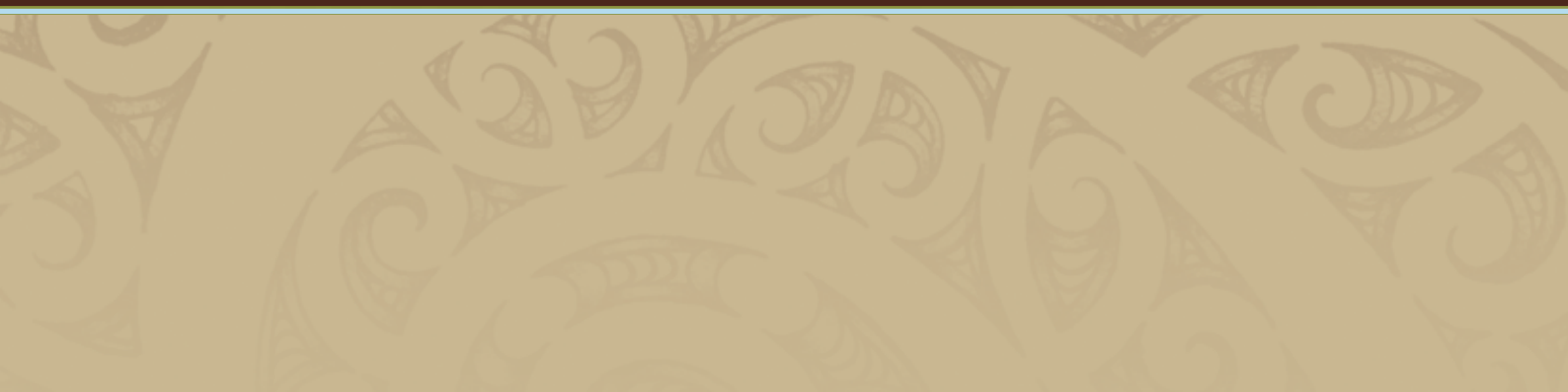




2012 Annual Report



Business snapshot at 31 March 2012

Number of trusts and other entities under administration: 1,997

Number of hectares under management: 100,000

Number of owner accounts maintained: 96,700

% of beneficial owners for whom contact details held: 65.4%

Return from land 2012: \$21.3 million

Client funds under management (market value): \$80,950,000

Māori Trustee equity: \$119,162,000

Number of staff: 78

Number of offices: 6



Contents

Purpose	2
Message from the Māori Trustee	3
Statement of Responsibility	7
Audit Report	8

Financial Statements

Statement of Service Performance	12
Statement of Comprehensive Income	17
Statement of Changes in Equity	18
Statement of Financial Position	19
Statement of Cash Flows	20
Notes to the Financial Statements	21
Statement of Trust Monies	42

Purpose

This report has been prepared to meet the requirements of Section 150 of the Crown Entities Act 2004.

Foreword

To the Minister of Māori Affairs

I am honoured to present the Annual Report for the Māori Trustee for the year ended 31 March 2012.

Ki te Minita mō ngā Take Māori

He hōnore ki ahau te tuku atu i te pūrongo ā tau ō Te Kaitiaki Māori mō te tau i mutu i te 31 o Māhehe 2012.



Jamie Tuuta
Māori Trustee

10 August 2012



From the Māori Trustee

The 2012 financial year saw the Māori Trustee organisation establish a firm strategic platform to serve as a base and guide to a successful future for the organisation and the clients we serve.

In looking back over the year, I would first like to acknowledge the leadership of the previous Māori Trustee, John Paki, who held this role until August 2011 and led the organisation through the transition from being part of a government department, to operating as a standalone organisation from July 2009.

Throughout the transition and now in all its operations, the organisation remains firmly focused on its core role as a trustee organisation – to protect and grow Māori assets.

My initial focus as Māori Trustee has been to work with the senior management team and the wider Māori Trustee team to establish our strategic platform and to develop the specific goals, processes and structure that will deliver success for our clients today and the generations of the future.

As part of this work, we arrived at a vision for the organisation to unite and motivate us as one team in working with owners of Māori land. This vision is to mobilise Māori land and assets to create this generation's legacy.

Strategies

The Māori Trustee organisation works to three key strategies to assist owners to achieve higher aspirations for their land as they create a legacy that delivers lasting benefit to the generations of the future.

Connect with our people: We are committed to reaching and engaging our people to ensure that they have the opportunity to be connected with their whenua, know what is happening with their land and how it is managed and to participate in discussions and decisions about the future.

Capitalise our assets: We are committed to generating the best sustainable return from our clients' assets – both land and assets held in the Common Fund.

Grow our assets: We will support owners with robust processes and advice so they can identify and develop

viable commercial ventures that realise the potential of their assets and deliver economic, social, environmental and cultural benefits.

