

Financial Statements

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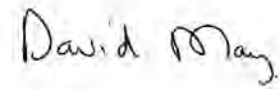
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Statement of Responsibility

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

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

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements for the year ended 30 June 2009 fairly reflect the financial position, operations, and cash flows of the New Zealand Superannuation Fund and Group.



DAVID MAY
Chairman
14 September 2009



ADRIAN ORR
Chief Executive Officer
14 September 2009

Statement of Financial Performance

For the year ended 30 June 2009

	Note	GROUP ACTUAL		BUDGET
		2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
Interest income	2(a)	114,356	124,574	118,807
Dividend income		232,890	233,240	267,861
Timber sales	4	18,767	19,994	32,713
Fair value changes in investments at fair value through profit or loss	3	(4,261,761)	(1,340,659)	1,013,931
Net foreign exchange gain/(loss)		669,107	289,645	-
Fair value changes in timber investments - forests	4	(33,204)	(18,876)	7,845
Share of profit of investments accounted for using the equity method	7(f)	144,200	80,408	38,376
Other income		18,365	6,884	4,624
NET OPERATING INCOME/(LOSS)		(3,097,280)	(604,790)	1,484,157
Operating expenses	2(b)	103,946	111,670	157,813
PROFIT/(LOSS) FOR THE YEAR BEFORE INCOME TAX EXPENSE		(3,201,226)	(716,460)	1,326,344
Income tax expense/(credit)	6	(408,140)	164,287	319,594
PROFIT/(LOSS) FOR THE YEAR AFTER INCOME TAX EXPENSE		(2,793,086)	(880,747)	1,006,750

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

Statement of Financial Position

As at 30 June 2009

	Note	GROUP ACTUAL		BUDGET
		2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
ASSETS				
Cash and cash equivalents	19	1,060,920	324,103	1,651,947
Trade and other receivables	8	536,580	215,855	95,757
Other assets	9	59	61	-
Investments				
Investments - derivative financial instrument assets	7	1,073,820	84,435	6,691
Investments - other financial assets	7	10,213,968	13,167,046	15,067,294
Investments accounted for using the equity method	7	837,648	510,228	634,819
Timber investments - forests	7	138,988	259,630	386,846
Total investments		12,264,424	14,021,339	16,095,650
Taxation receivable		-	125,307	-
Deferred tax asset	6	371,490	-	-
Property, plant, and equipment	10	50,517	101,386	83,385
Intangible assets	11	255	187	-
TOTAL ASSETS		14,284,245	14,788,238	17,926,739
LIABILITIES				
Trade and other payables	12	411,036	227,291	112,210
Derivative financial instrument liabilities	7	149,923	267,011	-
Taxation payable		33,434	-	-
Provisions	13	1,943	40,185	66,991
Deferred tax liability	6	-	41,828	39,769
TOTAL LIABILITIES		596,336	576,315	218,970
NET ASSETS		13,687,909	14,211,923	17,707,769
PUBLIC EQUITY				
Retained surplus/(deficit)		(945,884)	1,818,870	3,091,115
Foreign currency translation reserve		(6,435)	(21,097)	(24,133)
Land revaluation reserve		8,149	24,071	10,734
Contributed capital	15	14,632,079	12,390,079	14,630,053
TOTAL PUBLIC EQUITY		13,687,909	14,211,923	17,707,769

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 2009

	Note	FOREIGN	LAND	CONTRIBUTED	RETAINED	TOTAL
		CURRENCY	REVALUATION	CAPITAL	SURPLUS/ (DEFICIT)	
		TRANSLATION	RESERVE	RESERVE	RESERVE	
		RESERVE	RESERVE	RESERVE	RESERVE	
		NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Balance at 1 July 2007		(24,620)	10,734	10,287,079	2,699,617	12,972,810
Gain on revaluation of property, plant, and equipment			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
Gain on revaluation of property, plant, and equipment			3,194			3,194
Deferred tax on revaluation			9,216			9,216
Transfer to retained surplus/(deficit) on disposal of property, plant, and equipment			(28,332)		28,332	-
Translation of foreign operations		22,294				22,294
Deferred tax on translation		(7,632)				(7,632)
Net income/(loss) recognised directly in equity		14,662	(15,922)	-	28,332	27,072
Loss for the year					(2,793,086)	(2,793,086)
Total recognised income and expense for the year		14,662	(15,922)	-	(2,764,754)	(2,766,014)
Fund capital contributions from the Crown				2,242,000		2,242,000
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15			7,744,149		7,744,149
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15			(7,744,149)		(7,744,149)
Balance at 30 June 2009		(6,435)	8,149	14,632,079	(945,884)	13,687,909

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 2009

	Note	GROUP ACTUAL		BUDGET
		2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Dividends received		229,301	221,591	267,861
Interest received		138,743	118,141	118,807
Receipts from customers		21,124	22,632	37,337
Miscellaneous income		5,138	5,142	-
Income taxation received		162,494	-	-
Total cash inflow from operating activities		556,800	367,506	424,005
Cash was applied to:				
Managers' fees		(61,770)	(56,678)	(73,621)
Payments to suppliers		(66,859)	(50,267)	(62,665)
Income taxation paid		-	(407,273)	(319,594)
Goods and Services Tax		(65)	(1,107)	-
Total cash outflow from operating activities		(128,694)	(515,325)	(455,880)
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	19(c)	428,106	(147,819)	(31,875)
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of investments		15,388,512	11,270,947	15,112,545
Proceeds from sale of property, plant, and equipment		58,165	-	-
Proceeds from sale of timber investments - forest		120,955	-	-
Total cash inflow from investing activities		15,567,632	11,270,947	15,112,545
Cash was applied to:				
Purchases of investments		(17,290,235)	(13,130,704)	(16,059,497)
Purchases of property, plant, and equipment		(1,308)	(5,032)	(3,923)
Purchases of intangible asset		(224)	(199)	-
Purchases of associates		(182,503)	(125,412)	(125,109)
Total cash outflow from investing activities		(17,474,270)	(13,261,347)	(16,188,529)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		(1,906,638)	(1,990,400)	(1,075,984)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Capital contributions from the Crown		2,242,000	2,103,000	2,240,000
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES		2,242,000	2,103,000	2,240,000
Net increase/(decrease) in cash and cash equivalents		763,468	(35,219)	1,132,141
Cash and cash equivalents at the beginning of the financial year		324,103	363,030	519,806
Effects of exchange rate changes on the balance of cash held in foreign currencies		(26,651)	(3,708)	-
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	19(a)	1,060,920	324,103	1,651,947

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 2009

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.

Under section 43 of the Act, the Crown is required to make capital contributions to the Fund for investment based on a percentage of GDP as set out in the Act. Capital contributions are made by the Crown into the Fund on a fortnightly basis for the purpose of investment, and funding the net cost of New Zealand superannuation entitlements. Under section 44 of the Act, the Crown is entitled to contribute lesser amounts than calculated using the formula under section 43 of the Act.

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 125.

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 2009 were authorised for issue in accordance with a resolution of the Board of Guardians of New Zealand Superannuation on 14 September 2009.

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

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 2009. 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 a minority interest.	1 July 2009

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
Amendments to International Financial Reporting Standards**	Amendments to IFRS 7	The amended IFRS 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy: - Quoted prices in active markets for identical assets or liabilities (Level 1) - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2) - Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)	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 IFRS 7.	1 July 2009

* Designates the beginning of the applicable annual reporting period.

** Pronouncements that have been issued by the IASB and IFRIC but have not yet been issued by the FRSB.

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 Group under the Income Tax Act 2007.

