

NEW ZEALAND SUPERANNUATION FUND



ANNUAL REPORT 2003

NEW ZEALAND
SUPERANNUATION
FUND 



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CHAIRMAN'S STATEMENT



On behalf of the Board of the Guardians of New Zealand Superannuation (the Guardians), I am pleased to present the inaugural annual report for both the Guardians and the New Zealand Superannuation Fund (the Fund).

While the statutory period covered by this report ends June 30, 2003, the Board has chosen to comment on a number of significant decisions relating to the Fund which were finalised after the reporting period. These include the decision on the long-term strategic asset allocation and the initial appointments of investment managers.

This report contains the financial statements for both the Guardians and the Fund, which was established on 12 October 2001 by the New Zealand Superannuation Act 2001. The Act established the New Zealand Superannuation Fund with the aim of partially funding New Zealand superannuation in order to offset the steep increase in its costs, particularly after 2020.

The Government is setting aside substantial capital contributions for the Fund over the next 20 years. As a result the Fund is expected to grow to around \$100 billion by 2023, after which date funds may be withdrawn to meet part of the increased cost.

The Fund will be far larger, and its investment horizon much longer, than any other New Zealand based investment vehicle.

The responsibility of the Board of Guardians is to invest the Fund on a commercial and prudent basis in order to maximise investment returns without incurring undue risk to the Fund as a whole. The Board is charged with investing the Fund in a manner consistent with best practice portfolio management.

The long-term investment performance of the Fund is crucial. Each one per cent per year of investment return above the cash rate achieved over the next 20 years is estimated to benefit the Government and future taxpayers by around \$8 billion. For this reason the Board is acutely aware of its responsibility to New Zealanders who are all stakeholders in the Fund.

Appointed on 30 August 2002, the Board has devoted its first year to establishing the resources and structure needed to invest the Fund. It has taken its time appointing key staff and advisers in order to ensure that the professionals selected are proven in their areas of expertise. The Board has also devoted a considerable period of time to planning the way in which the assets of the Fund will be invested - deciding the types of investments the Fund will make, the locality of these investments, and the number and style of investment managers.

In arriving at its decisions the Board took advice from its principal asset consultant Mercer Investment Consulting, which was appointed in February 2003. That advice was subject to detailed review by management and a second adviser - Russell Investment Group. The Board also researched the processes and structure of similar funds overseas. Almost all of this advice and research pointed in the same directions.

First, that international best practice demanded wide diversification of investments across different investment sectors and localities.



CHAIRMAN'S STATEMENT (CONTINUED)

Second, that the best way to maximise long-term returns is to invest a large proportion of the Fund in growth assets such as equities and property. While those assets can and will produce quite volatile investment returns over the short and medium term (fluctuating widely from period to period), over a 20-year period there is a very high probability that they will substantially outperform defensive assets such as cash and fixed interest investments. For this reason, the Fund's investment performance should not be judged over the short term.

Those key decisions have now been made and are detailed in the Asset Allocations section of this report. With the planning stage completed by July, the Board took responsibility for the assets of the Fund from late September 2003. The Fund has now moved onto the next stages of appointing investment managers for each key asset class and investing in those asset classes. Most of these appointments, which are subject to rigorous selection processes, should be completed during the current year. They will be reported on in detail in the second annual report.

The first year has been a period of intense activity to establish the organisation and to develop the investment structure of the Fund. I would like to thank the staff, advisers and my fellow Board members for the energy, commitment, experience, care and wise counsel they have applied to these critical and demanding activities.

David May
CHAIRMAN
28 October 2003

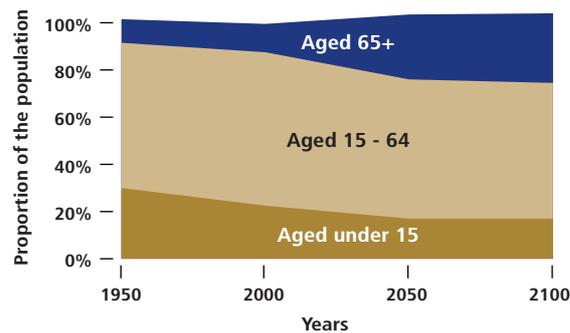
[Please note that more information on the Guardians and the Fund can be found on the Fund's website,
www.nzsuperfund.co.nz]



REPORT FROM THE BOARD

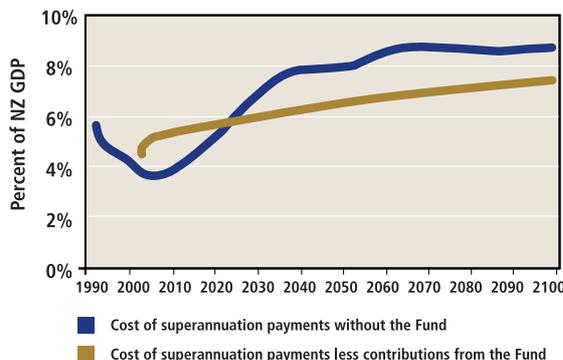
THE SUPERANNUATION CHALLENGE

The Fund exists because of the Government's decision to build a pool of money that will help smooth the burgeoning costs of state-funded superannuation payments as the New Zealand population ages.



Source: NZ Treasury "Governance of Public Pension Funds: NZSF"

An ageing population means the cost of superannuation is expected to double over the next 50 years. To prepare for this, the Government is allocating an average of just over 1 per cent of annual GDP to the Fund over the next 20 years. By 2023, the Fund is expected to grow to around \$100 billion. Without this smoothing, the annual cost of providing superannuation to retired New Zealanders could be expected to more than double from the present 3.6 per cent of GDP to 8 per cent by 2050. This cost would be incurred by future taxpayers. The graph below illustrates the policy of seeking to smooth the cost of funding pensions on future taxpayers.



Source: NZ Treasury "Governance of Public Pension Funds: NZSF"

As the cost of providing New Zealand superannuation escalates, the Government will begin to draw money from the Fund to help smooth the impact on its finances. By law, no withdrawals can be made from the Fund before 2020. While it is expected that withdrawals will start after this time, the Fund will continue to exist and increase in size due to compounding investment returns into next century. The Fund is not intended to cover all the future costs of providing New Zealand superannuation entitlements, but rather help offset them.

ROLE OF THE GUARDIANS

Under the law, the Guardians' role is to manage the Fund, determine strategic asset allocations and appoint investment managers on a prudent and commercial basis consistent with:

- best practice portfolio management;
- maximising returns without undue risk to the portfolio as a whole; and
- avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

The Board of the Guardians sets all policy for the Fund, including decisions on how the Fund's assets should be allocated. While accountable to Government, the Guardians and the Fund operate at arm's-length from Government. No directions (under S64 of the Act) were received from the Minister of Finance during the year.

