE</b>				
Investment income	2	350,212	189,480	264,522
Unrealised gains and (losses) on investments and foreign currencies	3	1,020,893	106,781	251,929
Realised gains and (losses) on investments and foreign currencies	3	138,768	450,248	167,953
Miscellaneous income		1,005	1,326	–
<b>Total operating revenue</b>		<b>1,510,878</b>	<b>747,835</b>	<b>684,404</b>
<b>EXPENSES</b>				
Operating expenses	4	80,915	21,711	38,716
<b>Total expenses</b>		<b>80,915</b>	<b>21,711</b>	<b>38,716</b>
<b>SURPLUS BEFORE INCOME TAX EXPENSE</b>				
Income tax expense	12	468,776	234,192	200,163
<b>Net surplus</b>		<b>961,187</b>	<b>491,932</b>	<b>445,525</b>

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

# Statement of Movements in Public Equity

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	GROUP ACTUAL		BUDGET
		2006 \$'000	2005 \$'000	2006 \$'000
Net surplus		961,187	491,932	445,525
Foreign currency translation reserve movement	6	4,109	-	-
Land revaluation reserve movement	6	7,289	-	-
<b>Total recognised revenues and expenses</b>		<b>972,585</b>	<b>491,932</b>	<b>445,525</b>
Fund capital contributions from the Crown		2,337,000	2,107,000	2,337,000
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	17	6,413,619	6,083,189	-
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	17	(6,413,619)	(6,083,189)	-
<b>Movements in public equity for the year</b>		<b>3,309,585</b>	<b>2,598,932</b>	<b>2,782,525</b>
<b>Public equity at beginning of year</b>		<b>6,554,830</b>	<b>3,955,898</b>	<b>6,474,275</b>
<b>Public equity at end of year</b>		<b>9,864,415</b>	<b>6,554,830</b>	<b>9,256,800</b>

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

# Statement of Financial Position

AS AT 30 JUNE 2006

	Notes	GROUP ACTUAL		BUDGET
		2006 \$'000	2005 \$'000	2006 \$'000
<b>ASSETS</b>				
<b>Investments</b>				
Cash and cash equivalents	7	357,317	177,347	10,000
Investments	7	9,732,491	6,407,791	9,379,282
<b>Total investments</b>		<b>10,089,808</b>	<b>6,585,138</b>	<b>9,389,282</b>
Receivables	10	105,491	71,210	56,602
Other assets		40	-	-
Taxation receivable		84,580	19,337	-
<b>Total assets</b>		<b>10,279,919</b>	<b>6,675,685</b>	<b>9,445,884</b>
<b>LIABILITIES</b>				
Payables	11	86,629	42,845	59,214
Deferred tax liability	13	328,875	78,010	129,870
<b>Total liabilities</b>		<b>415,504</b>	<b>120,855</b>	<b>189,084</b>
<b>Net assets</b>		<b>9,864,415</b>	<b>6,554,830</b>	<b>9,256,800</b>
Retained surplus		1,614,938	653,751	1,018,721
Foreign currency translation reserve	6	4,109	-	-
Land revaluation reserve	6	7,289	-	-
Contributed capital		8,238,079	5,901,079	8,238,079
<b>Total public equity</b>		<b>9,864,415</b>	<b>6,554,830</b>	<b>9,256,800</b>

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 2006

	Notes	GROUP ACTUAL		BUDGET
		2006 \$'000	2005 \$'000	2006 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Cash was provided from:</b>				
Dividends		219,474	109,264	39,468
Interest		119,667	62,632	89,102
Receipts from customers		15,713	-	-
Miscellaneous income		-	851	-
Tax refund		24	-	-
<b>Total cash inflow from operating activities</b>		<b>354,878</b>	<b>172,747</b>	<b>128,570</b>
<b>Cash was applied to:</b>				
Managers' fees		(25,980)	(12,477)	(36,454)
Tax paid		(294,712)	(204,775)	(97,933)
Payments to suppliers		(15,242)	(5,452)	-
Net GST paid		(354)	-	-
<b>Total cash outflow from operating activities</b>		<b>(336,288)</b>	<b>(222,704)</b>	<b>(134,387)</b>
<b>Net cash inflow/(outflow) from operating activities</b>	15	<b>18,590</b>	<b>(49,957)</b>	<b>(5,817)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Cash was provided from:</b>				
Sale of investments		7,774,530	3,583,721	3,900,000
<b>Total cash inflow from investing activities</b>		<b>7,774,530</b>	<b>3,583,721</b>	<b>3,900,000</b>
<b>Cash was applied to:</b>				
Purchases of investments		(9,855,948)	(5,796,387)	(6,231,183)
Purchase of subsidiaries, net of cash acquired		(103,201)	-	-
<b>Total cash outflow from investing activities</b>		<b>(9,959,149)</b>	<b>(5,796,387)</b>	<b>(6,231,183)</b>
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(2,184,619)</b>	<b>(2,212,666)</b>	<b>(2,331,183)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Cash was provided from:</b>				
Capital contributions from the Crown		2,337,000	2,107,000	2,337,000
<b>Net cash inflow from financing activities</b>		<b>2,337,000</b>	<b>2,107,000</b>	<b>2,337,000</b>
<b>NET INCREASE / (DECREASE) IN CASH</b>		<b>170,971</b>	<b>(155,623)</b>	-
Cash at beginning of the year		177,347	327,091	10,000
Effects of exchange rate changes on cash		8,999	5,879	-
<b>Cash at end of the year</b>		<b>357,317</b>	<b>177,347</b>	<b>10,000</b>

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 2006

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### REPORTING ENTITY

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

The consolidated financial statements comprise the New Zealand Superannuation Fund and its subsidiaries (the "Group").

The New Zealand Superannuation Fund is managed and administered by the Guardians of New Zealand Superannuation (the "Guardians"). The Guardians was established as a Crown entity by section 48 of the New Zealand Superannuation and Retirement Income Act 2001 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 ("superannuation entitlements").

### STATUTORY BASE

The financial statements have been prepared in accordance with the New Zealand Superannuation and Retirement Income Act 2001.

### MEASUREMENT BASE

The financial statements have been prepared on the basis of fair value with the exception that certain assets and liabilities are measured at historic cost.

### SPECIFIC ACCOUNTING POLICIES

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of financial performance and financial position are set out below.

#### (a) Budget figures

The budget was included in the Statement of Intent of the Guardians and was approved by the Guardians on behalf of the Fund for the year.

#### (b) 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 movements 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 movements in public equity.

#### (c) 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 are treated as capital withdrawals by the Crown in respect of funding the net cost of superannuation entitlements and are recorded in the statement of movements 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 financial statements.

#### (d) Consolidation of subsidiaries

Subsidiaries are those entities that are controlled by the Fund.

The Group 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.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

### (e) Goodwill

Goodwill arising on the acquisition of subsidiaries is recognised as an asset and separately disclosed. Goodwill is amortised in the statement of financial performance on a straight line basis over the period of expected benefits.

To the extent that the unamortised balance of goodwill is no longer probable of being recovered from the expected future economic benefits, it is recognised immediately as an expense.