The income tax expense recognised for the year is based on the accounting surplus, adjusted for permanent differences between accounting and tax rules 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 at balance date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

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

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

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

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
- (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, derivatives, investments, receivables, and payables. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investments

Investments are represented by the following:

- | | |
|---|------------|
| - Financial assets at fair value through profit or loss (either designated at fair value through profit or loss or held for trading): | KEY |
| - Equities | i) |
| - Fixed interest securities | ii) |
| - Derivatives | iii) |
| - Collective investment 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)) | |

Initial recording

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 measurement

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

Determination of fair value

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

- i) Listed equities are valued at the last quoted bid price on the relevant exchange as of the close of business at balance date. 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) Highly liquid 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. Where the market for fixed interest securities is illiquid, prices are determined by a reputable pricing vendor who uses models to value these securities. The models can utilise a variety of inputs including loan level data, prepayment and default assumptions and benchmark prices for similar securities. Because of the inherent uncertainty of valuation, it is possible that those values estimated for the illiquid securities may differ from those values that would have been used had a ready market for those securities existed and those differences may be significant.
- iii) Fair value for derivatives is outlined under "Derivatives" below.
- iv) Investments in collective investment funds (unlisted investment funds) are valued at the last price of the unit or security as provided by the administrators at balance date. The price is based on the fair value of the underlying net assets or securities of the relevant collective investment fund.
- v) 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investments (continued)

- 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, and achieve exposure to assets and asset classes. The use of derivatives is governed by the Fund's Statement of Investment Policies, Standards and Procedures as approved by the Guardians, which provides written principles on the use of derivatives by the Group.

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

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

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

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

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

The fair value of 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 advanced by the borrower in the form of readily marketable securities (non-cash) is held in escrow by a third-party agent. Recourse to those securities is only available in the event of default by the borrower, and as such the non-cash collateral is not recognised in the statement of financial position. Collateral advanced by the borrower in the form of cash is recognised in the statement of financial position as an asset, along with a corresponding liability to repay the cash collateral to the borrower, once the securities have been returned.

(g) Consolidation of subsidiaries

Subsidiaries are those entities that are controlled by the Fund.

The Group's financial statements incorporate the financial statements of the Fund and its subsidiaries, which have been consolidated.

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

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

(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.

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

The results 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 initially recorded at fair value, then at amortised cost using the effective interest rate less any impairment.

(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.

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.

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

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.

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Impairment (continued)

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

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

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 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

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) Changes in accounting policies

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

(v) 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 2009

	GROUP ACTUAL		BUDGET
	2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
2. PROFIT/(LOSS) FROM OPERATIONS			
(A) INTEREST INCOME			
New Zealand fixed interest - Crown	6,000	36,922	39,149
New Zealand fixed interest - State-Owned Entities	242	408	349
New Zealand fixed interest - Local Bodies	1,507	2,342	4,301
New Zealand fixed interest - Other	9,382	13,491	14,659
New Zealand fixed interest - Total	17,131	53,163	58,458
Global fixed interest	61,472	50,504	56,124
Other interest	35,753	20,907	4,225
Total interest income	114,356	124,574	118,807
(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)	7,649	12,149	14,631
Depreciation of non-current assets (note 10)	676	497	567
Loss on disposal of property, plant, and equipment (note 4)	7,546	-	-
Amortisation of intangible assets (note 11)	156	52	-
Managers' fees - base	61,015	57,825	60,295
Managers' fees - performance (note 13)	(4,446)	9,858	31,234
Custody fees	3,721	3,580	6,000
Auditors' remuneration (note 5)	265	315	272
Reimbursement of Guardians' expenses	11,635	9,410	17,650
Other expenses	15,729	17,984	27,164
	103,946	111,670	157,813
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	(3,191,361)	(1,466,876)	960,006
Financial assets or liabilities held for trading recognised at fair value through profit or loss	(1,070,400)	126,217	53,925
	(4,261,761)	(1,340,659)	1,013,931
4. TIMBER OPERATIONS			
Timber sales	18,767	19,994	32,713
Harvesting and operating expenses	(7,649)	(12,149)	(14,631)
Depreciation - land improvements (note 10)	(380)	(298)	-
Net trading result	10,738	7,547	18,082
Fair value changes in timber investments - forests	(33,204)	(18,876)	7,845
Loss on disposal of property, plant, and equipment	(7,546)	-	-
Timber net surplus/(loss) (excluding managers' fees)	(30,012)	(11,329)	25,927

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

	GROUP ACTUAL		BUDGET
	2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
5. REMUNERATION OF AUDITORS			
Auditor of the parent entity			
Audit of the financial statements - Attest	265	285	272
Audit of the financial statements - IFRS transition	-	30	-
	265	315	272
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	6,133	242,962	
Current tax - prior year	(2,569)	(6,078)	
Deferred tax - current year	(413,476)	(79,076)	
Deferred tax - prior year	1,772	6,479	
Income tax expense/(credit)	(408,140)	164,287	319,594
Profit/(loss) for the year before income tax	(3,201,226)	(716,460)	1,326,344
Income tax calculated at 30%/33%	(960,367)	(236,433)	
Fair Dividend Regime	467,848	344,307	
PIE Regime	81,045	77,073	
Imputation credits	(9,926)	(12,306)	
Foreign tax credits unable to be claimed	6,360	-	
Other items	6,900	(8,354)	
Income tax expense/(credit)	(408,140)	164,287	319,594
Deferred tax assets are attributed to the following			
Staff benefits	236	420	
New Zealand income tax losses	459,777	-	
Amounts recognised directly in equity	-	-	
Decrease in tax rate to 30%	-	132	
Set off against deferred tax liability	(88,523)	(552)	
Balance at the end of the year	371,490	-	-
Movements			
Balance at the beginning of the year	-	-	
Prior year adjustments	-	238	
Set off of deferred tax liabilities	-	3,290	
Withholding tax set off	-	(10)	
Decrease in tax rate to 30%	-	132	
(Credited)/charged to the statement of financial performance	371,490	(3,650)	
Balance at the end of the year	371,490	-	-

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

	GROUP ACTUAL		BUDGET
	2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
6. INCOME TAXES (continued)			
Deferred tax liabilities are attributed to the following			
Timber investments - forest revaluation	(84,960)	(37,926)	
Other temporary differences	(940)	(2,014)	
Accrued Foreign Dividend Payments	(310)	(259)	
Amounts recognised directly in equity	(2,313)	(2,181)	
Set off against deferred tax asset	88,523	552	
Balance at the end of the year	-	(41,828)	(39,769)
Movements			
Balance at the beginning of the year	(41,828)	(113,575)	
Prior year adjustments	(1,772)	(6,718)	
Other	30	(496)	
Set off against deferred tax asset	-	(3,290)	
Amounts recognised directly in equity	1,584	(475)	
(Credited)/charged to the statement of financial performance	41,986	82,726	
Balance at the end of the year	-	(41,828)	(39,769)

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

A deferred tax asset of \$459,777,000 has been recognised in relation to New Zealand income tax losses based on a history of making taxable profits and forecasted future taxable profits which will be able to be offset using these tax losses.