The Guardians is committed to being as transparent in its activities as commercial sensitivities allow. A formal independent review of the performance of the Guardians will be carried out at least every five years and be reported to Parliament, while Treasury will monitor the activities of the Guardians on behalf of Government.



REPORT FROM THE BOARD (CONTINUED)

The Board members were appointed by Government on the basis of independent advice. They were chosen for their commitment to the Fund's goals, their experience and their mix of complementary skills.

The Board members, and the dates when their appointments expire, are:

David May (Chairman), the Deputy Chairman of the Government Superannuation Fund Authority, a Director of Southern Cross Medical Care Society, and the former Managing Director of the Colonial Group in New Zealand. (31 May 2007)

Rt. Hon. Sir Douglas Graham (Deputy Chairman), Chairman of the Lombard Group and director of Watercare Services. Practiced law 1965-84, Member of Parliament 1984-99, Minister of Justice 1990-98 responsible for company and securities law reform. (31 May 2007)

Dr Michaela Anderson, the Director of Policy and Research for the Association of Superannuation Funds in Australia. Prior to her role at ASFA, she was Manager of Policy Advice to the trustee of

the superannuation funds for NSW public sector employees. She participates in a range of government and industry committees and currently represents ASFA on the ASX Corporate Governance Council. (31 May 2006)

Ira Bing, a private investor with a strong investment banking background in Britain. He previously held senior positions in Europe with investment banking firm, Merrill Lynch. (31 May 2005)

Brian Gaynor, an independent investment analyst, a director of the New Zealand Investment Trust Plc. and a business columnist for the New Zealand Herald. He is a former stockbroker and member of the New Zealand Stock Exchange. (31 May 2006)

Bridget Liddell, formerly a Director of CS First Boston NZ and Chairperson of the Carter Holt Harvey Superannuation Fund. She has been a director of several New Zealand public companies, including Fisher and Paykel Appliances and Sky City Entertainment Group, and is the former Chief Executive of University of Auckland Development Ltd. (31 May 2005)

THE GUARDIANS' MISSION STATEMENT

To assist in the provision of New Zealand Superannuation by maximising the long-term investment returns (gross of New Zealand tax) of the New Zealand Superannuation Fund. This will be achieved without taking undue risk for the Fund as a whole, in a manner which avoids prejudice to New Zealand's reputation as a responsible member of the world community, and using best practice portfolio management principles.

REPORT FROM THE BOARD (CONTINUED)



IMPLEMENTATION AND APPOINTMENTS

From 9 September 2002, when the Board first met, through to 30 June 2003 the Guardians' main focus has been on establishing the infrastructure of the Fund. In the ten months of the financial year since the Guardians was established there have been 13 full meetings of the Board, and a significant number of Board committee meetings, to achieve the establishment of the Fund. This process has included:

- establishing committees of the Board and setting their terms of reference;
- selecting investment advisors to the Fund;
- appointing legal and tax advisors;
- preparing the Statement of Intent to Government for the 2002/3 and 2003/4 years;
- beginning the search for a custodian for the Fund's assets;
- hiring key staff, including the Chief Executive Officer;
- establishing the Fund's offices;
- beginning the process of setting the strategic asset allocation of the Fund and the construction of portfolios within each asset class.

After an intensive international search, Paul Costello was appointed Chief Executive Officer of the Fund, taking up his role on 31 March 2003. Mr Costello's role prior to his appointment was as Chief Executive of the Superannuation Trust of Australia.

After assisting the Board as a consultant, Tim Mitchell took up his role as Investment Manager on 1 April 2003. His previous roles were in funds management and public policy.

A small but highly skilled team is being established under the Chief Executive in the Fund's Auckland offices. This team's responsibilities include working with the Board on the outsourcing of investment management; monitoring performance in line with international best practice; and selecting, probing and reviewing advice. As the organisation grows, employment policies consistent with the principle of being a 'good employer', including an equal employment opportunities programme, will be incorporated.

Mercer Investment Consulting was appointed as the Fund's principal investment adviser in February, and Russell Investment Group was appointed in April to peer review Mercers' recommendations. Both firms have leading international reputations in this area. In March, the Fund appointed Deloitte Touche Tohmatsu as its tax advisor, and Phillips Fox as its legal advisor.

Following the 30 June reporting date, a number of important appointments have been made. In July BNP Paribas Securities Services was chosen as the Fund's custodian to provide safekeeping of its investment assets and settle all transactions undertaken by the appointed investment managers.

These firms were selected because of their strong presence in New Zealand and leading international reputations.

The first of an expected two dozen investment managers were chosen in September. As at 30 September 2003, AMP Henderson Global Investors and Brook Asset Management had been chosen to manage two of the four New Zealand equity mandates, and Barclays Global Investors had been chosen to manage the first of seven international equities mandates. All appointments have been made after rigorous selection processes.

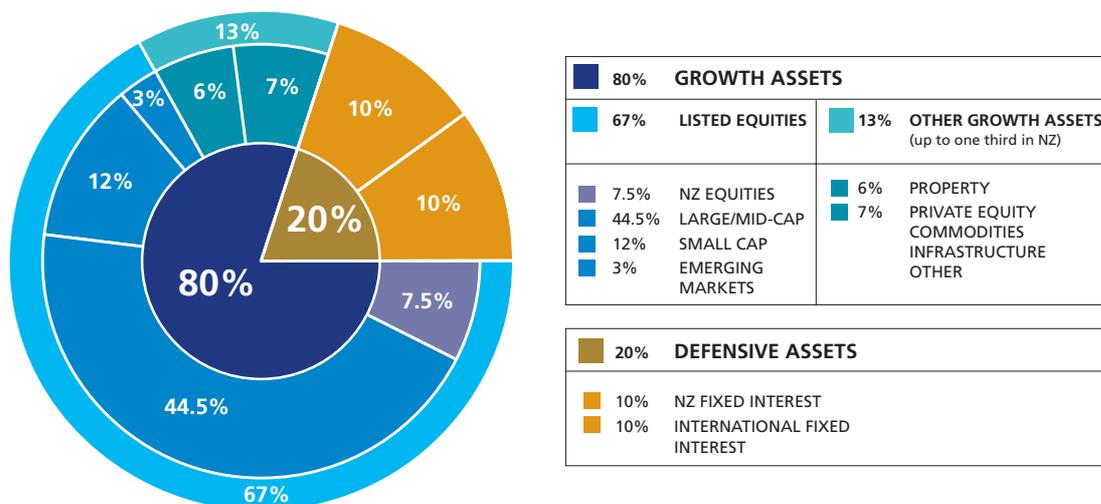


REPORT FROM THE BOARD (CONTINUED)

ASSET ALLOCATION

Following an extensive research process, the Board finalised the strategic asset allocation for the Fund in July 2003 and announced this publicly in mid-August. This allocation represents the basis for the long-term direction of the portfolio but will be reviewed annually and adjusted accordingly. The structure is set out below.