### (f) Income tax

In accordance with section 76 of the Act the Fund 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 1994.

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

The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method.

Deferred tax is provided for on unrealised gains and losses on investments.

A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

### (g) 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 on 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.

#### (i) Investments

Investments are initially recognised at cost on a trade date basis. Subsequent to initial recognition investments are recorded at fair value. Changes in fair value are recognised in the statement of financial performance.

Transaction costs are expensed immediately.

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:

- Fixed interest securities are valued at the last quoted sales price on the relevant exchange as of the close of business at balance date.
- Listed securities are stated at the last sales price as quoted on the relevant exchange as of the close of business at balance date.
- Investments in listed unit trusts are stated at the last quoted sales price as quoted on the relevant exchange as of the close of business at balance date.
- Investments in unlisted unit trusts are stated at the net asset value per unit as provided by the investment managers or administrators at balance date.
- Private equity investments are valued based on the basis of independent valuations utilising valuation models based on the price of recent investments, earnings multiples or net assets. Where no reliable fair value can be estimated using such techniques, private equity investments are carried at cost less any provision for impairment.
- Forests are valued based on discounted cash flow models.
- Land is stated at fair value, as determined by an independent valuer. Revaluations are transferred to the land revaluation reserve. If the revaluation reserve has a deficit, that deficit is recognised in the statement of financial performance in the period it arises. In subsequent periods any revaluation surplus that reverses previous revaluation deficits is recognised as revenue in the statement of financial performance.
- Investments in multi-strategy funds (unlisted open-ended investment funds) are stated at the net asset value per share as provided by the investment managers or administrators of the underlying investment funds at balance date.
- Fair value for over-the-counter derivatives such as swaps and forward contracts is determined based on the quoted market prices for underlying assets. The fair value of commodity swap instruments is provided by the investment manager based on the value of the underlying instruments as quoted on the relevant index at balance date.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

## (ii) Derivatives

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

Derivatives are recorded at fair value. Fair values are determined using valuation models and broker quotations.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

The fair value of all forward foreign exchange contracts is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at balance date. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The fair value of futures contracts and equity swaps is calculated as being 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 is determined using broker quotations.

## (iii) Receivables

Receivables are stated at their estimated realisable value.

## (h) Income recognition

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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.

Any unrealised gains and losses arising from the revaluation of investments or conversion to New Zealand dollars at balance date, and realised gains and losses on the sale of investments during the year, are included in the statement of financial performance. Realised gains and losses are calculated with reference to the weighted average cost of investments.

## (i) 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. Realised foreign currency gains and losses represent gains and losses upon sale of investments that relate to foreign exchange movements in assets, and gains and losses upon settlement of forward foreign exchange contracts. Unrealised foreign exchange gains and losses represent the translation of foreign dominated assets and liabilities.

## (j) Translation of the financial statements of independent foreign operations

Assets and liabilities of independent foreign operations are translated at the closing rate. Revenue and expense items are translated at a weighted average of exchange rates over the period, 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 movements in public equity.

The financial statements of integrated foreign operations are translated in the same way as if the underlying transactions had been entered into by the Fund itself.

Exchange differences on monetary liabilities designated as a hedge against investments in independent foreign operations are taken to the foreign currency translation reserve and recognised in the statement of movements in public equity to the extent that they are offset by the exchange differences on the net investments.

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 and to any monetary liability designated as a hedge of that operation are transferred out of the foreign currency translation reserve direct to retained surplus.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

### (k) 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 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 Fund 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 in which the Fund and its managers invest as part of its day-to-day cash management.

### (l) Goods and Services Tax

The financial statements are prepared exclusive of Goods and Services Tax ("GST"), except for those expenses where GST is non-recoverable as an input tax (as the Fund does not make taxable supplies) or where GST is included in receivables and payables balances.

### (m) Prior year comparatives

Certain prior year comparatives have been reclassified to conform to current year presentation.

### CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year and the accounting policies are consistent with those used in the previous period.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	GROUP ACTUAL		BUDGET
		2006 \$'000	2005 \$'000	2006 \$'000
<b>NOTE 2: INVESTMENT INCOME</b>				
New Zealand fixed interest - Crown		50,099	33,987	
New Zealand fixed interest – State Owned Entities		106	129	
New Zealand fixed interest – Crown Entities		-	8	
New Zealand fixed interest – Local Bodies		3,704	1,864	
New Zealand fixed interest – Other		31,957	10,512	
<b>Total New Zealand fixed interest</b>		<b>85,866</b>	<b>46,500</b>	
Global fixed interest		27,258	24,313	
Other interest		3,326	896	
Timber sales	5	15,420	-	
Dividend income		218,342	117,771	
<b>Total other income</b>		<b>264,346</b>	<b>142,980</b>	
<b>Total investment income</b>		<b>350,212</b>	<b>189,480</b>	<b>264,522</b>

### NOTE 3: REALISED AND UNREALISED GAINS AND (LOSSES) ON INVESTMENTS AND FOREIGN CURRENCIES

Unrealised gains and (losses) on investments and foreign currencies:

Unrealised gains on investments		343,779	343,530	
Unrealised appreciation in forest value	5	29,205	-	
Unrealised foreign currency gains/(losses) on investments		763,461	(178,346)	
Unrealised foreign currency hedging (losses)		(115,552)	(58,403)	
<b>Total unrealised gains and (losses) on investments and foreign currencies</b>		<b>1,020,893</b>	<b>106,781</b>	<b>251,929</b>
Realised gains and (losses) on investments and foreign currencies:				
Realised foreign currency gains/(losses) on investments		98,980	(129,762)	
Realised foreign currency hedging gains/(losses)		(471,225)	434,154	
Realised gains on investments		511,013	145,856	
<b>Total realised gains and (losses) on investments</b>		<b>138,768</b>	<b>450,248</b>	<b>167,953</b>

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	GROUP ACTUAL		BUDGET
		2006 \$'000	2005 \$'000	2006 \$'000
<b>NOTE 4: OPERATING EXPENSES</b>				
Timber harvesting and operating expenses	5	7,257	-	
Write off of goodwill	5	9,945	-	
Depletion of timber assets	5	8,800	-	
Managers' fees		45,212	15,277	30,250
Custody fees		7,096	5,090	6,990
Auditor's remuneration		228	139	208
Other expenses		2,377	1,205	1,268
<b>Total operating expenses</b>		<b>80,915</b>	<b>21,711</b>	<b>38,716</b>

Managers' fees include base fees and performance fees, which vary between managers and asset classes.