Use of the tax losses is dependent on the future status of the Fund as a taxable entity in New Zealand. Should this not be the case, the deferred tax asset will be reversed.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

	GROUP ACTUAL		BUDGET
	2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
7. INVESTMENTS			
(A) INVESTMENTS BY ASSET TYPE			
Financial assets			
Derivative financial instrument assets:			
Forward foreign exchange contracts	905,839	27,129	
Cross currency swaps	12,223	-	
Asset swaps	3,904	-	
Real estate swaps	40,937	-	
Longevity contingent swaps	85,366	-	
Futures contracts	-	-	
Equity swaps	25,551	10,633	
Commodity swaps	-	20,581	6,691
Options	-	26,092	
Total derivative financial instrument assets	1,073,820	84,435	6,691
Other financial assets:			
New Zealand equities - State-Owned Entities	3,463	7,821	11,860
New Zealand equities - Other	878,725	973,809	1,385,894
Global equities	4,394,326	6,094,436	6,065,924
Total equities	5,276,514	7,076,066	7,463,678
New Zealand fixed interest - Crown	-	532,843	744,632
New Zealand fixed interest - State-Owned Entities	2,837	4,307	6,168
New Zealand fixed interest - Local Bodies	16,854	15,945	-
New Zealand fixed interest - Other	134,548	808,234	182,580
Global fixed interest	2,087,773	1,564,402	1,949,497
Total fixed interest	2,242,012	2,925,731	2,882,877
Collective investment funds	1,961,459	2,350,742	3,728,704
Private equity	226,416	186,162	166,019
Unlisted unit trusts	507,567	628,345	826,016
Total other financial assets	10,213,968	13,167,046	15,067,294
Total financial assets	11,287,788	13,251,481	15,073,985
Investments accounted for using the equity method (refer note 7(f))	837,648	510,228	634,819
Non-financial assets - timber investments - forests (refer note 7(g))			
New Zealand timber investments - forests	138,988	140,573	
Global timber investments - forests	-	119,057	
Total timber investments- forests	138,988	259,630	386,846
Total investments	12,264,424	14,021,339	16,095,650
Derivative financial instrument liabilities			
Forward foreign exchange contracts	95,994	184,493	
Asset swaps	169	-	
Equity swaps	37,114	69,832	
Commodity swaps	16,646	12,686	
Total derivative financial instrument liabilities	149,923	267,011	-
Net investments	12,114,501	13,754,328	16,095,650

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

7. INVESTMENTS (continued)

(B) RESTRICTIONS

The Group participates in a securities lending program. Credit risk associated with the securities lending program is mitigated by requiring the borrower to provide daily collateral in the form of cash or readily marketable securities (non-cash) of greater market value than the securities loaned. As at 30 June 2009, the Group's global equities investments include loaned securities with a fair value of \$278,283,000 (2008: \$999,519,000). The fair value of non-cash collateral held (by a third-party agent) in respect of these loans is \$556,000 (2008: \$644,171,000). This is not recognised in the Group's financial statements as the non-cash collateral is not able to be sold or repledged. Cash collateral received in respect of securities lent was invested in the collective investment fund referred to in note 7(d). The obligation to repay collateral to borrowers of \$293,379,000 disclosed in note 12 will be funded out of cash, in the normal course of business.

(C) FAIR VALUES

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

(D) ILLIQUID SECURITIES

During the year the Group redeemed its interests in a collective investment fund which was principally used to generate returns from cash collateral provided by borrowers in the Group's securities lending program. The Group received a transfer of a pro rata share of the assets of the collective investment fund. In addition to cash, the assets received were asset-backed securities, medium-term notes, and corporate bonds. The fair value of these securities is \$164,686,000, which is included in the global fixed interest asset category. Securities with a fair value of \$9,120,000 are currently past due. Securities with a fair value of \$6,450,000 have had their terms renegotiated and are no longer past due. In addition to the securities received, the Group received a pro-rata share of a capital support agreement as disclosed in note 8.

(E) INVESTMENTS IN SUBSIDIARIES

NAME OF ENTITY	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
			2009 %	2008 %
CNI Timber Operating Company Limited	30 June	New Zealand	0%*	0%*

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

(F) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	GROUP ACTUAL		BUDGET
	2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
Investments in associates	837,648	510,228	634,819

NAME OF ENTITY	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
			2009 %	2008 %
Kaingaroa Timberlands Partnership	30 June	New Zealand	40%	30%

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

7. INVESTMENTS (continued)

(F) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

	GROUP ACTUAL		BUDGET
	2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
Associate			
Carrying amount at start of year	510,228	290,294	471,334
Acquisition of associate	195,714	147,094	125,109
Share of recognised revenues and expenses	144,200	80,408	38,376
Return of capital	(12,494)	(7,568)	-
Carrying amount at end of year	837,648	510,228	634,819
Goodwill at the start of the year	-	-	-
Goodwill at the end of the year	-	-	-
Summarised financial information of associate company:			
Current assets	50,546	48,223	
Non-current assets	2,046,732	1,947,940	
	2,097,278	1,996,163	
Current liabilities	13,495	13,578	
Non-current liabilities	-	-	
	13,495	13,578	
Net assets	2,083,783	1,982,585	
Revenue	266,810	457,603	
Net profit	137,634	347,744	
Share of associate's profit/(loss)	144,200	80,408	38,376

(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
	2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
Gross carrying amount - forests			
Carrying amount at start of year	259,630	272,517	281,468
Additions	731	4,224	97,533
Disposals	(88,169)	-	-
Fair value changes in timber investments - forests	(33,204)	(18,876)	7,845
Foreign exchange gain/(loss) on translation	-	1,765	-
Carrying amount at end of year	138,988	259,630	386,846

At 30 June 2009, the Group's forests measured approximately 4.83 million m³ (2008: 6.92 million m³). During the year ended 30 June 2009, the Group harvested 0.3 million m³ (year ended 30 June 2008: 0.4 million m³), which had a fair value less estimated point-of-sale costs of NZ\$15.7 million (year ended 30 June 2008: NZ\$15.4 million).

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

7. INVESTMENTS (continued)

(G) NON-FINANCIAL ASSETS - TIMBER INVESTMENTS (continued)

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 8.55 - 9.5% (2008: 5.5 - 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.

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.

	GROUP ACTUAL		BUDGET
	2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
8. TRADE AND OTHER RECEIVABLES			
Trade receivables	2,889	2,986	
Allowance for doubtful debts	-	-	
	2,889	2,986	-
Accrued interest	28,657	36,948	23,503
Dividends receivable	18,254	23,805	11,365
Unsettled sales	447,614	152,116	60,889
GST receivable	183	-	-
Capital support agreements receivable	38,983	-	-
	536,580	215,855	95,757

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

8. TRADE AND OTHER RECEIVABLES (continued)

The capital support agreements receivable relates to the Group's investment of securities lending cash collateral in a collective investment fund. A number of letters of credit were issued by Bank of America N.A. for the benefit of the collective investment fund. Prior to year end, the Group redeemed its interests in the collective investment fund. As part of the redemption arrangements any non-transferrable assets, including a proportionate share of the benefits of the capital support agreements are held on trust by the collective investment fund for the Group. The Group's proportionate share of the proceeds of the letters of credit will be received when the capital support is drawn upon by the collective investment fund which is expected to be in the year ending 30 June 2011. The fair value of the Group's proportionate share of the capital support agreements receivable is \$38,983,000.