In setting this portfolio, the Board considered expert independent advice, in particular a detailed report prepared by the Guardians' principal advisers, Mercer Investment Consulting, which was subsequently peer reviewed by Russell Investment Group. The asset allocation decision is based on these reports, as well as a detailed review by the Fund's own management team.



These considerations took place over many months and involved testing how various portfolios would perform under a range of potential future economic conditions - whether periods of strong local and international economic growth, flat or negative growth, and high or low inflation rates.

The conclusion that growth assets offered the best opportunity for high returns over the long term encouraged the Guardians to allocate 80 per cent of the Fund's portfolio to these assets. At the same time, maintaining a 20 per cent allocation to fixed interest assets or bonds reduces the volatility of returns over shorter periods of time without materially reducing long-term returns.

This long-term horizon also means the Fund is well placed to weather the short-term volatilities associated with investing in businesses through the sharemarket - hence the significant weighting to equities, which over longer periods have offered investors higher returns than other forms of investment.

Around 22 per cent of the Fund's portfolio is expected to be invested in New Zealand. In 20 years these investments are expected to be worth \$22 billion. This includes \$7.6 billion in the local sharemarket and \$4.5 billion in other growth assets, including private equity, property, infrastructure and commodities. The Board will actively research opportunities to find appropriate high quality investments in these sectors.

Spreading the Fund's investments internationally and among different asset classes diversifies the portfolio and spreads risk, in line with international best practice.

The Fund's major performance target is to exceed, before New Zealand tax, the risk-free rate of return (i.e. the interest rate payable on cash) by an average of 2.5 per cent per year over rolling 20-year periods. It is

REPORT FROM THE BOARD (CONTINUED)



expected that by assessing performance against this target over rolling five year periods, confidence will be able to be gained that the Fund is on track to achieve this long term objective.

Achieving this target would add an extra \$22 billion in investment returns over the next 20 years. While the Fund may better this target in some years, it may not reach it in others. Certainly in the Fund's first year of operations (2003/04) it is unlikely to achieve its target as most of the Fund's assets will be held in cash during the year, reflecting the time taken to progressively appoint and fund investment managers.

The target returns are being measured pre-tax because the ultimate aim of the Guardians is to maximise the Fund's returns for the benefit of the New Zealand Government and taxpayers. The Government will benefit from the Fund's total returns, including any tax paid on its investment income. This decision allows the Board to focus on maximising total investment returns through active management of assets rather than tax-effective passive management.

NZSF KEY POINTS

- Must grow over the long term for the benefit of all New Zealanders
- Wide spread of investments to maximise returns and reduce risk
- Long-term investment horizon means that shares offer the best trade-off between risk and return
- Independent board operating at arm's-length from Government
- Best practice investment management standards

The performance of the Fund's investment managers will be reviewed monthly by the Board against criteria such as the performance of their peers and their performance against benchmark

returns, depending on the type of asset class they are managing.

It is expected that around two dozen investment mandates will be established. Each asset class will have managers with specific investment mandates. The initial construction of the investment portfolio is as follows:

- Four New Zealand equities mandates;
- Seven international equities mandates;
- Two New Zealand fixed interest mandates;
- Three international fixed interest mandates;
- The number and type of mandates for property and illiquid assets will be determined following further analysis of market opportunities.

The first of these appointments was made in September 2003 and the Board expects to have completed most of the remaining appointments by June 2004.

The Fund has established a process to ensure a smooth transition of its assets from cash to the chosen investment managers, which will reduce the market impact of the transactions. At 30 June 2003, the Government had set aside \$1.9 billion as capital contributions to the Fund. This had not been paid into the Fund at that date as the investment structure had not been finalised. The assets remained under the control of Treasury and are treated as a receivable in the Fund accounts. All accumulated contributions (approximately \$2.4 billion) were transferred to the Guardians to become an asset of the Fund on 30 September 2003.

YEAR AHEAD

The year ended 30 June 2004 will see the focus shift from the establishment of the Fund to implementation. The significant majority of the first round of investment managers will be appointed and mechanisms for the review of the investment portfolio finalised.



STATEMENT OF GOVERNANCE AND ACCOUNTABILITY

ROLE OF THE BOARD

The Guardians of New Zealand Superannuation has a Board appointed by the Governor General upon the recommendation of an independent advisory group to the Minister of Finance. The Board is responsible for all decisions relating to the business of the Guardians and may delegate functions or powers to a committee of the Board or any other person with the exception of the following:

- the power of delegation;
- the power to grant an attorney;
- the power to appoint an investment manager;
- the power to appoint a custodian.

The broad governance responsibilities of the Board include:

- Communicating with the Minister and Treasury on planning and accounting to the Minister on progress against objectives;
- Communicating with stakeholders;
- Delegating responsibility for achievement of specific objectives to the Chief Executive and management;
- Monitoring organisational performance towards achieving objectives;
- Maintaining effective systems of internal control.

STRUCTURE OF GUARDIANS OF NEW ZEALAND SUPERANNUATION BOARD

The following have been appointed to the Board:

David May (Chairman), Rt. Hon. Sir Douglas Graham (Deputy Chairman), Dr Michaela Anderson, Ira Bing, Brian Gaynor and Bridget Liddell.

Further details of the directors are provided in Section 2 of this report.

BOARD COMMITTEES

The Board has set up a number of committees which have been delegated responsibility to develop and recommend policy and monitor compliance against

policies in the respective areas. The following committees have been set up:

- (i) Audit & Governance Committee (M Anderson [Chair], Sir Douglas Graham) which oversees the financial reporting of the Fund and the establishment of internal risk control policies;
- (ii) Manager Selection Committee (B Gaynor [Chair], I Bing, B Liddell) which coordinates the interviewing and appointment of investment managers;
- (iii) Responsible Investing Committee (I Bing [Chair], M Anderson, Sir Douglas Graham, B Liddell) which develops policy frameworks to meet both the requirement for an ethical investment policy and the appropriate exercise of the responsibility of the Guardians as a shareholder in many companies;
- (iv) Communications Committee (D May [Chair], B Gaynor) which develops policy and oversees the implementation of the Fund's communication with the wider community;
- (v) Employee and Remuneration Committee (D May [Chair], Sir Douglas Graham) which works with the Chief Executive on the development of employment-related policies and recommends employment terms for the CEO.