### NOTE 5: SURPLUS FROM TIMBER INVESTMENTS (EXCLUDING MANAGER FEES)

Timber sales	2	15,420	-	
Less: Harvesting and operating expenses	4	(7,257)	-	
Depletion of timber assets	4	(8,800)	-	
Write off of goodwill	4	(9,945)	-	
Unrealised appreciation in forest value	3	29,205	-	
<b>Surplus from timber investments (excluding manager fees)</b>		<b>18,623</b>	<b>-</b>	

### NOTE 6: RESERVES

#### Foreign currency translation reserve

Balance at the beginning of the year		-	-	
Foreign exchange difference arising on translation of foreign operation		23,789	-	
Effect of hedging of net investment in foreign operation		(19,680)	-	
<b>Balance at the end of the year</b>		<b>4,109</b>	<b>-</b>	

#### Land revaluation reserve

Balance at the beginning of the year		-	-	
Revaluation of land		7,289	-	
<b>Balance at the end of the year</b>		<b>7,289</b>	<b>-</b>	

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

	GROUP ACTUAL		BUDGET
	2006 \$'000	2005 \$'000	2006 \$'000
<b>NOTE 7: INVESTMENTS</b>			
Cash balances in New Zealand Dollars	102,056	109,922	
Cash balances in foreign currencies	255,261	67,425	
<b>Total cash</b>	<b>357,317</b>	<b>177,347</b>	<b>10,000</b>
New Zealand equities – State Owned	2,203	2,116	
New Zealand equities – Other	831,392	547,315	
Global equities	5,306,844	3,715,210	
<b>Total equities</b>	<b>6,140,439</b>	<b>4,264,641</b>	
New Zealand fixed interest - Crown	813,181	836,483	
New Zealand fixed interest – State Owned Entities	1,504	1,738	
New Zealand fixed interest – Local Bodies	47,116	28,969	
New Zealand fixed interest – Other	577,959	89,657	
Global fixed interest	572,175	1,050,271	
<b>Total fixed interest</b>	<b>2,011,935</b>	<b>2,007,118</b>	
New Zealand timber investments - land	38,880	-	
New Zealand timber investments - forests	147,400	-	
Global timber investments - land	35,965	-	
Global timber investments - forests	141,661	-	
<b>Total timber investments</b>	<b>363,906</b>	<b>-</b>	
Forward foreign exchange contracts	(149,111)	(33,548)	
Futures contracts	(3,008)	-	
Equity swaps	(2,670)	-	
Commodity swaps	18,960	-	
Multi-strategy funds	1,081,618	-	
Private equity	17,683	-	
Global unit trusts	252,739	169,580	
<b>Total other investments</b>	<b>1,216,211</b>	<b>136,032</b>	
<b>Total investments</b>	<b>9,732,491</b>	<b>6,407,791</b>	<b>9,379,282</b>
<b>Total cash and investments</b>	<b>10,089,808</b>	<b>6,585,138</b>	<b>9,389,282</b>

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

### NOTE 7: INVESTMENTS (CONTINUED)

As at balance date the Group had cash balances totaling \$357,317,000 (2005: \$177,347,000) of which \$277,711,000 (2005: \$89,087,000) had been allocated and is held by Investment managers awaiting investment.

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 segments as follows:

	GROUP ACTUAL		BUDGET
	2006	2005	2006
	\$'000	\$'000	\$'000
<b>Regional concentration</b>			
New Zealand	2,434,410	1,494,126	
Australia	321,786	208,495	
Japan	677,918	609,704	
United States	4,288,063	2,179,120	
Europe	1,874,866	1,550,274	
Other	492,765	543,419	
<b>Total investments and cash</b>	<b>10,089,808</b>	<b>6,585,138</b>	<b>9,389,282</b>

### NOTE 8: INVESTMENTS IN SUBSIDIARIES

	PERCENT HELD		BALANCE DATE
	2006	2005	
CNI Timber Holdco	100%	0%	30 June
CNI Timber Operating Company Limited	100%	0%	30 June

CNI Timber Holdco is a holding company for 100% of the shares in CNI Timber Operating Company Limited. Until 31 May 2006, CNI Timber Operating Company Limited owned a forest estate, and undertook forestry activities. On this date the forest was sold to a nominee company which holds assets and liabilities on behalf of the New Zealand Superannuation Fund. As such the net assets of the New Zealand Superannuation Fund did not change as a result of this transaction.

It is intended that both CNI Timber Holdco and CNI Timber Operating Company Limited will be liquidated.

The assets and liabilities of these companies have been stated on the basis of net realisable value.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

### NOTE 9: ACQUISITION OF SUBSIDIARIES

On 1 November 2005, the Fund acquired 100% of the shares of CNI Timber Holdco, which owns 100% of CNI Timber Operating Company Limited.

At acquisition, assets and liabilities of the consolidated entity increased as follows:

	\$'000
Net assets acquired:	
Cash	2
Forest asset	104,286
Receivables	836
Payables	(306)
Deferred taxation liability	(11,560)
	93,258
Goodwill	9,945
Consideration paid	103,203

Section 59 of the New Zealand Superannuation and Retirement Income Act 2001 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 Holdco and CNI Timber Operating Company Limited arose during the purchase of a timberland estate. The Fund is currently working to liquidate these entities "as soon as practicable" as is required under the Act.

### NOTE 10: RECEIVABLES

	GROUP ACTUAL		BUDGET
	2006 \$'000	2005 \$'000	2006 \$'000
Accrued interest	23,974	27,210	
Other receivables	1,018	571	
Dividends receivable	10,217	11,349	
Unsettled sales	70,282	32,080	
<b>Total receivables</b>	<b>105,491</b>	<b>71,210</b>	<b>56,602</b>

### NOTE 11: PAYABLES

Accrued expenses	27,928	7,816	
Unsettled purchases	58,701	35,029	
<b>Total payables</b>	<b>86,629</b>	<b>42,845</b>	<b>59,214</b>

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

	GROUP ACTUAL		BUDGET
	2006 \$'000	2005 \$'000	2006 \$'000
<b>NOTE: 12: INCOME TAX EXPENSE</b>			
Surplus before income tax	1,429,963	726,124	645,688
Plus/(Less) permanent differences:			
Non-deductible expenditure	-	254	
Permanent differences	53,417	-	
Imputation credits on taxable dividends	9,651	7,924	
<b>Surplus subject to income tax</b>	<b>1,493,031</b>	<b>734,302</b>	<b>645,688</b>
Tax at 33% of net income	492,700	242,320	
Imputation credits on dividends	(9,651)	(7,924)	
Tax losses	(2,627)	-	
Imputation credits accrued	-	(75)	
Prior year adjustment	(11,646)	(129)	
<b>Tax expense</b>	<b>468,776</b>	<b>234,192</b>	<b>200,163</b>
<b>Represented by:</b>			
Current tax - prior year	118	(598)	
Current tax - current year	228,955	195,716	
Deferred tax - prior year	(11,764)	469	
Deferred tax - current year	251,467	38,605	
	<b>468,776</b>	<b>234,192</b>	<b>200,163</b>

### NOTE 13: DEFERRED TAX LIABILITY

Balance brought forward	78,010	39,247	
Current year deferred tax liability	251,467	38,605	
Withholding tax offset against deferred tax	(400)	(311)	
Prior period adjustment	(202)	469	
<b>Closing deferred tax liability</b>	<b>328,875</b>	<b>78,010</b>	<b>129,870</b>

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 14: FINANCIAL INSTRUMENTS

Financial instruments carried on the statement of financial position include cash and cash equivalents, investments, receivables, and payables. Investments are stated at fair value and any resultant gains or losses are recognised in the statement of financial performance.