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

	GROUP ACTUAL		BUDGET
	2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
9. OTHER ASSETS			
Prepayments	59	61	-
	59	61	-

	GROUP ACTUAL				TOTAL NZ\$000
	LAND AND LAND IMPROVEMENTS NZ\$000	OFFICE EQUIPMENT NZ\$000	COMPUTER EQUIPMENT NZ\$000	OFFICE FITOUT NZ\$000	

10. PROPERTY, PLANT, AND EQUIPMENT

Gross carrying amount

	LAND AND LAND IMPROVEMENTS NZ\$000	OFFICE EQUIPMENT NZ\$000	COMPUTER EQUIPMENT NZ\$000	OFFICE FITOUT NZ\$000	TOTAL NZ\$000
Balance at 1 July 2007	75,794	318	123	1,260	77,495
Additions	4,319	5	75	-	4,399
Disposals	-	-	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
Additions	587	-	231	302	1,120
Disposals	(65,934)	-	-	-	(65,934)
Net revaluation increments/(decrements)	3,188	-	-	6	3,194
Foreign exchange gain/(loss) on translation	11,427	-	-	-	11,427
Balance at 30 June 2009	49,753	323	466	1,531	52,073

Accumulated depreciation

	LAND AND LAND IMPROVEMENTS NZ\$000	OFFICE EQUIPMENT NZ\$000	COMPUTER EQUIPMENT NZ\$000	OFFICE FITOUT NZ\$000	TOTAL NZ\$000
Balance at 1 July 2007	316	14	29	24	383
Depreciation expense	298	46	67	86	497
Balance at 30 June 2008	614	60	96	110	880
Depreciation expense	380	46	113	137	676
Balance at 30 June 2009	994	106	209	247	1,556
Net book value					
As at 30 June 2008	99,871	263	139	1,113	101,386
As at 30 June 2009	48,759	217	257	1,284	50,517

Land as part of the New Zealand timber investments was valued by Telfer Young (Northland) Ltd, an independent registered valuer.

The valuations were obtained as at 30 June 2009. The revaluation surplus has been taken to the land revaluation reserve.

Carrying amount that would have been recognised under the cost model \$40,610,000 (2008: \$75,848,000).

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

	GROUP ACTUAL		BUDGET
	2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
11. INTANGIBLE ASSETS			
Gross carrying amount			
Opening balance	253	54	
Additions - Computer software	224	199	
Closing balance	477	253	
Accumulated amortisation			
Opening balance	66	14	
Amortisation expense	156	52	
Closing balance	222	66	
Net book value	255	187	-
12. TRADE AND OTHER PAYABLES			
Trade payables	2,566	3,083	
Accrued expenses	23,071	16,108	
Unsettled purchases	90,983	206,301	
GST payable	-	5	
Related party payable to Guardians	1,037	1,794	
Collateral repayable to borrowers in the securities lending program	293,379	-	
	411,036	227,291	112,210

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

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

Collateral is recognised as a payable when borrowers have provided cash collateral which can be sold or repledged by the Group. The collateral is repayable to borrowers on the return of loaned securities. The loan terms are generally no longer than one year.

	GROUP ACTUAL		BUDGET
	2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
13. PROVISION FOR PERFORMANCE-BASED FEES			
Balance brought forward	40,185	40,685	48,853
New provision during the year	1,943	9,858	31,234
Unused provision released during the year	(6,389)	-	-
Paid out during the year	(33,796)	(10,358)	(13,096)
Closing provision	1,943	40,185	66,991
Represented by:			
Current	-	31,482	14,794
Non-current	1,943	8,703	52,197
	1,943	40,185	66,991

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 2009

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	
	2009 NZ\$000	2008 NZ\$000
ASSETS		
Trade and other receivables	38,983	-
Investments		
Investments - derivative financial instrument assets	101,493	-
Investments - other financial assets	733,983	814,507
Investments accounted for using the equity method	837,648	510,228
Timber investments - forest	138,988	259,630
Total investments	1,812,112	1,584,365
Deferred tax asset	371,490	-
Property, plant, and equipment	50,517	101,386
Intangible assets	255	187
Total assets	2,273,357	1,685,938
LIABILITIES		
Derivative financial instrument liabilities	4,766	-
Provisions	1,943	8,703
Deferred tax liability	-	41,828
Total liabilities	6,709	50,531
Net assets	2,266,648	1,635,407

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. The Government has announced in the Budget for 2009 a reduction in contributions to the Fund. Full capital contributions are projected to resume from 2020 under current Treasury modelling, however this may change based on future Fiscal and Economic Updates.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

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 a regular 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 2009.

	30 JUNE 2009	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 markets:		
Private equity	5.0	0-10
Infrastructure	5.0	0-15
Other private markets	5.0	0-10
Timber	5.0	0-10
Total private markets	20.0	
Commodities	5.0	
Fixed interest	17.0	
Total portfolio	100.0	
Net unhedged foreign currency exposure	10.0	

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

16. COMMITMENTS AND CONTINGENT LIABILITIES

At year end, the Group had commitments to private equity funds totalling \$430,560,000 (2008: \$346,328,000), of which \$172,099,000 has been called and paid (2008: \$111,143,000). Capital called as at balance date but not yet paid amounted to \$5,638,000 (2008: \$15,924,000). The Group also had other commitments of \$663,826,000 (2008: \$650,758,000), of which \$173,118,000 has been called upon (2008: \$308,015,000).

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 2009 (2008: \$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 amount of the reimbursement to the Guardians for the financial year was \$11,635,000 (2008: \$9,410,000).

The Group and the New Zealand Debt Management Office (NZDMO) are consolidated into the Crown financial statements. The Group transacts with the NZDMO for a portion of its foreign exchange contracts and cross currency swaps. The fair value of outstanding contracts at year end was an asset of \$767.32m (2008: liability \$115.98m). Losses on contracts with the NZDMO recognised in the statement of financial performance for the year were \$812.67m (2008: losses \$251.56m). All other transactions with government entities are on an arm's length basis.

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

18. SUBSEQUENT EVENTS

There were no reportable events subsequent to year end.

19. NOTES TO THE STATEMENT OF CASH FLOWS

(A) RECONCILIATION OF CASH AND CASH EQUIVALENTS

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

	GROUP ACTUAL		BUDGET
	2009	2008	2009
	NZ\$000	NZ\$000	NZ\$000
Cash and cash equivalents	1,060,920	324,103	1,651,947

At balance date, cash of \$809,439,000 (2008: \$292,767,000) had been allocated and was held by Investment Managers awaiting investment.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

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

(B) COLLATERAL

\$43,407,000 of cash balances (2008: \$24,906,000) 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 (2008: \$nil) 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.

	GROUP ACTUAL		BUDGET
	2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
(C) RECONCILIATION OF LOSS FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year after income tax expense	(2,793,086)	(880,747)	1,006,750
Add/(deduct) non-cash items:			
Share of profit of investments accounted for using the equity method	(144,200)	(80,408)	
Depreciation and amortisation of non-current assets	832	549	
Fair value changes in timber investments - forests	33,204	18,876	
Fair value changes in investments	4,261,761	1,340,659	
Net foreign exchange gain	(669,107)	(289,645)	
Other non-cash items	4,533	3,616	
Add items classified as investing activities:			
Loss on disposal of property, plant, and equipment	7,546	-	
Changes in net assets and liabilities:			
(Increase)/decrease in assets:			
Trade and other receivables	(320,725)	(133,165)	
Other assets	2	879	
Increase/(decrease) in liabilities:			
Trade and other payables	183,745	175,015	
Provisions	(38,242)	500	
Increase/(decrease) in current tax balances	158,741	(167,047)	
Increase/(decrease) in deferred tax balances	(413,318)	(71,747)	
Deduct items classified as investing activities:			
Unsettled sales	295,498	117,270	
Capital support agreements receivable	38,983	-	
Unsettled purchases	115,318	(182,424)	
Collateral repayable to borrowers in the securities lending program	(293,379)	-	
Net cash provided by/(used in) operating activities	428,106	(147,819)	(31,875)