DIVISION OF RESPONSIBILITY BETWEEN THE BOARD AND MANAGEMENT

The Board sets policy and strategy and decides on the appointment of investment managers and key advisers. Management is concerned with implementing policy and overseeing the effective performance of the investment managers.

The Board has a Chief Executive, Paul Costello, to manage the operations of the Guardians of New Zealand Superannuation on their behalf. The board directs the Chief Executive by delegating responsibility and authority for the achievement of objectives through setting policy. The Chief Executive has responsibility for the appointment of other staff, in conjunction with the Employee and Remuneration Committee.

STATEMENT OF OBJECTIVES AND SERVICE PERFORMANCE



A Statement of Intent, which sets out the most important expected outcomes for the period ahead, was issued for the period from 30 August 2002 to 30 June 2005. The key objective for the period to 30 June 2003 was to establish the critical infrastructure of the Guardians and to complete search and appointment processes for key staff and advisors to enable the management and administration of the Fund.

Reports on progress against the key targets set down in the Statement of Intent were provided at the end of the March 2003 and June 2003 quarters. These are summarised as follows:

ESTABLISHMENT OF THE FUND'S INFRASTRUCTURE

An important challenge for the Board was to appoint key staff and provide the appropriate infrastructure for the organisation to meet its responsibilities.

ACTION	TARGET PERIOD	ACHIEVEMENT
Appoint short term contract staff to assist the Board to establish a secretariat	December quarter 2002	Completed on schedule
Search for Chief Executive Officer	December quarter 2002	Completed on schedule
Appoint Chief Executive Officer	March quarter 2003	Completed on schedule
Secure temporary accommodation	December quarter 2002	Completed on schedule
Secure permanent accommodation	June quarter 2003	Completed on schedule
Appoint permanent staff	June quarter 2003	Investment Manager appointed April 2003. Financial Controller and Office Manager appointed early in 2003/4 year. Search for additional staff is ongoing

INVESTMENT MANAGEMENT

Simultaneously the Board began the process of identifying appropriately qualified and experienced organisations to assist in creating the investment portfolio of the Fund.

ACTION	TARGET PERIOD	ACHIEVEMENT
Search for investment advisors	December quarter 2002	Completed on schedule
Appoint investment advisors	March quarter 2003	Mercer Investment Consulting appointed as principal advisor and Russell Investment Group as peer reviewer in April
Undertake research into risk and return, best practice, ethical investment, market entry strategy, New Zealand investment	December quarter 2002 and ongoing	Research undertaken on comparable international funds and further projects underway
Determine strategic asset allocation	June quarter 2003	Completed in July and announced August 2003
Determine portfolio construction	June quarter 2003	Completed in July and announced August 2003
Search for and appoint manager selection advisors	June quarter 2003	Mercer Investment Consulting appointed on schedule



STATEMENT OF OBJECTIVES AND SERVICE PERFORMANCE (CONTINUED)

APPOINTMENT OF OTHER ADVISORS

The Board also identified the need to appoint other key advisors to enable it to meet its statutory obligations.

ACTION	TARGET PERIOD	ACHIEVEMENT
Search for legal and tax advisors	December quarter 2002	Completed on schedule
Appoint legal and tax advisors	March quarter 2003	Completed with Phillips Fox appointed as legal adviser and Deloitte Touche Tohmatsu as tax adviser

ACCOUNTABILITY & COMMUNICATION

The Board also recognises the need to timely accountability and the need to be proactive in communicating its activities. A website, www.nzsuperfund.co.nz, has been established to inform as wide an audience as possible of the Fund's rationale and activities.

ACTION	TARGET PERIOD	ACHIEVEMENT
Prepare interim Statement of Intent	March quarter 2003	Completed on schedule
Prepare annual Statement of Intent for period commencing 1 July 2003	June quarter 2003	Completed on schedule
Report to Minister and Treasury	Quarterly ongoing and as otherwise required	Completed on schedule
Report activities through press releases following Board meetings	Monthly, or as required	Completed on schedule

NEW ZEALAND SUPERANNUATION FUND



FINANCIAL STATEMENTS 2003

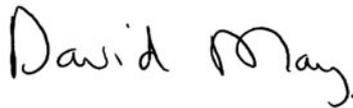
STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 30 JUNE 2003

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

The Board and management of 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.

In the opinion of the Board and management of Guardians of New Zealand Superannuation, relying on information provided to them by The Treasury, and reflected in the Crown Financial Statements, the annual Financial Statements for the year ended 30 June 2003 fairly reflect the financial position and operations of the New Zealand Superannuation Fund.



Chairperson
David May
22 October 2003



Chief Executive
Paul Costello
22 October 2003

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2003

REPORTING ENTITY

These are the financial statements of the New Zealand Superannuation Fund, a fund created under S37 of the New Zealand Superannuation Act 2001. This Act commenced on 12 October 2001.

The New Zealand Fund is managed and administered by Guardians of New Zealand Superannuation. Guardians of New Zealand Superannuation was established as a new Crown entity by section 48 of the New Zealand Superannuation Act 2001 and became operative from 30 August 2002.

Annual capital contributions are to be made by Government into the New Zealand Superannuation Fund for investment for the purpose of paying New Zealand superannuation.

Until Guardians of New Zealand Superannuation was in a position to manage the assets of the New Zealand Superannuation Fund accrued capital contributions have been set aside at the New Zealand Debt Management Office. These contributions had not been paid to the New Zealand Superannuation Fund at balance date.

These financial statements have been prepared in accordance with the Financial Reporting Act 1993.

MEASUREMENT BASE

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

ACCOUNTING POLICIES

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

a) Budget figures

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

b) Capital contributions

(i) Fund capital contributions

The Crown is required to make contributions to the New Zealand Superannuation Fund in accordance with sections 42 to 44 inclusive of the New Zealand Superannuation Act 2001. These contributions are treated as capital contributions for accounting purposes.

(ii) Superannuation annual expense payments

The Minister of Finance, under section 45 of the New Zealand Superannuation Act 2001, must ensure that sufficient money is transferred into the New Zealand Superannuation Fund in each year to meet the net cost of New Zealand Superannuation entitlements. For accounting purposes these transfers are treated as capital contributions and are offset by capital withdrawals.

c) Capital withdrawals

(i) Fund capital withdrawals

In terms of S47 of the New Zealand Superannuation Act 2001 no withdrawals of Fund Capital are permitted in any financial year before 1 July 2020.