### (a) Fair value

The Group's financial assets and liabilities are stated at fair value in the statement of financial position.

### (b) Credit risk

Credit risk is the risk that a counterparty will default on its obligation to the Group, causing the Group to incur a loss. Financial instruments which potentially subject the Fund to risk include cash, investments and other receivables. Collateral in the form of cash is held in respect of the Commodity Swap instruments.

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.

### (c) Interest rate risk

The Group is exposed to interest rate risk in that future interest rate movements will affect market value of fixed interest assets. Interest rate risk management activities are undertaken by the investment manager in accordance with the Investment Mandate. 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.

Weighted average effective interest rates and maturity periods in the following table are based on the earlier of contractual repricing or maturity period:

	EFFECTIVE INTEREST RATE %	LESS THAN ONE YEAR \$000	1 – 2 YEARS \$000	2 – 5 YEARS \$000	5 – 10 YEARS \$000	OVER 10 YEARS \$000	TOTAL \$000
New Zealand Government Stock	6.09%	119,885	-	230,138	388,492	74,666	813,181
New Zealand Stated Owned Enterprises and Crown Entities	6.59%	-	-	-	-	1,504	1,504
Other fixed bonds and securities	2.34%	380,522	178,577	299,644	197,134	141,373	1,197,250
<b>Total fixed income</b>		<b>500,407</b>	<b>178,577</b>	<b>529,782</b>	<b>585,626</b>	<b>217,543</b>	<b>2,011,935</b>

### d) Currency 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 investment in offshore assets and actively manages its risk by hedging of its offshore assets using forward foreign exchange contracts. In the period ended 30 June 2006 the Fund hedged Global fixed interest securities 100%, and 72.5% of Global equities.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 14: FINANCIAL INSTRUMENTS (CONTINUED)

The unhedged foreign currency monetary assets and liabilities are listed below:

	2006 NZ Currency \$000	2005 NZ Currency \$000
Australian Dollars	72,565	37,582
Brazilian Real	37,644	3,787
Canadian Dollars	20,780	14,848
Swiss Francs	30,746	19,697
Chilean Pesos	3,900	795
Czech Republic Koruny	3,120	423
Danish Kroner	6,548	2,405
Egyptian Pounds	1,096	336
European Union Euros	150,388	116,642
United Kingdom Pounds	101,520	80,505
Hong Kong Dollars	66,354	13,632
Hungarian Forints	3,467	849
Indonesian Rupiahs	6,004	616
Israeli New Shekels	9,952	2,218
Indian Rupees	5,709	-
Japanese Yen	83,205	58,147
South Korean Won	76,547	14,666
Mexican Pesos	23,446	2,691
Malaysian Ringgits	8,601	2,517
Norwegian Krone	16,822	3,737
Philippines Pesos	1,320	261
Polish Zlotych	3,376	753
Swedish Kronor	51,155	8,123
Singaporean Dollars	16,402	4,414
Thai Baht	12,866	2,097
Turkish New Lira	6,547	1,271
Taiwanese New Dollars	54,108	13,430
United States of America Dollars	913,909	687,887
South African Rand	29,388	5,380

### (e) Liquidity risk

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. The Group has benchmark liquidity levels which are monitored and maintained given normal investment conditions.

### (f) Forward foreign exchange contracts

The Group invests either directly or indirectly in a number of countries to derive income. This exposes the Group to the risks associated with investing in these countries.

At balance date the Group held forward foreign exchange contracts with a Notional value of \$6,160,682,000 (2005: \$4,793,097,262) and negative fair value of \$149,111,000 (2005: Negative \$33,547,739).

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

### NOTE 14: FINANCIAL INSTRUMENTS (CONTINUED)

#### (g) Concentration of credit risk

Concentration of credit risk exists if a single counterparty, or group of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

	GROUP ACTUAL		BUDGET
	2006	2005	2006
	\$'000	\$'000	\$'000
<b>By industry</b>			
Basic Materials	655,596	216,594	
Communications	497,724	459,059	
Consumer – Cyclical	597,857	444,745	
Consumer – Non Cyclical	1,004,772	697,925	
Diversified	72,476	38,263	
Energy	503,761	403,085	
Financial	3,515,328	1,183,334	
Funds	266,793	156,101	
Government	1,366,757	1,828,372	
Industrial	785,194	505,832	
Mortgage Securities	38,389	29,234	
Technology	303,544	239,531	
Utilities	226,634	191,033	
Other	254,983	192,030	
<b>Total cash and investments</b>	<b>10,089,808</b>	<b>6,585,138</b>	<b>9,389,282</b>

#### (h) Individual counterparties

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. This is compared with the corresponding notional value.

	Group		Notional Value 2005 \$'000	Fair Value 2005 \$'000
	Notional Value 2006 \$'000	Fair Value 2006 \$'000		
ABN Amro	225	5	-	-
AIG Financial International	210,304	5,011	-	-
BNP Paribas	315	-	146	-
Citibank	12,967	273	-	-
Commonwealth Bank Of Australia	199,672	2,875	384,693	8,670
Credit Suisse First	2,068	49	-	-
Deutsche Bank	105,938	2,180	-	-
Goldman Sachs International	37,496	893	-	-
HSBC Bank	1,197	38	36	-
JP Morgan	306	4	1,002	-
Morgan Stanley	76,529	963	-	-
Morgan Stanley Capital Group	241,279	13,055	-	-
New Zealand Debt Management Office	1,568,145	30,387	811,023	19,426
Royal Bank Of Scotland	9,820	78	-	-
State Street	168,830	2,539	850,633	18,141
Toronto Dominion Bank	-	-	99,101	2,779
UBS	7,872	303	-	-
Westpac	259,951	2,552	358,177	4,685
	<b>2,902,914</b>	<b>61,205</b>	<b>2,504,811</b>	<b>53,701</b>

There are no other significant concentrations of credit risk.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

	GROUP ACTUAL		BUDGET
	2006 \$'000	2005 \$'000	2006 \$'000
<b>NOTE 15: RECONCILIATION OF NET OPERATING INCOME TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>			
Net surplus after income tax	961,187	491,932	445,525
Add/(less) non-cash items			
Unrealised changes in net fair value of investments	(1,020,893)	(106,781)	
Depletion of forestry assets	8,800	-	
Write off of goodwill	9,945	-	
Other non-cash items	18	-	
	<b>(1,002,130)</b>	<b>(106,781)</b>	
Changes in assets and liabilities during the financial year:			
Increase in interest, dividends, trust distributions and other income receivable	(34,281)	(30,076)	
Increase in current tax receivable	(65,243)	(9,346)	
Increase in deferred tax liability	250,865	38,763	
Increase / (decrease) in accounts payable	43,784	(153,988)	
Decrease in other receivables	-	(24)	
Effect of acquisition of subsidiary opening balances	(11,354)	-	
	<b>183,771</b>	<b>(154,671)</b>	
Items classified as investing activities			
Realised (gains)/losses on sale of investments	(138,768)	(450,248)	
Unsettled sales	38,202	12,040	
Unsettled purchases	(23,672)	157,771	
<b>Net cash provided by operating activities</b>	<b>18,590</b>	<b>(49,957)</b>	<b>(5,817)</b>

## NOTE 16: RELATED PARTIES

The Group is managed and administered by the Guardians which in turn is a wholly owned entity of the Crown.