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

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

	DESIGNATED		L&R NZ\$000	A4S NZ\$000	AC NZ\$000	TOTAL NZ\$000
	H4T NZ\$000	AT FVTPL NZ\$000				
2009						
Financial assets						
Cash and cash equivalents			1,060,920			1,060,920
Trade and other receivables			536,580			536,580
Investments						
Investments - derivative financial instrument assets						
Forward foreign exchange contracts	905,839					905,839
Cross currency swaps	12,223					12,223
Asset swaps	3,904					3,904
Real estate swaps	40,937					40,937
Longevity contingent swaps	85,366					85,366
Equity swaps	25,551					25,551
	1,073,820	-	-	-	-	1,073,820
Investments - other financial assets:						
Equities						
New Zealand equities - State-Owned Entities		3,463				3,463
New Zealand equities - Other		878,725				878,725
Global equities		4,394,326				4,394,326
Total equities	-	5,276,514	-	-	-	5,276,514
Fixed interest						
New Zealand fixed interest - State-Owned Entities		2,837				2,837
New Zealand fixed interest - Local Bodies		16,854				16,854
New Zealand fixed interest - Other		134,548				134,548
Global fixed interest		2,087,773				2,087,773
Total fixed interest	-	2,242,012	-	-	-	2,242,012
Collective investment funds		1,961,459				1,961,459
Private equity		188,116		38,300		226,416
Global unit trusts		507,567				507,567
	-	2,657,142	-	38,300	-	2,695,442
Investments accounted for using the equity method					837,648	837,648
Total investments	1,073,820	10,175,668	-	38,300	837,648	12,125,436
Total financial assets	1,073,820	10,175,668	1,597,500	38,300	837,648	13,722,936
Financial liabilities						
Trade and other payables					411,036	411,036
Derivative financial instrument liabilities:						
Forward foreign exchange contracts	95,994					95,994
Asset swaps	169					169
Equity swaps	37,114					37,114
Commodity swaps	16,646					16,646
Total derivative financial instrument liabilities	149,923	-	-	-	-	149,923
Provisions					1,943	1,943
Total financial liabilities	149,923	-	-	-	412,979	562,902

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

20. FINANCIAL INSTRUMENTS (continued)

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

	DESIGNATED					TOTAL NZ\$000
	H4T NZ\$000	AT FVTPL NZ\$000	L&R NZ\$000	A4S NZ\$000	AC NZ\$000	
2008						
Financial assets						
Cash and cash equivalents			324,103			324,103
Trade and other receivables			215,855			215,855
Investments						
Investments - derivative financial instrument assets						
Forward foreign exchange contracts	27,129					27,129
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
Collective investment funds		2,350,742				2,350,742
Private equity		162,091		24,071		186,162
Unlisted 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
Total financial assets	84,435	13,142,975	539,958	24,071	510,228	14,301,667
Financial liabilities						
Trade and other payables					227,291	227,291
Derivative financial instrument liabilities						
Forward foreign exchange contracts	184,493					184,493
Equity swaps	69,832					69,832
Commodity swaps	12,686					12,686
Total derivative financial instrument liabilities	267,011	-	-	-	-	267,011
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 2009

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
	2009 %	2009 %	2008 %	2008 %
Global large cap equities	32.0	35.2	32.0	36.8
Global small cap equities	5.5	6.3	5.5	6.0
New Zealand equities	7.5	6.3	7.5	6.8
Emerging market equities	3.0	3.6	3.0	3.3
Private markets	20.0	16.8	20.0	13.2
Property	10.0	10.9	10.0	9.2
Fixed interest	17.0	16.2	17.0	19.4
Commodities	5.0	4.7	5.0	5.3
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 2009

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 as 2008. 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 2009					
New Zealand equities	19%	167,551	(167,551)	167,551	(167,551)
Global large cap equities	15%	662,262	(662,262)	662,262	(662,262)
Global small cap equities	18%	80,675	(80,675)	80,675	(80,675)
Emerging markets equities	27%	101,771	(101,771)	101,771	(101,771)
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)
		2009 NOTIONAL VALUE NZ\$000	2009 FAIR VALUE NZ\$000	2008 NOTIONAL VALUE NZ\$000	2008 FAIR VALUE NZ\$000

Equity swaps at fair value at balance date:

Equity swaps

Assets	390,886	25,551	(437,830)	10,633
Liabilities	1,963,102	(37,114)	1,116,610	(69,832)

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 2009

20. FINANCIAL INSTRUMENTS (continued)

(D) MARKET RISK (continued)

(ii) Foreign currency exchange rate risk (continued)

Foreign currency exposure

	2009 ASSETS NZ\$000	2008 ASSETS NZ\$000
Foreign currency denominated items:		
Australian Dollars	62,792	115,271
Brazilian Real	52,364	52,469
Canadian Dollars	41,433	92,693
Swiss Francs	28,126	59,776
Chilean Pesos	5,235	1,912
Chinese Yuan	351	-
Colombian Peso	1,586	-
Czech Republic Koruny	2,405	2,461
Danish Kroner	17,580	41,945
Egyptian Pounds	1,703	1,225
European Union Euros	216,369	343,755
United Kingdom Pounds	91,728	211,052
Hong Kong Dollars	158,592	150,845
Hungarian Forints	4,445	3,580
Indonesian Rupiahs	8,943	12,241
Israeli New Shekels	11,285	8,893
Indian Rupees	36,101	22,299
Japanese Yen	112,339	205,563
South Korean Won	58,285	56,767
Moroccan Dirhams	1,011	-
Mexican Pesos	18,693	21,157
Malaysian Ringgits	11,108	7,010
Norwegian Krone	15,658	45,560
Philippines Pesos	1,938	955
Pakistani Rupees	992	1,626
Polish Zlotych	5,875	5,727
Russian Rubles	94	74
Swedish Kronor	71,530	86,849
Singaporean Dollars	52,895	72,844
Thai Baht	5,850	12,110
Turkish New Lira	7,849	7,292
Taiwanese New Dollars	54,268	51,500
United States of America Dollars	355,366	675,209
South African Rand	35,207	27,674

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 2009

20. FINANCIAL INSTRUMENTS (continued)

(D) MARKET RISK (continued)

(ii) Foreign currency exchange rate risk (continued)

	CONTRACT VALUE NZ\$000	FAIR VALUE NZ\$000
2009		
Forward foreign exchange contracts (buy/(sell)):		
Less than 3 months	(3,155,879)	233,814
3 to 12 months	(5,036,608)	576,031
	(8,192,487)	809,845
2008		
Less than 3 months	(8,327,856)	(159,873)
3 to 12 months	144,807	2,509
	(8,183,049)	(157,364)

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 10% (2008: 17.5%). The higher 17.5% net unhedged currency target for the prior year reflected the unusually high level of the New Zealand dollar, which made foreign currency more attractive than usual. The Group had put in place a mechanism to progressively lower the net unhedged currency exposure target towards the long term target of 10% which was achieved in the year ended 30 June 2009.

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 2008. 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 2009					
NZD:USD	10%	(24,876)	24,876	(24,876)	24,876
NZD:EUR	10%	(15,146)	15,146	(15,146)	15,146
NZD:GBP	10%	(6,421)	6,421	(6,421)	6,421
NZD:JPY	10%	(7,864)	7,864	(7,864)	7,864
NZD:Others	10%	(54,194)	54,194	(54,194)	54,194
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

(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 2009

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, and exclude accrued interest.

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
2009						
Financial assets						
Cash and cash equivalents	1.68%	1,060,920				
New Zealand State-Owned Entities	5.18%					2,837
Other investments	3.01%	360,907	18,361	143,167	736,024	788,848
		1,421,827	18,361	143,167	736,024	788,848
						191,868
						194,705
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
		417,070	767,896	287,538	751,565	682,832
						342,933

Asset swaps

At 30 June 2009 the notional principal amounts, fair values and period of expiry of the asset swap contracts are as follows:

	NOTIONAL VALUE NZ\$000	FAIR VALUE NZ\$000
2009		
2 to 5 years	91,755	(169)
5 to 10 years	266,135	3,904
	357,890	3,735

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 2008. 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 2009					
Cash and cash equivalents	50	3,713	(3,713)	3,713	(3,713)
New Zealand fixed interest	50	(147)	147	(147)	147
Global fixed interest	50	(25,041)	26,227	(25,041)	26,227
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

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

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 Dow Jones UBS Commodities Index (2008: Goldman Sachs Commodity Excess Return Index).