(ii) Superannuation annual expense payments

The net cost of New Zealand Superannuation entitlements are treated as capital withdrawals for accounting purposes. These amounts equate to the associated capital contributions and are offset in the financial statements.

The payment of New Zealand Superannuation is an expense of the Crown and is recorded separately in the Crown Financial Statements.

d) Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2003

e) Taxation

In accordance with S76 of the Act the New Zealand Superannuation Fund is treated as if it is a body corporate for tax purposes and is therefore subject to income tax on any income derived from investments, and that income is to be treated as gross income of the Fund under the Income Tax Act 1994.

f) Accounts receivable

At balance date the receivable is recorded at book value which equates to its expected realisable value.

g) Financial instruments

The New Zealand Superannuation Fund will be a party to financial instruments as part of its normal operations. These financial instruments will include bank accounts, short-term deposits, investments, debtors and creditors. All financial instruments will be recognised in the statement of financial position and all revenues and expenses in relation to financial instruments will be recognised in the statement of financial performance.

Short term deposits and investments will be recorded at net market value and all other financial instruments will be shown at their estimated fair value.

h) Statement of cash flows

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

Operating activities include all activities other than investing and financing activities. The cash inflows include all receipts from investment income and any other sources of revenue that supports the New Zealand Superannuation Fund's operating activities. Cash outflows include payments made to investment managers, custodians and for taxes.

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

Financing activities are those activities relating to changes in equity and debt capital structure of the New Zealand Superannuation Fund.

i) Reporting period

The reporting period is for the 12 months ended 30 June 2003. Comparative figures are for the period from commencement to 30 June 2002.

j) Changes in accounting policies

There were no changes in accounting policies during the year.

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED TO 30 JUNE 2003

	NOTE	ACTUAL 12 MTHS 2003 \$m	BUDGET 12 MTHS 2003 \$m	ACTUAL 9 MTHS 2002 \$m
Income		-	-	-
Expenses	1	-	-	-
NET SURPLUS FOR THE PERIOD		-	-	-

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENT OF MOVEMENTS IN TAXPAYERS' EQUITY

FOR THE YEAR ENDED 30 JUNE 2003

	NOTE	ACTUAL 2003 \$m	BUDGET 2003 \$m	ACTUAL 2002 \$m
PUBLIC EQUITY AS AT 1 JULY 2002	2	615	616	-
Net surplus for the period		-	-	-
TOTAL RECOGNISED REVENUES AND EXPENSES FOR THE PERIOD		-	-	-
Capital contributions receivable	2	1,269	1,257	615
PUBLIC EQUITY AS AT 30 JUNE 2003		1,884	1,873	615

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2003

	NOTE	ACTUAL 2003 \$m	BUDGET 2003 \$m	ACTUAL 2002 \$m
ASSETS				
Current assets				
Receivable	2	1,884	1,873	615
Total current assets		1,884	1,873	615
Total assets		1,884	1,873	615
NET ASSETS		1,884	1,873	615

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2003

	NOTE	ACTUAL 12 MTHS 2003 \$m	BUDGET 12 MTHS 2003 \$m	ACTUAL 9 MTHS 2002 \$m
CASH FLOWS FROM OPERATING ACTIVITIES				
Net cash inflow from operating activities		-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Net cash outflow from investing activities		-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES				
Net cash inflow from financing activities		-	-	-
Net increase (decrease) in cash held		-	-	-
CLOSING CASH BALANCE		-	-	-

The accompanying accounting policies and notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2003

NOTE 1: EXPENSES

S41 of the New Zealand Superannuation Act 2001 defines what costs may be paid by the New Zealand Superannuation Fund. During the year the New Zealand Superannuation Fund incurred no costs under S41. All expenses were met by Guardians of New Zealand Superannuation.

External Audit fees in respect of the audit of the financial statements for the year ended 30 June 2003 and the 9 months ended 30 June 2002 are estimated to be \$12,000.

Although meeting the criteria of S41 this cost will be met by Guardians of New Zealand Superannuation for these periods as the Fund had no income.

	ACTUAL 2003 \$m	ACTUAL 2002 \$m
NOTE 2: RECEIVABLES		
Capital Contributions Receivable from the Crown	1,884	615
TOTAL	1,884	615

As at 30 June 2003, the Fund had not yet been provided with any capital contributions, with funds building up with New Zealand Debt Management Office in anticipation of contribution in 2003/04. While the contribution is held by New Zealand Debt Management Office it is increased at a rate based on the Official Cash Rate.

As this asset is determined by legislation and the balance agrees with the Crown financial statements the amount receivable is considered certain and accordingly no allowance for non-collectability is required.

The receivable will be crystallised in cash or cash equivalent within the next twelve months.

Although the balance receivable is large and concentrated in one party, as the Crown is the counterparty there is considered to be no significant concentration of credit risk.

The receivable is payable once the New Zealand Superannuation Fund is ready for operation, as determined by Guardians of New Zealand Superannuation of New Zealand. This is expected to be on 30 September 2003.

The amount of capital contributions for the period to 30 June 2002 (\$615m) and the year ended 30 June 2003 (\$1,269m) were less than the amount of required annual capital contribution as determined by S43 of the New Zealand Superannuation Act 2001.

Under S44 of the New Zealand Superannuation Act 2001, if the Government intends to pay less into the New Zealand Superannuation Fund in any financial year than the required annual contribution then the Minister of Finance must make certain disclosures in the fiscal strategy report prepared under S7 of the Fiscal Responsibility Act 1994.

Disclosures to meet the requirements of S44 were made in the combined 2002 Fiscal Strategy Report and the Budget Economic and Fiscal Update, which outlined that the amount intended to be contributed for the 2001/02 and the 2002/03 periods were less than would have been calculated under the formula laid down in the New Zealand Superannuation Act 2001.

NOTE 3: NEW ZEALAND SUPERANNUATION PAYMENTS

Under S45 of the New Zealand Superannuation Act 2001 the Minister of Finance must ensure that sufficient money is transferred into the New Zealand Superannuation Fund in each financial year to meet the net cost of the New Zealand superannuation entitlements that are payable out of the New Zealand Superannuation Fund. As no capital withdrawals are permitted from the New Zealand Superannuation Fund in any financial year commencing before 1 July 2020 the Minister of Finance is therefore obliged to provide funding to meet ongoing superannuation entitlements in addition to the capital contributions paid under S42 of the New Zealand Superannuation Act 2001.