The Guardians has paid expenses relating to the Group, as it is required to do under the Act. It is not entitled to receive any reimbursement for these expenses, which are included in the financial statements of the Guardians.

The Group, through the Guardians, has entered into a number of transactions with the Crown, Government Departments, Crown Entities and State Owned Enterprises together with a number of other public sector entities on an arm's length basis. These transactions are not considered related party transactions.

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

## NOTE 17: NEW ZEALAND 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.

Funding of superannuation entitlements under section 45 of the Act amounted to \$6,413,619,000 during the year (2005:

\$6,083,189,000) as set out in the Crown financial statements. These capital contributions from the Crown are to meet the expected net cost of superannuation entitlements as determined by the Ministry of Social Development. Against these capital inflow transfers, capital outflow transfers were made to the Ministry of Social Development who are responsible for the administration of superannuation entitlements.

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 Treasury acting as agent for the Fund.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 18: CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities and capital commitments as at 30 June 2006 (2005: \$23.75 mil).

## NOTE 19: SEGMENTAL INFORMATION

The Fund operates in New Zealand in one industry, investment management. As a consequence the Fund invests in a number of countries directly and indirectly in the form of fixed interest investments, unit trusts, shares and financial derivatives.

## NOTE 20: ACTUAL VERSUS FORECAST

During the period ended 30 June 2006 market returns have generated a positive variance over the assumptions utilised in the budget.

## NOTE 21: IMPACT OF ADOPTING NEW ZEALAND EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The New Zealand Accounting Standards Review Board announced in December 2002 that New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") will apply to New Zealand reporting entities for periods commencing from 1 January 2007. The Group will prepare its first set of financial statements under NZ IFRS for the year ending 30 June 2008, in line with the Crown.

The Group has set up a project team to evaluate the impact of adopting NZ IFRS and prepare the Group for transition. The project is being overseen by the Audit and Risk Committee on behalf of the Board.

The preliminary assessment of the impact of adopting NZ IFRS is detailed below.

### Portfolio Pricing

Presently the Group records all assets at fair value. For listed securities the price is the last quoted sales price as of the close of business on the day the securities are being valued. Upon adoption of NZ IFRS, the Group intends to classify all financial assets and liabilities as at Fair Value Through Profit or Loss. NZ IAS 39 Financial Instruments: Recognition and Measurement, requires that all listed assets are valued at the end of day bid price as quoted on the relevant exchange. At 30 June 2006, if the Group had valued its portfolio at the bid price, the total value of the portfolio would have been reduced by \$14.8 million.

### Transaction Costs

Under NZ IFRS transaction costs must be disclosed separately in the statement of financial performance. For the year ended 30 June 2006 the value of transaction costs, which are currently recorded in realised and unrealised gains and losses is \$7.0 million.

### Disclosure Requirements

NZ IFRS requires a large number of additional disclosures and will result in a number of changes to the way the financial statements are presented. The next step in the Group's NZ IFRS project is to prepare a set of NZ IFRS pro-forma financial statements to assist in the identification of all additional disclosure requirements and ensure processes and systems are put in place to capture the relevant information.

The information disclosed in this note represents our best estimate of the impact of conversion to NZ IFRS at the date of preparing the financial statements. The information disclosed could change due to:

- Further work being undertaken by our NZ IFRS project team; and
- Potential amendment to NZ IFRS and / or interpretations thereof being issued by the standard-setters and the International Financial Reporting Interpretation Committee which are effective prior to the date of the first full set of NZ IFRS financial statements.



## TO THE READERS OF THE NEW ZEALAND SUPERANNUATION FUND AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

The Auditor-General is the auditor of New Zealand Superannuation Fund (the "Fund") and 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 Fund and Group, on his behalf, for the year ended 30 June 2006.

### Unqualified Opinion

In our opinion:

- the financial statements of the Fund and Group on pages 35 to 53:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
    - the Fund and Group's financial position as at 30 June 2006; and
    - the results of operations and cash flows for the year ended on that date.
- based on our examination the Fund and Group kept proper accounting records.

The audit was completed on 11 September 2006, 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.

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 financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the Fund and Group as at 30 June 2006. They must also give a true and fair view of the results of 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 the New Zealand Superannuation and Retirement Income Act 2001.

**Independence**

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

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



**Warren Allen**  
Ernst & Young  
On behalf of the Auditor-General  
Auckland, New Zealand


# Statement of Responsibility

FOR THE YEAR ENDED 30TH JUNE 2006

The Board and management of the Guardians of New Zealand Superannuation accepts responsibility for the preparation of the annual Financial Statements 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 accepts 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 for the year ended 30 June 2006, fairly reflect the financial position, operations and cashflows of the Guardians of New Zealand Superannuation and Group.



**D MAY**

Chairperson

Date: 11 September 2006



**P COSTELLO**

Chief Executive

Date: 11 September 2006

# Statement of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	PARENT AND GROUP ACTUAL 2006 \$'000	PARENT AND GROUP ACTUAL 2005 \$'000	BUDGET 2006 \$'000
Crown revenue		4,318	3,689	4,711
Interest income		85	37	23
<b>TOTAL OPERATING REVENUE</b>		<b>4,403</b>	<b>3,726</b>	<b>4,734</b>
Expenditure		4,417	3,475	4,908
<b>NET SURPLUS/ (DEFICIT) FOR THE PERIOD</b>	2	<b>(14)</b>	<b>251</b>	<b>(174)</b>

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

# Statement of Movements in Public Equity

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	PARENT AND GROUP ACTUAL 2006 \$'000	PARENT AND GROUP ACTUAL 2005 \$'000	BUDGET 2006 \$'000
Public equity as at 1 July		904	653	708
Net surplus / (deficit)		(14)	251	(174)
<b>Total recognised revenues and expenses for the period</b>		<b>(14)</b>	<b>251</b>	<b>(174)</b>
Equity received from the Crown		200	-	192
Provision for repayment of accumulated surpluses		(590)	-	-
<b>Total equity received/(repaid) for the period</b>		<b>(390)</b>	<b>-</b>	<b>192</b>
<b>Public equity as at 30 June</b>	3	<b>500</b>	<b>904</b>	<b>726</b>