Commodity price risk exposure

	2009 NOTIONAL VALUE NZ\$000	2009 FAIR VALUE NZ\$000	2008 NOTIONAL VALUE NZ\$000	2008 FAIR VALUE NZ\$000
Commodity swaps				
Assets	-	-	725,424	20,581
Liabilities	644,462	(16,646)	958,216	(12,686)
Futures				
Assets	751,737	-	745,133	-
Liabilities	(416,749)	-	(155,900)	-

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 2008. 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 2009					
Dow Jones UBS Commodities Index	22%	96,683	(96,683)	96,683	(96,683)
30 June 2008					
Goldman Sachs Commodity Excess Return Index	22%	115,628	(115,628)	115,628	(115,628)

(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, geographies, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. The maximum amount of credit risk for each class is the carrying amount in the statement of financial position.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

20. FINANCIAL INSTRUMENTS (continued)

(E) CREDIT RISK MANAGEMENT (continued)

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

	GROUP ACTUAL		BUDGET
	2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
By industry			
Basic materials	1,367,924	1,215,074	
Communications	48,914	407,125	
Consumer - Cyclical	17,591	502,076	
Consumer - Non-cyclical	800,410	1,083,283	
Diversified	4,558	69,729	
Energy	352,038	647,916	
Financial	2,373,964	2,496,747	
Funds	2,695,442	3,260,480	
Government	806,722	1,333,900	
Industrial	1,513,044	1,403,784	
Mortgage securities	101,018	9,293	
Technology	395,297	351,630	
Utilities	669,945	625,728	
Other	967,634	347,563	
Net investments	12,114,501	13,754,328	16,095,650

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

	GROUP ACTUAL		BUDGET
	2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
New Zealand	3,567,313	3,227,390	
Australia	562,012	519,966	
Japan	488,497	787,904	
United States	4,922,593	5,781,880	
Canada	191,349	280,499	
Europe	1,833,190	2,630,824	
Other Asia	358,165	354,359	
Central & South America	140,552	128,704	
Africa	37,740	32,867	
Middle East	13,090	9,935	
Net investments	12,114,501	13,754,328	16,095,650

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

20. FINANCIAL INSTRUMENTS (continued)

(E) CREDIT RISK MANAGEMENT (continued)

At balance date, the Group has counterparty exposure in respect of its forward foreign exchange contracts, cross currency swaps, commodity swaps, asset swaps, real estate swaps, longevity contingent 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
2009		
ANZ Banking Corp	173,732	1,625
Barclays Bank PLC	180,131	3,077
Barclays Wholesale GTS	17,223	540
BNP Paribas	1,137	20
Chase Manhattan Bank	995	28
Citibank NA	4,554	51
Citigroup Global Markets Australia	86,004	828
Commonwealth Bank of Australia	618,496	13,978
CSFB Global Foreign Exchange	69,586	478
Credit Suisse First Boston	463,106	85,366
Deutsche Bank	670,460	20,360
Goldman Sachs & Co	169,419	6,166
HSBC Bank USA	260	4
JP Morgan Securities Australia	171,348	38,031
Morgan Stanley Capital Services	(41,820)	12,091
National Australia Bank	820,931	13,207
New Zealand Debt Management Office	8,022,532	824,287
Northern Trust Singapore	14,623	856
RBS Financial Markets Treasury	151,427	2,928
Royal Bank of Canada	351,146	3,483
Société Générale	268,500	401
State Street Bank & Trust Co	896,812	14,783
State Street Boston DTC	316,480	2,204
UBS New York	145,057	4,327
UBS Singapore	85,029	665
Westpac Banking Corp	1,118,709	24,036
	14,775,877	1,073,820

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

20. FINANCIAL INSTRUMENTS (continued)

(E) CREDIT RISK MANAGEMENT (continued)

	GROUP ACTUAL	
	NOTIONAL VALUE NZ\$000	FAIR VALUE NZ\$000
2008		
AlG 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 Australia Bank	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

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.

The Fund is long-term by nature (no capital withdrawals are permitted prior to 30 June 2020 and, on current assumptions, none are expected before 30 June 2031), and has had strong positive cashflow into the Fund to date.

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;
- limiting the credit rating of all fixed interest investments to minimum levels; and
- maintaining a cash buffer to meet short term liquidity requirements.

Information about the contractual maturity periods of financial assets and liabilities 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 2009

21. COMPARISON TO BUDGET

During the year ended 30 June 2009, market returns have generated a negative variance over the assumptions utilised in the budget.

The Group produces its budget based on long-term return expectations which is for a profit. The Group cannot forecast short-term returns, whether they be gains or losses.

Overall, investments in listed equities, commodities, private equity and property were negative but broadly in line with returns in world market, while in contrast, fixed interest and timber contributed positively to Group performance.



AUDIT REPORT

TO THE READERS OF
THE NEW ZEALAND SUPERANNUATION FUND AND GROUP'S
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

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, for the year ended 30 June 2009.

Unqualified Opinion

In our opinion the financial statements of the Group on pages 61 to 98:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the Group's financial position as at 30 June 2009; and
 - the results of operations and cash flows for the year ended on that date.

The audit was completed on 14 September 2009, 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 2009 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 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

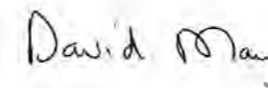
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

Statement of Responsibility

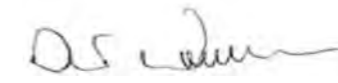
The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements and the statement of service performance of the Guardians of New Zealand Superannuation and Group and the judgements used in them.

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 2009, fairly reflect the financial position, operations, and cash flows of the Guardians of New Zealand Superannuation and Group.


DAVID MAY

Chairman
14 September 2009


DAVID NEWMAN

Board Member
14 September 2009

Statement of Financial Performance

For the year ended 30 June 2009

	Note	PARENT AND GROUP ACTUAL		BUDGET
		2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
Revenue	2(a)	12,148	11,203	18,224
Expenses	2(b)	12,148	11,203	18,224
NET SURPLUS FOR THE YEAR		-	-	-

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

Statement of Financial Position

As at 30 June 2009

	Note	PARENT AND GROUP ACTUAL		BUDGET
		2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
Current assets				
Cash and cash equivalents	16	853	1,309	1,430
Trade and other receivables	4	211	31	80
Inter-entity receivables	4, 12	1,067	713	496
Total current assets		2,131	2,053	2,006
Non-current assets				
Inter-entity receivables	4, 12	-	1,355	1,488
Investments in subsidiaries	11	-	-	-
Intangible assets	5	-	11	-
Property, plant, and equipment	6	2	50	2
Total non-current assets		2	1,416	1,490
TOTAL ASSETS		2,133	3,469	3,496
Current liabilities				
Trade and other payables	7	1,248	1,453	1,058
Inter-entity payables	7, 12	-	25	-
Total current liabilities		1,248	1,478	1,058
Non-current liabilities				
Trade and other payables	7	-	1,395	1,784
Provisions	8	385	96	154
Total non-current liabilities		385	1,491	1,938
TOTAL LIABILITIES		1,633	2,969	2,996
NET ASSETS		500	500	500
Public equity				
Accumulated surplus		-	-	-
General equity reserve	9	500	500	500
TOTAL PUBLIC EQUITY		500	500	500

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

Statement of Changes in Public Equity

For the year ended 30 June 2009

	PARENT AND GROUP ACTUAL		TOTAL NZ\$000
	GENERAL EQUITY RESERVE NZ\$000	ACCUMULATED SURPLUS NZ\$000	
	BALANCE AT 1 JULY 2007	500	
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
Net surplus for the year	-	-	-
Total recognised income and expense for the year	-	-	-
BALANCE AT 30 JUNE 2009	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 2009