Funding of superannuation entitlements under S45 of the New Zealand Superannuation Act 2001 amounted to \$5,642m during the year (2002: \$3,917m) as set out in the Crown financial statements. These capital contributions from the Crown are to meet the expected net cost of New Zealand superannuation as determined by Ministry of Social Development. Against these capital inflow transfers, capital outflow transfers were made to the Ministry of Social Development who, under the New Zealand Superannuation Act 2001, are responsible for the administration of New Zealand superannuation payments.

As the Fund has not been operational in the period to balance date the Treasury, through the New Zealand Debt Management Office, have facilitated the flow of funding for these superannuation entitlements from the Minister of Finance to the Ministry of Social Development on behalf of the New Zealand Superannuation Fund. Guardians of New Zealand Superannuation has had no control over these transfers, with The Treasury acting as agent for the New Zealand Superannuation Fund during this period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2003

NOTE 4: RELATED PARTY INFORMATION

The New Zealand Superannuation Fund is managed and administered by Guardians of New Zealand Superannuation, which in turn is a wholly owned entity of the Crown.

Guardians of New Zealand Superannuation has paid expenses relating to the New Zealand Superannuation Fund, as it is required to do so under the New Zealand Superannuation Act 2001, and is not entitled to receive any reimbursement for these costs. These expenses have been included in the financial statements of Guardians of New Zealand Superannuation.

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

NOTE 5: FINANCIAL INSTRUMENTS

The New Zealand Superannuation Fund is risk averse and seeks to minimise its exposure from its treasury activities. Its policies do not allow any transactions which are speculative in nature to be entered into.

CREDIT RISK

Credit risk is the risk that a third party will default on its obligation to the New Zealand Superannuation Fund, causing the New Zealand Superannuation Fund to incur a loss. Financial instruments which potentially subject the New Zealand Superannuation Fund to risk will include cash, short term deposits, investments and other debtors.

The New Zealand Superannuation Fund will invest in a wide range of assets in New Zealand and overseas in accordance with its statement of investment policies, standards and procedures. This will contain credit and exposure policies to limit credit risks from the Fund's investments.

At balance date the only financial instrument of the New Zealand Superannuation Fund was the receivable from the Crown (Note 2). The New Zealand Superannuation Fund does not consider there is any collection risk in respect to this balance despite the concentration of credit risk.

The maximum amount of credit risk for each class is the carrying amount in the Statement of Financial Position.

FAIR VALUE

The fair value of financial instruments is equivalent to the carrying amount disclosed in the Statement of Financial Position.

	FAIR VALUE 2003 \$m
Receivable	1,884
TOTAL	1,884

CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. During the year ended 30 June 2003 the New Zealand Superannuation Fund had no assets or liabilities denominated in a foreign currency and therefore had no currency risk.

INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

There are no interest rate options or interest rate swap options in place as at 30 June 2003.

During the year the New Zealand Superannuation Fund carried an interest rate risk on the balance receivable from the Crown (Note 2) as while the underlying capital contributions are held by New Zealand Debt Management Office they are increased at a rate based on the Official Cash Rate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2003

NOTE 6: COMMITMENTS

There were no capital or operating lease commitments as at 30 June 2003 (2002: nil).

NOTE 7: CONTINGENT LIABILITIES

There were no contingent liabilities as at 30 June 2003 (2002: nil).

NOTE 8: EVENTS SUBSEQUENT TO BALANCE DATE

Since balance date the balance receivable has crystallised and was transferred in a series of Treasury Bills to Cogent Investment Operations Pty Limited trading as BNP Paribas Securities Services as the custodian of the New Zealand Superannuation Fund's assets.

NOTE 9: BUDGET VARIANCES

The Statement of Intent for Guardians of New Zealand Superannuation for the year ended 30 June 2003 included projections for the New Zealand Superannuation Fund and these have been included as Budget figures in the financial statements.

The variance between budget and actual was attributable to the difference between the actual Official Cash Rate and the rate assumption utilised in the budget projections.

The variance is not considered a major variance.

NOTE 10: BREACH OF LEGISLATION

Under S41(3) of the Public Finance Act, Financial Statements for the New Zealand Superannuation Fund were required to be forwarded to the Audit Office by 28 September 2003. These Statements were forwarded on 28 October 2003, which constitutes a technical breach of the Act.

REPORT OF THE AUDITOR-GENERAL

TO THE READERS OF THE FINANCIAL STATEMENTS OF NEW ZEALAND SUPERANNUATION FUND

FOR THE YEAR ENDED 30 JUNE 2003

We have audited the financial statements on pages 15 to 23. The financial statements provide information about the past financial performance of the New Zealand Superannuation Fund and its financial position as at 30 June 2003. This information is stated in accordance with the accounting policies set out on pages 15 to 16.

RESPONSIBILITIES OF THE GUARDIANS

The New Zealand Superannuation Act 2001 requires Guardians of New Zealand Superannuation (the Guardians) to prepare financial statements for the New Zealand Superannuation Fund (the Fund) in accordance with generally accepted accounting practice in New Zealand that fairly reflect the financial position of the Fund as at 30 June 2003, the results of its operations and cash flows for the year ended on that date.

AUDITOR'S RESPONSIBILITIES

Section 15 of Public Audit Act 2001 and Section 67 of the New Zealand Superannuation Act 2001 require the Auditor-General to audit the financial statements presented by the Guardians. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed Mr A S Frost, of Audit New Zealand, to undertake the audit.

BASIS OF OPINION

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Guardians in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in the Fund.

UNQUALIFIED OPINION

We have obtained all the information and explanations we have required.

In our opinion the financial statements of New Zealand Superannuation Fund on pages 15 to 23:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - New Zealand Superannuation Fund's financial position as at 30 June 2003; and
 - the results of its operations and cash flows for the year ended on that date

Our audit was completed on 28 October 2003 and our unqualified opinion is expressed as at that date.



A S Frost
Audit New Zealand
On behalf of the Controller and Auditor-General
Auckland, New Zealand

GUARDIANS OF NEW ZEALAND SUPERANNUATION



FINANCIAL STATEMENTS 2003

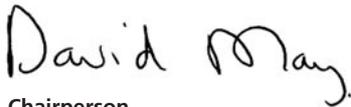
STATEMENT OF RESPONSIBILITY

FOR THE TEN MONTHS ENDED 30 JUNE 2003

The Board and management of Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual Financial Statements of Guardians of New Zealand Superannuation and the judgements used in them.