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

# Statement of Financial Position

AS AT 30 JUNE 2006

	Notes	PARENT AND GROUP ACTUAL 2006 \$'000	PARENT AND GROUP ACTUAL 2005 \$'000	BUDGET 2006 \$'000
<b>PUBLIC EQUITY</b>				
General funds	3	500	904	726
<b>TOTAL PUBLIC EQUITY</b>		<b>500</b>	<b>904</b>	<b>726</b>
Represented by:				
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and bank		153	100	678
Receivables and prepayments	6	56	442	442
Short-term deposits	7	1,028	672	-
<b>Total current assets</b>		<b>1,237</b>	<b>1,214</b>	<b>1,120</b>
<b>Non-current assets</b>				
Investments in subsidiaries	4	-	-	-
Property, plant and equipment	8	454	225	250
<b>Total non-current assets</b>		<b>454</b>	<b>225</b>	<b>250</b>
<b>TOTAL ASSETS</b>		<b>1,691</b>	<b>1,439</b>	<b>1,370</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Payables and accruals	9	423	446	582
Employee entitlements	10	157	75	50
Provisions	11	590	-	-
<b>Total current liabilities</b>		<b>1,170</b>	<b>521</b>	<b>632</b>
<b>Non-current liabilities</b>				
Provisions	11	21	14	12
<b>Total non-current liabilities</b>		<b>21</b>	<b>14</b>	<b>12</b>
<b>TOTAL LIABILITIES</b>		<b>1,191</b>	<b>535</b>	<b>644</b>
<b>NET ASSETS</b>		<b>500</b>	<b>904</b>	<b>726</b>

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 2006

	Notes	PARENT AND GROUP ACTUAL 2006 \$'000	PARENT AND GROUP ACTUAL 2005 \$'000	BUDGET 2006 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Cash was provided from:</b>				
Revenue from the Crown		4,760	3,497	5,300
Net Goods and Services Tax		-	37	-
Interest received		84	37	23
Other		-	11	-
		<b>4,844</b>	<b>3,582</b>	<b>5,323</b>
<b>Cash was applied to:</b>				
Payments to employees		2,014	1,622	1,478
Payments to suppliers		2,172	1,729	3,466
Net Goods and Services Tax		66	-	306
		<b>4,252</b>	<b>3,351</b>	<b>5,250</b>
<b>Net cash inflow from operating activities</b>	12	<b>592</b>	<b>231</b>	<b>73</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Cash was applied to:</b>				
Purchase of property, plant and equipment		383	95	82
<b>Net cash (outflow) from investing activities</b>		<b>(383)</b>	<b>(95)</b>	<b>(82)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Cash was provided from:</b>				
Capital Appropriation from Crown		200	-	192
<b>Net cash inflow from financing activities</b>		<b>200</b>	<b>-</b>	<b>192</b>
<b>NET INCREASE IN CASH HELD</b>		<b>409</b>	<b>136</b>	<b>183</b>
Plus opening cash		772	636	495
<b>CLOSING CASH BALANCE</b>		<b>1,181</b>	<b>772</b>	<b>678</b>
<b>Comprising:</b>				
Cash and bank		153	100	678
Short-term investments	7	1,028	672	-
<b>CLOSING CASH BALANCE</b>		<b>1,181</b>	<b>772</b>	<b>678</b>

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

## Statement of Commitments

AS AT 30 JUNE 2006

	PARENT AND GROUP 2006 \$'000	PARENT AND GROUP 2005 \$'000
<b>Non-cancellable operating lease commitments payable</b>		
Payable no later than 1 year	127	134
1 - 2 years	169	250
2 - 5 years	9	137
Beyond 5 years	-	-
	<b>305</b>	<b>521</b>

## Statement of Contingent Liabilities

AS AT 30 JUNE 2006

There were no contingent liabilities as at 30 June 2006 (nil 30 June 2005)

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 2006

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### REPORTING ENTITY

These are the financial statements of Guardians of New Zealand Superannuation ("the Guardians"), a Crown entity in terms of the Public Finance Act 1989.

These financial statements have been prepared in accordance with the Public Finance Act 1989.

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

### MEASUREMENT BASE

The financial statements have been prepared on an historical cost basis.

### ACCOUNTING POLICIES

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 for the year.

#### b) Consolidation of subsidiaries

Subsidiaries are those entities that are controlled by the Guardians.

The Group financial statements incorporate the financial statements of the Guardians 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-company transactions, balances and unrealised profits are eliminated on consolidation.

#### c) Revenue

The Guardians derive revenue through the provision of outputs to the Crown and income from its investments. Such revenue is recognised when earned and is reported in the financial period to which it relates.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

#### d) Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, with the exception of accounts receivable and trade creditors 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.

#### e) Taxation

The Guardians is a public authority in terms of the Income Tax Act 1994 and consequently is exempt from income tax.

#### f) Accounts receivable

Accounts receivable are stated at their expected realisable value after providing for doubtful and uncollectible debts.

#### g) Investments

Investments are stated at the lower of cost and net realisable value. Any write-downs are recognised in the statement of financial performance.

#### h) Property, plant and equipment

##### Initial recording

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

##### Subsequent expenditure

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

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

##### Impairment

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

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

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Intended for sale

Items of property, plant and equipment withdrawn from use and intended for sale are recorded at the lower of carrying amount and net market value.

### Disposal

On disposal or permanent withdrawal of an item of property, plant and equipment the difference between the disposal proceeds (if any) and the carrying amount is recognised in the statement of financial performance.

### 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.

### j) Employee entitlements

Provision is made in respect of the Group's liability for annual leave. Annual leave is expected to be settled within 12 months of reporting date, and is measured at nominal values on an actual entitlement basis at current rates of pay.

### k) 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 systematic basis over the period of the lease.

### l) Foreign currency transactions

Transactions denominated in foreign currencies are translated into the reporting currency using the exchange rate in effect at the transaction date.

Monetary items receivable or payable in a foreign currency, other than those resulting from short term transactions covered by forward exchange contracts, are translated at balance date at the closing rate. For transactions covered by short term forward exchange contracts, the rates specified in those contracts are used as the basis for measuring and reporting the transaction.

Exchange difference on foreign exchange balances are recognised in the statement of financial performance.

### m) Financial instruments

The Group is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, 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 on 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 separate accounting policy, all financial instruments are shown at their estimated fair value.

### n) Provisions

Provisions are recognised when the consolidated entity has a present obligation, 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.

### o) Statement of cash flows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Group invests as part of its day-to-day cash management.

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

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **o) Statement of cash flows (continued)**

Investing activities are those activities relating to the acquisition 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.

### **CHANGES IN ACCOUNTING POLICIES**

There have been no changes in accounting policies since the date of the last audited financial statements.

All policies have been applied on a basis consistent with previous years.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

### NOTE 2: OPERATING SURPLUS/(DEFICIT)

	PARENT AND GROUP 2006 \$'000	PARENT AND GROUP 2005 \$'000
The net surplus is after charging for:		
• Fees paid to principal auditors		
External audit	25	21
Other services	-	4
• Board members' fees	136	140
• Employment remuneration and related expenses	2,599	1,731
• Office accommodation	189	196
• Professional fees	773	772
• Rental expense in operating leases	115	119
• Depreciation:		
Office equipment	64	52
Computer equipment	60	32
Leasehold improvements	30	7
<i>Total Depreciation for the year</i>	154	91

### NOTE 3: PUBLIC EQUITY

#### General funds

Opening balance	904	653
Net surplus / (deficit)	(14)	251
Net equity received from / (repaid to) the Crown	(390)	-
<b>Closing balance</b>	<b>500</b>	<b>904</b>

### NOTE 4: INVESTMENTS IN SUBSIDIARIES

	BALANCE DATE	% HELD 2006	% HELD 2005
<b>Subsidiaries</b>			
New Zealand Superannuation Fund Nominees Limited	30 June	100	100
NZSF Timber Investments (No 1) Limited	30 June	100	-
NZSF Timber Investments (No 2) Limited	30 June	100	-
NZSF Timber Investments (No 3) Limited	30 June	100	-

The principal activity of each subsidiary 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.