	Note	PARENT AND GROUP ACTUAL		BUDGET
		2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Receipts from the Crown		637	1,527	647
Receipts from New Zealand Superannuation Fund		12,433	7,761	16,354
Interest received		89	182	87
Other receipts		10	-	-
Goods and Services Tax		(67)	(211)	380
Total cash inflow from operating activities		13,102	9,259	17,468
Cash was applied to:				
Payments to suppliers		(4,687)	(3,271)	(5,500)
Payments to employees		(8,871)	(6,562)	(11,508)
Total cash outflow from operating activities		(13,558)	(9,833)	(17,008)
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	16	(456)	(574)	460
NET CASH PROVIDED BY INVESTING ACTIVITIES		-	-	-
NET CASH PROVIDED BY FINANCING ACTIVITIES		-	-	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(456)	(574)	460
Cash and cash equivalents at the beginning of the financial year		1,309	1,883	970
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	16	853	1,309	1,430

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

Statement of Commitments

As at 30 June 2009

	PARENT AND GROUP ACTUAL	
	2009	2008
	NZ\$000	NZ\$000
NON-CANCELLABLE OPERATING LEASE COMMITMENTS PAYABLE		
Payable no later than 1 year	380	370
1-2 years	357	357
2-5 years	624	981
	1,361	1,708

Statement of Contingent Liabilities

As at 30 June 2009

There were no contingent liabilities as at 30 June 2009 (2008:nil).

Notes to the Financial Statements

For the year ended 30 June 2009

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 125.

STATEMENT OF COMPLIANCE

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

The financial statements of the Guardians of New Zealand Superannuation and Subsidiaries for the year ended 30 June 2009 were authorised for issue in accordance with a resolution of the Board of Guardians of New Zealand Superannuation on 14 September 2009.

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.

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 2009. 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

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) Budget figures

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

(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 2007 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, plant, and equipment

Initial recording

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

Subsequent expenditure

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

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

Subsequent measurement

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

Disposal

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Depreciation

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

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

Office equipment	3 years
Computer equipment	1 – 3 years

(j) Intangible assets

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

(k) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, 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 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Provisions

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

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

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

(p) Payables

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

(q) Equity

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

(r) Statement of cash flows

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

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

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

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

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

(s) Changes in accounting policies

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

(t) Critical accounting estimates and assumptions

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

Employee entitlements - long-term 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, the employee's average salary over the vesting period, the percentage of service rendered and the likelihood of the employee leaving before the long-term incentive is fully vested (no attrition has been factored into the current year calculation). The key variable is the performance of the Fund. Should the performance of the Fund differ from the assumption utilised in the calculation of the long-term incentive liability, 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. There is no long-term incentive accrual in respect of Fund performance in the current year, as no targets were met. 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 2009

	PARENT AND GROUP ACTUAL		BUDGET
	2009	2008	2009
	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	384	1,611	487
Cost reimbursement from New Zealand Superannuation Fund	11,635	9,410	17,650
Other revenue	40	-	-
Interest revenue	89	182	87
	12,148	11,203	18,224
(B) NET SURPLUS			
Net surplus has been arrived at after charging for/(crediting):			
Depreciation and amortisation of non-current assets (note 5 and note 6)	59	102	59
Auditors' remuneration (note 3)	39	35	37
Finance charge - provision discount adjustment	18	-	-
Board members' fees	216	183	223
Employee benefit expense*:			
Long-term incentive expense	(1,188)	1,396	1,797
Other employee remuneration and related expenses	9,976	7,137	11,612
Operating lease rental expenses:			
Minimum lease payments	402	391	402
Professional fees	222	293	205
Other expenses	2,404	1,666	3,889
	12,148	11,203	18,224

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

3. REMUNERATION OF AUDITORS

Auditor of the parent entity

Audit of the financial statements - Attest current year	37	28	37
Audit of the financial statements - Attest prior year	2	-	-
Audit of the financial statements - IFRS transition	-	2	-
	39	30	37

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 2009

	PARENT AND GROUP ACTUAL		BUDGET
	2009	2008	2009
	NZ\$000	NZ\$000	NZ\$000
4. TRADE AND OTHER RECEIVABLES			
Current receivables			
Trade receivables	2	3	80
Goods & services tax (GST) receivable	78	12	-
Prepayments	131	16	-
Allowance for doubtful debts	-	-	-
Inter-entity receivables:			
State Services Commission	-	6	-
Accident Compensation Corporation	15	-	-
Government Superannuation Fund	15	-	-
The Treasury	-	268	-
New Zealand Superannuation Fund	1,037	439	496
	1,278	744	576
Non-current receivables			
Inter-entity receivables:			
New Zealand Superannuation Fund	-	1,355	1,488
	-	1,355	1,488

Trade receivables have standard 30-day credit terms.

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

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

	PARENT AND GROUP ACTUAL		BUDGET
	2009	2008	2009
	NZ\$000	NZ\$000	NZ\$000
5. INTANGIBLE ASSETS			
Gross carrying amount			
Opening balance	63	63	63
Additions	-	-	-
Disposals	-	-	-
Closing balance	63	63	63
Accumulated amortisation			
Opening balance	52	35	53
Amortisation expense	11	17	10
Closing balance	63	52	63
Net book value	-	11	-

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 2009

	PARENT AND GROUP ACTUAL		
	OFFICE EQUIPMENT NZ\$000	COMPUTER EQUIPMENT NZ\$000	TOTAL NZ\$000
6. PROPERTY, PLANT, AND EQUIPMENT			
Gross carrying amount			
Balance at 1 July 2007	247	244	491
Additions	-	-	-
Disposals	-	-	-
Balance at 30 June 2008	247	244	491
Additions	-	-	-
Disposals	-	-	-
Balance at 30 June 2009	247	244	491
Accumulated depreciation			
Balance at 1 July 2007	197	159	356
Depreciation expense	29	56	85
Balance at 30 June 2008	226	215	441
Depreciation expense	19	29	48
Balance at 30 June 2009	245	244	489
Net book value			
As at 30 June 2008	21	29	50
As at 30 June 2009	2	-	2

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

	PARENT AND GROUP ACTUAL		BUDGET
	2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
7. TRADE AND OTHER PAYABLES			
Current payables and accruals			
Trade payables ⁽ⁱ⁾	295	267	353
Employee entitlements - annual leave (key management personnel)	108	60	95
Employee entitlements - annual leave (other)	279	172	284
Employee entitlements - accrued salary (key management personnel)	20	28	-
Employee entitlements - accrued salary (other)	55	47	-
Employee entitlements - long-term incentives (key management personnel) ⁽ⁱⁱ⁾	-	135	61
Employee entitlements - long-term incentives (other) ⁽ⁱⁱ⁾	383	510	243
Accrued expenses	108	234	22
Inter-entity payables:			
The Treasury	-	25	-
	1,248	1,478	1,058
Non-current payables and accruals			
Employee entitlements - long-term incentives (key management personnel)	-	434	357
Employee entitlements - long-term incentives (other)	-	961	1,427
	-	1,395	1,784

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

⁽ⁱⁱ⁾ The Guardians have 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 vests progressively over the four-year performance period. Since payments in relation to the Fund performance component of the scheme are based on four-year averages, any negative returns generated during the four year period are offset against positive returns. As such, during the first three years of the four-year calculation period, the value of the final payment is dependent on the outcome of future periods. The liability reflected in the statement of financial position reflects the present value of the Guardians obligations in respect of that liability. The liability has been calculated based on management's best estimate of the returns that will be achieved by the Fund in future years.