The Board and management of 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.

In the opinion of the Board and management of Guardians of New Zealand Superannuation the annual Financial Statements for the period 1 September 2002 to 30 June 2003, fairly reflect the financial position and operations of Guardians of New Zealand Superannuation.



Chairperson
David May
13 October 2003



Chief Executive
Paul Costello
13 October 2003

STATEMENT OF ACCOUNTING POLICIES

FOR THE TEN MONTHS ENDED 30 JUNE 2003

REPORTING ENTITY

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

As Guardians of New Zealand Superannuation was formed in September 2002 these financial statements cover a ten month period. As these are the first set of financial statements there is no comparative data.

These financial statements have been prepared in accordance with section 41 of the Public Finance Act 1989.

MEASUREMENT BASE

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

ACCOUNTING POLICIES

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

a) Budget figures

The budget was approved by the Board for the period.

b) Revenue

Guardians of New Zealand Superannuation derives revenue through the provision of outputs to the Crown, for services to third parties and income from its investments. Such revenue is recognised when earned and is reported in the financial period to which it relates.

c) Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, with the exception of accounts receivable and trade creditors which are stated with GST included. Where GST is irrecoverable as an input tax, then it is recognised as part of the related asset or expense.

d) Taxation

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

e) Accounts receivable

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

f) Investments

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

g) Property, Plant and Equipment

Fixed assets, which are material in aggregate, are capitalised and recorded at cost. Any write-down of an item to its recoverable amount is recognised in the statement of financial performance.

h) Depreciation

Depreciation is provided on a straight line basis on all fixed assets 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	3 years
Leasehold improvements	6 years

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

i) Employee Entitlements

Provision is made in respect of Guardians of New Zealand Superannuation's liability for annual leave. Annual leave that is expected to be settled within 12 months of reporting date, is measured at nominal value on an actual entitlement basis at current rates of pay.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FOR THE TEN MONTHS ENDED 30 JUNE 2003

j) Leases*(i) Finance leases*

Leases which effectively transfer to Guardians of New Zealand Superannuation substantially all the risks and benefits incident to ownership of the leased item are classified as finance leases. These leases are capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments. The leased assets and corresponding lease liabilities are recognised in the statement of financial position. The leased assets are depreciated over the period Guardians of New Zealand Superannuation is expected to benefit from their use.

(ii) Operating leases

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

k) Foreign currency transactions

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

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

Exchange differences on foreign exchange balances are recognised in the Statement of Financial Performance.

l) Financial instruments

Guardians of New Zealand Superannuation is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, debtors and creditors. 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.

Except for items covered by separate accounting policy, all financial instruments are shown at their estimated fair value.

m) Statement of cash flows

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

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

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

Financing activities are those activities relating to changes in equity and debt capital structure of Guardians of New Zealand Superannuation and those activities relating to the cost of servicing Guardians of New Zealand Superannuation Board's equity capital.

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE TEN MONTHS TO 30 JUNE 2003

	NOTE	ACTUAL 2003 \$000	BUDGET 2003 \$000
Crown revenue		2,098	2,099
Interest income		37	40
TOTAL OPERATING REVENUE		2,135	2,139
Expenditure		1,551	2,136
NET SURPLUS FOR THE PERIOD	1	584	3

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE TEN MONTHS TO 30 JUNE 2003

	NOTE	ACTUAL 2003 \$000	BUDGET 2003 \$000
PUBLIC EQUITY AS AT 1 SEPTEMBER 2002		-	-
Net surplus		584	3
TOTAL RECOGNISED REVENUES AND EXPENSES FOR THE PERIOD		584	3
Equity received from the Crown	2	300	300
PUBLIC EQUITY AS AT 30 JUNE 2003		884	303

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2003

	NOTE	ACTUAL 2003 \$000	BUDGET 2003 \$000
PUBLIC EQUITY			
General funds	2	884	303
TOTAL PUBLIC EQUITY		884	303
Represented by:			
ASSETS			
Current assets			
Cash and bank		75	14
Receivables and prepayments	3	1	-
Short-term deposits	4	1,576	-
Total current assets		1,652	14
Non-current assets			
Property, plant and equipment	5	49	300
Total non-current assets		49	300
TOTAL ASSETS		1,701	314
LIABILITIES			
Current liabilities			
Payables and accruals	6	765	11
Employee entitlements	7	52	-
Total current liabilities		817	11
TOTAL LIABILITIES		817	11
NET ASSETS		884	303

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE TEN MONTHS ENDED 30 JUNE 2003

	NOTE	ACTUAL 2003 \$000	BUDGET 2003 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Revenue from the Crown		2,098	2,099
Interest received		37	40
Net Goods and Services Tax		143	-
		2,278	2,139
Cash was applied to:			
Payments to employees		110	836
Payments to suppliers		765	1,262
		875	2,098
NET CASH INFLOW FROM OPERATING ACTIVITIES	8	1,403	41
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was applied to:			
Purchase of property, plant and equipment		52	327
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(52)	(327)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Equity from the Crown		300	300
NET CASH INFLOW FROM FINANCING ACTIVITIES		300	300
Net increase (decrease) in cash held		1,651	14
CLOSING CASH BALANCE		1,651	14
Cash and bank		75	14
Short-term investments	4	1,576	-
CLOSING CASH BALANCE		1,651	14

The accompanying accounting policies and notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2003
\$000

NOTE 1: OPERATING SURPLUS/(DEFICIT)

The net surplus is after charging for:

Fees paid to principal auditors	
• external audit	13
• other services – probity audit	34
• external audit in respect of the New Zealand Superannuation Fund	12
Board members' fees	99
Depreciation:	
Office equipment	9
Computer equipment	1
Leasehold improvements	-
TOTAL DEPRECIATION FOR THE YEAR	10
Interest expense	-
Rental expense on operating leases	44

NOTE 2: PUBLIC EQUITY

GENERAL FUNDS

Opening balance	-
Net surplus	584
Equity received from the Crown	300
CLOSING BALANCE	884

NOTE 3: RECEIVABLES AND PREPAYMENTS

Interest receivable	1
TOTAL	1

NOTE 4: INVESTMENTS

CURRENT

Short-term deposits	1,576
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WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

Short-term deposits	5.00%
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REPRICING MATURITIES

2003	LESS THAN 6 MTHS	6-12 MTHS	1-2 YEARS	2-5 YEARS	GREATER THAN 5yrs	TOTAL
Short-term deposit	1,576	-	-	-	-	1,576
The weighted average effective interest rate	5%				5%	