New Zealand Superannuation Fund Nominees Limited was established on 12 January 2004. This company was not disclosed as a subsidiary of the Guardians in previous years, nor were the Guardians financial statements prepared on a consolidated basis. The effect on the assets and liabilities of the Guardians had this subsidiary been consolidated in the 30 June 2004 and 30 June 2005 financial statements is nil.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

### NOTE 5: ESTABLISHMENT OF SUBSIDIARIES

On 5 October 2005, the Guardians established three subsidiary companies, being NZSF Timber Investments (No 1) Limited, NZSF Timber Investments (No 2) Limited and NZSF Timber Investments (No 3) Limited. The Guardians owns 100% of the equity in these companies. The assets and liabilities of the consolidated entity did not change as a result of the establishment of these subsidiaries.

### NOTE 6: RECEIVABLES AND PREPAYMENTS

	PARENT AND GROUP 2006 \$'000	PARENT AND GROUP 2005 \$'000
Receivable from the Crown	-	442
Prepayments	55	-
Other amounts receivable	1	-
	<b>56</b>	<b>442</b>

### NOTE 7: INVESTMENTS

#### Current

Short-term deposits	1,028	672
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#### Weighted average effective interest rates

Short-term deposits	7.03%	6.49%
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### NOTE 8: PROPERTY, PLANT AND EQUIPMENT (PARENT AND GROUP)

	COST \$'000	ACCUMULATED DEPRECIATION \$'000	NET BOOK VALUE \$'000
<b>2006</b>			
Office equipment	246	149	97
Computer equipment	307	96	211
Leasehold improvements	189	43	146
<b>Total</b>	<b>742</b>	<b>288</b>	<b>454</b>
<b>2005</b>			
Office equipment	168	88	80
Computer equipment	172	64	108
Leasehold improvements	50	13	37
<b>Total</b>	<b>390</b>	<b>165</b>	<b>225</b>

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

### NOTE 9: PAYABLES AND ACCRUALS

	PARENT AND GROUP 2006 \$'000	PARENT AND GROUP 2005 \$'000
Trade creditors	106	221
Accrued expenses	318	160
GST payable/(refundable)	(1)	65
<b>Total payables and accruals</b>	<b>423</b>	<b>446</b>

### NOTE 10: EMPLOYEE ENTITLEMENTS

Annual leave	104	82
Accrued salary	53	(7)
<b>Total</b>	<b>157</b>	<b>75</b>
Current	157	75
Non-current	-	-
<b>Total</b>	<b>157</b>	<b>75</b>

### NOTE 11: PROVISIONS

PROVISION FOR REFURBISHMENT:		
Opening balance	14	7
Additional provisions made during the year	7	7
Charged against provision for the year	-	-
Unused amounts reversed during the year	-	-
<b>Closing balance</b>	<b>21</b>	<b>14</b>
PROVISION FOR REPAYMENT OF ACCUMULATED SURPLUS:		
Opening balance	-	-
Additional provisions made during the year	590	-
Charged against provision for the year	-	-
Unused amounts reversed during the year	-	-
<b>Closing balance</b>	<b>590</b>	<b>-</b>
<b>Total</b>	<b>611</b>	<b>14</b>
Current	590	-
Non-current	21	14
<b>Total</b>	<b>611</b>	<b>14</b>

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

### NOTE 12: RECONCILIATION OF THE NET SURPLUS FROM OPERATIONS WITH THE NET CASHFLOWS FROM OPERATING ACTIVITIES

	PARENT AND GROUP 2006 \$'000	PARENT AND GROUP 2005 \$'000
<b>Net surplus / (deficit)</b>	<b>(14)</b>	<b>251</b>
<b>Add (less) non-cash items:</b>		
Depreciation	154	91
Increase in other provisions	7	7
<b>Total non-cash items</b>	<b>161</b>	<b>98</b>
<b>Add (less) movements in working capital items:</b>		
(Increase)/Decrease in receivables	386	(189)
Increase/(Decrease) in payables	(23)	47
(Increase)/Decrease in capital creditors	-	(19)
Increase/(Decrease) in employee entitlements	82	43
<b>Working capital movements - net</b>	<b>445</b>	<b>(118)</b>
<b>Net cash flow from operating activities</b>	<b>592</b>	<b>231</b>

### NOTE 13: RELATED PARTY INFORMATION

The Guardians is a wholly owned entity of the Crown. Government appropriation is the main source of revenue.

The Group received the following from the Government for the year to 30 June 2006:

Appropriations from the Crown	\$4,318,406
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In the current year, the Group has made a provision to distribute \$590,116 back to the Crown which is a repayment of accumulated surpluses.

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

### NOTE 14: FINANCIAL INSTRUMENTS

The Group is risk averse and seek to minimise their exposure from their treasury activities. Its policies do not allow any transactions which are speculative in nature to be entered into.

#### Credit risk

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

The Group has a minimal credit risk in their holdings of various financial instruments. These instruments include cash and bank, interest receivable, short-term deposits, trade creditors and other payables.

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. There is no significant concentration of credit risk.

The maximum amount of credit risk for each class is the carrying amount in the statement of financial position.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

### NOTE 14: FINANCIAL INSTRUMENTS (CONTINUED)

#### Fair value

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

	PARENT AND GROUP 2006 \$'000	PARENT AND GROUP 2005 \$'000
Cash and bank	153	100
Interest receivable	-	-
Accounts receivable	56	442
Short-term deposits	1,028	672
Trade creditors	(106)	(221)
Other payables	(960)	(314)
<b>Total</b>	<b>171</b>	<b>679</b>

#### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group had no trade creditors denominated in a foreign currency at 30 June 2006 (AUD5,240.10 at 30 June 2005).

#### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument 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 2006. The interest rates on the Group's investments are shown in Note 7.

The Board does not consider that there is any significant interest exposure on the Group's investments.

### NOTE 15: EMPLOYEES' REMUNERATION OVER \$100,000 PER ANNUM

TOTAL REMUNERATION AND BENEFITS \$000'S	NUMBER OF EMPLOYEES	
	2006	2005
100 - 110	1	-
110 - 120	-	1
120 - 130	1	-
140 - 150	1	1
150 - 160	1	-
160 - 170	1	-
170 - 180	-	1
200 - 210	1	-
210 - 220	2	-
230 - 240	-	1
240 - 250	-	1
250 - 260	1	-
270 - 280	1	1
320 - 330	1	-
340 - 350	-	1
390 - 400	1	-

Total remuneration consists of base remuneration plus an additional payment of between 10% and 15% of base. This was to acknowledge the contribution of employees to the overall performance of the New Zealand Superannuation Fund from inception to 30 June 2006.

From 1 July 2006 a new program will be implemented to reward long term performance of the New Zealand Superannuation Fund above agreed hurdles. This will be phased in over the four year period to 2010.