8. PROVISIONS

Non-current provisions

Provision for refurbishment	385	96	154
	385	96	154

	PARENT AND GROUP Refurbishment ⁽ⁱ⁾	
Balance at 1 July 2008		96
Additional provisions recognised		271
Unwinding and discount rate adjustment		18
Balance at 30 June 2009		385

⁽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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

9. MANAGEMENT OF CAPITAL

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

10. LEASES

Operating leases

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

Operating leases relate to office premises in two locations. The lease terms are 4 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.

11. SUBSIDIARIES

NAME OF ENTITY	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST AND VOTING RIGHTS	
		2009 %	2008 %
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	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. 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

12. RELATED PARTY DISCLOSURES (continued)

(C) TRANSACTIONS WITH RELATED PARTIES

Revenue

The Guardians are a wholly owned entity of the Crown, and have paid expenses relating to the Fund during the year, as they are required to do under the Act. Crown appropriations (for budgeted Board and audit costs) and reimbursement of costs from the Fund are the main sources of revenue. Other revenue is gained from sharing outputs with other Crown Entities.

	PARENT AND GROUP ACTUAL		BUDGET
	2009 NZ\$000	2008 NZ\$000	2009 NZ\$000
Appropriations from the Crown	384	1,611	487
Cost reimbursement from New Zealand Superannuation Fund	11,635	9,410	17,650
Other income from Crown Entities:			
Accident Compensation Corporation	14	-	
Government Superannuation Fund	13	-	
Earthquake Commission	13	-	
	12,059	11,021	18,137

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

The Group 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.

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)	2,889	2,107	
Termination benefits	-	130	
Long-term employee benefits	-	569	
	2,889	2,806	-

Board members' fees

Board members earned the following fees during the year:

D May (Chairperson)	54	46	
Sir D Graham (Deputy Chairperson)*	30	25	
B Liddell	27	23	
D Newman	27	23	
G Saunders	24	20	
M Tume	27	23	
J Evans	27	23	
	216	183	223

* Sir Douglas Graham resigned from the Board in June 2009.

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

12. RELATED PARTY DISCLOSURES (continued)

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 (2008: \$nil).

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

	NZ\$000	PARENT AND GROUP ACTUAL	
		2009	2008
13. EMPLOYEES' REMUNERATION OVER \$100,000 PER ANNUM			
Total remuneration and benefits			
	100 - 110	2	3
	110 - 120	4	1
	120 - 130	2	3*
	130 - 140	2	-
	140 - 150	3	3
	150 - 160	2	-
	160 - 170	1	2
	170 - 180	2	1
	180 - 190	1	-
	190 - 200	2	3
	200 - 210	3	4*
	210 - 220	1	1
	220 - 230	3	-
	230 - 240	3	3
	240 - 250	-	1
	250 - 260	3	-
	260 - 270	2	1
	280 - 290	1	-
	290 - 300	1	1*
	300 - 310	-	1
	320 - 330	1	-
	330 - 340	-	1
	350 - 360	1	1
	370 - 380	-	1
	380 - 390	2	-
	390 - 400	-	1
	410 - 420	-	1
	430 - 440	1	-
	440 - 450	-	1
	520 - 530	-	1*

* Includes payments made to terminated employees. Refer to note 14.

The total remuneration figures in this table consist of both an employee's gross base 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.

For the current financial year no bonus accrual has been made in respect of key management personnel.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

14. TERMINATION PAYMENTS

There were no payments made in respect of terminated employees during the year. In 2008 there were five payments made in respect of terminated employees whose positions were made redundant totalling \$254,000.

15. SUBSEQUENT EVENTS

There were no reportable events subsequent to year end (2008:nil).

16. NOTES TO THE STATEMENT OF CASH FLOWS

(A) RECONCILIATION OF CASH AND CASH EQUIVALENTS

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

	PARENT AND GROUP ACTUAL		BUDGET
	2009	2008	2009
	NZ\$000	NZ\$000	NZ\$000
Cash and bank	853	608	
Short-term deposits	-	701	
	853	1,309	1,430
(B) RECONCILIATION OF NET SURPLUS FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the year	-	-	-
Add/(deduct) non-cash items:			
Depreciation and amortisation of non-current assets	59	102	
Changes in working capital:			
(Increase)/decrease in assets:			
Receivables	821	(962)	
Increase/(decrease) in liabilities:			
Payables and accruals	(1,625)	209	
Provisions	289	77	
Net cash provided by/(used in) operating activities	(456)	(574)	460

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

17. FINANCIAL INSTRUMENTS

(A) FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT BASIS

Key:

L&R: Loans and receivables

AC: Amortised cost or cost

	L&R NZ\$000	AC NZ\$000	TOTAL NZ\$000
2009			
Financial assets			
Cash and cash equivalents			
Cash and bank	-	853	853
Total cash	-	853	853
Receivables	2	-	2
Inter-entity receivables	1,067	-	1,067
Total financial assets	1,069	853	1,922
Financial liabilities			
Payables and accruals	-	1,248	1,248
Total financial liabilities	-	1,248	1,248
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	-	2,873	2,873
Total financial liabilities	-	2,873	2,873

(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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

17. FINANCIAL INSTRUMENTS (continued)

(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 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 2009 (30 June 2008: \$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.

	PARENT AND GROUP ACTUAL		
	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	VARIABLE INTEREST RATE NZ\$000	FIXED MATURITY DATES - LESS THAN 1 YEAR NZ\$000
2009			
Financial assets			
Cash and cash equivalents	5.88	853	-
	5.88	853	-
2008			
Financial assets			
Cash and cash equivalents	8.27	608	701
	8.27	608	701

Interest rate sensitivity

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

		NET SURPLUS 2009 NZ\$000	NET SURPLUS 2008 NZ\$000
Cash and cash equivalents	+ 100 bps	9	10
Cash and cash equivalents	- 100 bps	(9)	(10)

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

17. FINANCIAL INSTRUMENTS (continued)

(E) CREDIT RISK MANAGEMENT

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

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

Significant concentrations of credit risk

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

(F) LIQUIDITY RISK MANAGEMENT

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

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

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

(G) FAIR VALUES

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

	ACTUAL 2009 NZ\$000	BUDGET 2009 NZ\$000	VARIANCE 2009 NZ\$000
18. COMPARISON TO BUDGET			
Statement of financial performance	-	-	-
Statement of changes in public equity	500	500	-
Statement of financial position	500	500	-
Statement of cash flows ⁽ⁱ⁾	853	1,430	(577)

⁽ⁱ⁾ Lower cash on hand at year end is due to stricter cash management employed during the year.

19. REVISION OF CALCULATION METHODOLOGY OF LONG-TERM INCENTIVE ACCRUAL

During the year, an amendment was made to the calculation methodology for the long-term incentive accrual. In order to estimate the accrual, the percentage of service rendered is now taken into account, assuming vesting over a four year period. The net effect of the changes in the current financial year was a decrease in the long-term incentive accrual of \$1,462,000.

Audit Report

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

TO THE READERS OF
THE GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP'S
FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2009

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. 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 2009.

UNQUALIFIED OPINION

In our opinion:

The financial statements of the Guardians and group on pages 102 to 122:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the Guardians and group's financial position as at 30 June 2009; 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 10 to 13:

- 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 14 September 2009, 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 2009 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 New Zealand Institute of Chartered Accountants.

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



F CAETANO

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

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BANKERS

GUARDIANS OF NEW ZEALAND SUPERANNUATION

The National Bank of New Zealand

NEW ZEALAND SUPERANNUATION FUND

Westpac Banking Corporation

- Cover photo of Buller Gorge by John Savage

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