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

	COST	ACCUMULATED Depreciation	NET BOOK Value
2003			
Office equipment	2	1	1
Computer equipment	51	9	42
Leasehold improvements	6	-	6
TOTAL	59	10	49

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2003
\$000

NOTE 6: PAYABLES AND ACCRUALS

Trade creditors	308
Accrued expenses	344
GST payable	113
TOTAL PAYABLES AND ACCRUALS	765

NOTE 7: EMPLOYEE ENTITLEMENTS

Annual leave	11
Accrued salary	41
TOTAL	52
Current	52
Non-current	-
TOTAL	52

NOTE 8: RECONCILIATION OF THE NET SURPLUS FROM OPERATIONS WITH THE NET CASHFLOWS FROM OPERATING ACTIVITIES

Net surplus	584
Add (less) non-cash items:	
Depreciation	10
Total non-cash items	10
Add (less) movements in working capital items:	
(Increase) in receivables	(1)
Increase in payables	765
(Decrease) in capital creditors	(7)
Increase in employee entitlements	52
Working capital movements – net	809
NET CASH FLOW FROM OPERATING ACTIVITIES	1,403

NOTE 9: RELATED PARTY INFORMATION

Guardians of New Zealand Superannuation is a wholly owned entity of the Crown. The Government significantly influences the role of Guardians of New Zealand Superannuation as well as being its major source of revenue.

Guardians of New Zealand Superannuation received the following from the Government for the ten month period to 30 June 2003:

Grants from the Crown	\$2,098,667
Equity from the Crown	\$300,000

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10: FINANCIAL INSTRUMENTS

Guardians of New Zealand Superannuation is risk averse and seeks to minimise its exposure from its treasury activities. Its policies do not allow any transactions which are speculative in nature to be entered into.

CREDIT RISK

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

Guardians of New Zealand Superannuation has a minimal credit risk in its holdings of various financial instruments. These instruments include cash and bank, interest receivable, short-term deposits, trade creditors and other payables.

The Board places its investments with institutions that have a high credit rating. Guardians of New Zealand Superannuation believes that this policy reduces the risk of any loss which could arise from its investment activities. Guardians of New Zealand Superannuation does not require any collateral or security to support financial instruments. There is no significant concentration of credit risk.

The maximum amount of credit risk for each class is the carrying amount in the Statement of Financial Position.

FAIR VALUE

The fair value of financial instruments is equivalent to the carrying amount disclosed in the Statement of Financial Position.

	FAIR VALUE 2003 \$000
Cash and Bank	75
Interest Receivable	1
Short-term Deposits	1,576
Trade Creditors	(308)
Other Payables	(509)
TOTAL	835

CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Guardians of New Zealand Superannuation had accrued expenses denominated in a foreign currency of AUD \$32,500 at 30 June 2003.

INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. There are no interest rate options or interest rate swap options in place as at 30 June 2003. The interest rates on Guardians of New Zealand Superannuation's investments are shown in Note 4.

The Board does not consider that there is any significant interest exposure on Guardians of New Zealand Superannuation's investments.

NOTE 11: EMPLOYEES' REMUNERATION

No employee had total remuneration and benefits over \$100,000 in the period to June 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12: BOARD FEES

Board members earned the following fees during the year:

MEMBER	FEES 2003 \$000
DJ May (Chairperson)	28
Sir D Graham (Deputy Chairperson)	16
M Anderson	14
I Bing	14
B Gaynor	13
B M Liddell	14
TOTAL	99

Board fees are paid on an inclusive of GST basis. Where a Board member is registered for GST their fees detailed above are recorded exclusive of GST.

Board members travel expenses to attend meetings are also paid by the Guardians.

NOTE 13: COMMITMENTS

There were no capital or operating lease commitments as at 30 June 2003.

NOTE 14: CONTINGENT LIABILITIES

There were no contingent liabilities as at 30 June 2003.

NOTE 15: EVENTS SUBSEQUENT TO BALANCE DATE

There were no post balance date events.

NOTE 16: BUDGET VARIATIONS

The surplus for the year was higher than budget due to timing of costs during the start-up phase of Guardians of New Zealand. These costs were deferred into the next financial year.

NOTE 17: PUBLIC FINANCE ACT

Under S41(3) of the Public Finance Act, Financial Statements for Guardians of New Zealand Superannuation were required to be forwarded to the Audit Office by 28 September 2003. These Statements were forwarded on 28 October 2003, which constitutes a technical breach of the Act.

REPORT OF THE AUDITOR-GENERAL

TO THE READERS OF THE FINANCIAL STATEMENTS OF GUARDIANS OF NEW ZEALAND SUPERANNUATION

FOR THE PERIOD ENDED 30 JUNE 2003

We have audited the financial statements on pages 11 to 12, and 27 to 36. The financial statements provide information about the past financial and service performance of Guardians of New Zealand Superannuation and its financial position as at 30 June 2003. This information is stated in accordance with the accounting policies set out on pages 27 to 28.

RESPONSIBILITIES OF THE GUARDIANS

The Public Finance Act 1989 requires the Guardians of New Zealand Superannuation ("Guardians") to prepare financial statements in accordance with generally accepted accounting practice in New Zealand that fairly reflect the financial position of Guardians of New Zealand Superannuation as at 30 June 2003, the results of its operations and cash flows and service performance achievements for the period ended on that date.

AUDITOR'S RESPONSIBILITIES

Section 15 of the Public Audit Act 2001 and Section 43(1) of the Public Finance Act 1989 require the Auditor-General to audit the financial statements presented by the Guardians of New Zealand Superannuation. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed A S Frost, of Audit New Zealand, to undertake the audit.

BASIS OF OPINION

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Guardians of New Zealand Superannuation in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Guardians of New Zealand Superannuation's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have provided tender assurance services over the selection of Fund Managers and Investment Advisers. Other than these services and in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in the Guardians of New Zealand Superannuation.

UNQUALIFIED OPINION

We have obtained all the information and explanations we have required.

In our opinion the financial statements of Guardians of New Zealand Superannuation on pages 11 to 12, and 27 to 36:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - Guardians of New Zealand Superannuation's financial position as at 30 June 2003;
 - the results of its operations and cash flows for the period ended on that date; and
 - its service performance achievements in relation to the performance targets and other measures adopted for the period ended on that date.

Our audit was completed on 28 October 2003 and our unqualified opinion is expressed as at that date.



A S Frost
Audit New Zealand
On behalf of the Auditor-General
Auckland, New Zealand

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– Guardians of New Zealand Superannuation
Westpac Banking Corporation
– The New Zealand Superannuation Fund

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