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 ended 30 June 2006 was less than the amount shown.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

### NOTE 16: BOARD FEES

Board members earned the following fees during the year:

MEMBER	PARENT AND GROUP 2006 \$'000	PARENT AND GROUP 2005 \$'000
DJ May (Chairperson)	37	37
Sir D Graham (Deputy Chairperson)	21	21
M Anderson	19	19
I Bing*	-	17
B M Liddell	19	19
D Newman	19	14
G Saunders	17	13
M Tume**	4	-
<b>Total</b>	<b>136</b>	<b>140</b>

\* Mr Bing's term expired 31 May 2005.

\*\* Mr Tume was appointed to the Board in April 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.

### NOTE 17: TERMINATION PAYMENTS

During the year, the Guardians made one payment of \$5,885 to a former employee whose position was made redundant.

### NOTE 18: 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.

### NOTE 19: EVENTS SUBSEQUENT TO BALANCE DATE

On 17 July 2006, the Guardians of New Zealand Superannuation incorporated a subsidiary company. NZSF Timber Investments (No 4) Limited was established to act as a nominee company holding assets and liabilities on behalf of the New Zealand Superannuation Fund. The assets and liabilities of the consolidated entity did not change as a result of the establishment of this subsidiary. There were no other events subsequent to balance date at 30 June 2006 requiring disclosure (2005: nil).

### NOTE 20: BUDGET VARIATIONS

The Guardians' actual expenditure for the year was less than budgeted primarily due to an underspend in professional fees and salaries. The lower salaries expense is due to a delay in timing of recruitment activity and the reduced spending on professional fees occurred as a result of a change to the policy of meeting New Zealand Superannuation Fund operating costs which meant most of these fees were met directly from the Fund.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

### **NOTE 21: CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The New Zealand Accounting Standards Review Board announced in December 2002 that New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") will apply to New Zealand reporting entities for periods commencing from 1 January 2007. The Group will prepare its first set of financial statements under NZ IFRS for the year ending 30 June 2008, in line with the Crown.

The Group has set up a project team to evaluate the impact of adopting NZ IFRS and prepare the Group for transition. The project is being overseen by the Audit and Risk Committee on behalf of the Board.

To date no key areas have been identified where accounting policies will need to be changed in order to comply with NZ IFRS.

NZ IFRS requires a large number of additional disclosures and will result in a number of changes to the way the financial information is presented. The next phase of the project will be to identify all of the additional disclosure requirements and ensure processes and systems are put in place to capture the relevant information.

The information disclosed is the best estimate of the impact of the adoption of NZ IFRS as at the date of preparing the financial statements. This could change due to:

- Further work being undertaken by the NZ IFRS project team; and
- Potential amendment to NZ IFRS and /or interpretations thereof being issued by standard-setters and / or the International Financial Reporting Interpretations Committee prior to the date of the first full set of NZ IFRS financial statements.

# AUDIT NEW ZEALAND

Mana Arotake Aotearoa

## TO THE READERS OF THE GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

The Auditor-General is the auditor of the Guardians of New Zealand Superannuation ("the Guardians") and group. The Auditor General has appointed me, Rudie Tomlinson, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Guardians and group on his behalf, for the year ended 30 June 2006.

### Unqualified Opinion

In our opinion the financial statements of the Guardians and group on pages 26 to 27 and 57 to 71:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Guardians and group's financial position as at 30 June 2006;
  - the results of operations and cash flows for the year ended on that date; and
  - the service performance achievements measured against the performance targets adopted for the year ended on that date.

The audit was completed on 11 September 2006, 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 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.

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 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 Board and the Auditor**

The Board is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Guardians and group as at 30 June 2006. They must also fairly reflect the results of operations and cash flows and service performance achievements for the year ended on that date. The Board's responsibilities arise from the Public Finance Act 1989 and 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 the Public Finance Act 1989.

**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.

In addition to the audit we carried out an assignment involving the review of monthly financial processes, which is compatible with those independence requirements. Other than the audit and this assignment, we have no relationship with or interests in the Guardians and group.



R L Tomlinson  
Audit New Zealand  
On behalf of the Auditor-General  
Auckland, New Zealand

# Glossary

This glossary of terms relates to the investment strategies, activities and performance of the New Zealand Superannuation Fund specifically, and to investing generally.

## **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.

## **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. 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, real estate.

## **Asset Mix**

The proportion of assets held in the portfolio in percentage terms.

## **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.

## **Beta**

A measure of a security's or portfolio's volatility, or systematic risk, in comparison to the market as a whole.

## **Bond**

A debt investment with which the investor loans money to an entity (company or government) 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 contracts that derive their value from an underlying asset or index, such as an interest rate or foreign currency exchange rate. They can be used to manage risk, reduce cost and enhance returns. Some common derivatives are forwards, futures, swaps 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.

## **Fixed Interest Securities**

Fixed interest securities generate a predictable stream of interest, and include bonds, bank bills, floating rate notes and negotiable certificates of deposit. Interest rates on these securities may be floating but are usually fixed. The holder is paid a fixed value on a fixed future date.

## **Fund Manager (a.k.a Asset 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.

## **Hurdle Rate**

A rate of return above which an investment makes sense and below which it does not. Also called required rate of return.

## **Index**

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

## **Index Fund**

A portfolio of investments that are weighted the same as a stock-exchange index in order to mirror its performance. This process is also referred to as indexing.

**Investment**

An asset or item that is purchased with the hope 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).

**Long (or Long Position)**

The buying of a security such as a stock, commodity or currency, with the expectation that the asset will rise in value.

**Long Short**

A portfolio construction model that can hold a negative (short) position in a stock as well as a long position.

**Management Fee**

A fee that the manager of a fund charges for managing the portfolio and operating the fund.

**Market Neutral**

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

**Out-performance**

Excess performance above the benchmark or above the targeted return.

**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.

**Proxy**

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

**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.

**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 than expected – both higher or lower than expected.

**Risk Adjusted Return**

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

**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.

**Strategic Asset Allocation (SAA)**

The division of assets within an investment portfolio with regards to the long-term view of the risk and return profile of those asset classes, and how to best achieve the portfolio's long-term objectives.

**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.

**Short (or Short Position)**

Selling a borrowed security, commodity or currency, with the expectation that the asset will fall in value.

**Socially Responsible Investing**

An investment process that uses screens to select or avoid investing in certain companies or industries to reflect religious, economic, political, social or personal priorities.

**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.

**Voting Right**

The right of a stockholder to vote on matters of corporate policy as well as on who is to comprise the Board of Directors.

**Yield**

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

# Corporate Directory

## NEW ZEALAND SUPERANNUATION FUND

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## AUDITORS

### Guardians of New Zealand Superannuation

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Level 5  
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## BANKERS

### Guardians of New Zealand Superannuation

The National Bank of New Zealand

## SOLICITORS

Phillips Fox  
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## GLOBAL CUSTODIANS

BNP Paribas Fund Services Australasia Pty Limited  
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## BANKERS

### New Zealand Superannuation Fund

Westpac Banking Corporation