We have taken significant steps to embed and deliver on each of these strategies as well as looking at positioning the organisation in the best way to support our aims.

Structure

During the year, I took the first steps to align the structure of the organisation to ensure that all our work is fully focused on delivering the strategic outcomes.

I established a senior management team with clear areas of responsibility and control and have now made appointments to all positions (note that the General Manager Trusts was appointed in July 2012).

Senior Management team

Māori Trustee – Jamie Tuuta

Deputy Māori Trustee – Debbie Birch

General Manager Trusts – Tiaki Hunia

Chief Operating Officer – Nick McKissack

Following on from this high-level structure, we have had extensive discussions with staff around the country to gain a view of the detailed structure that will best allow the Māori Trustee organisation to operate in an efficient, focused way.

The new structure will be in place in the first half of 2012/2013. I and the senior management team have been working closely with staff throughout this process and will continue to do so. We are committed to providing all our staff with strong support through a time of change and to assist them in developing capabilities to take new opportunities in the organisation and make a greater contribution.

Governance

I established an Advisory Board, bringing industry sector and governance expertise, to sit alongside me and offer advice and guidance, as well as acting as a sounding board for decisions on strategy and planning. This step

helps ensure that as a standalone organisation, we have the rigour of well-governed private sector organisations.

The Board has met twice since December and has proved to be insightful, supportive and, at times, challenging to me and the senior management team. I greatly appreciate their contribution to our journey.

Advisory Board members

Keith Sutton

Roger Pikia

Mark Tume

Wally Stone

Our work is also overseen and supported by several specialist committees.

- » The Investment Committee monitors the investment portfolio to ensure the best return on the Common Fund and General Purposes Fund while maintaining an acceptable level of risk for the organisation.
- » The Audit and Risk Committee provides greater insight and independent advice to the Māori Trustee on robust internal control systems and the management of risk across the organisation to improve its risk management and organisational performance.
- » The IT Governance Committee provides oversight of the information systems and technology programme of change.

Good employer

As an organisation, we have a strong commitment to being a good employer. During the year, a Code of Conduct was introduced setting out the behaviour that is expected of everyone who works in the Māori Trustee organisation. The Code underlines and supports our determination to provide a safe and positive workplace for all employees.

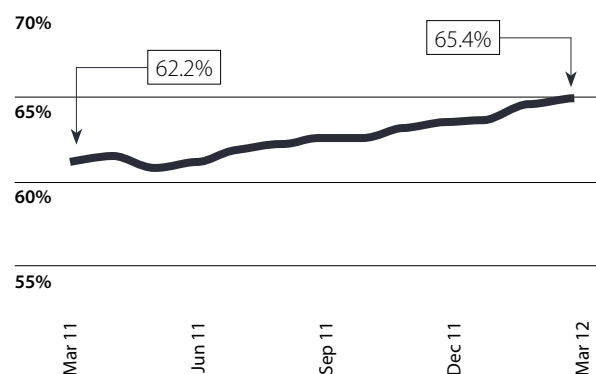
The first collective agreement for the Māori Trustee as an organisation was also negotiated with the Public Service Association (PSA) for its members. We also began work, in partnership with the PSA, on a remuneration strategy for all employees. Our current focus is on supporting employees as we make the transition to our new structure.

Focus on owners

Understanding our clients' needs and aspirations and their view of the services we provide is an essential part of connecting with our owners and truly engaging with them. In October 2011, we ran our second client satisfaction survey. This is a major survey carried out by research firm UMR Research Limited of 750 of our clients from all parts of New Zealand. I am pleased to say that the trend was positive across the 19 service indicators we measure and showed a 5% increase in clients' overall satisfaction with Māori Trustee's management of their land and assets. This survey will be repeated in October 2012. The survey also confirmed that the land is important to our clients with 93% agreeing with the statement that "a connection to my land is personally important to me".

I am also pleased to report, that yet again, our Client Services Unit has delivered a high level of client contact details, holding 65.4% of contact details for land owners who have not been notified to us as deceased. As noted in previous annual reports, maintaining client contact details is an ongoing challenge owing to the mobility of our client base and the increasing fragmentation of land ownership through the generations.

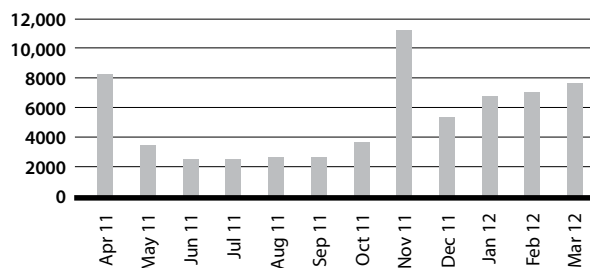
Owner contact details



This graph shows the overall gain in contact details during 2011/2012. Note that many contact details are also lost during the year due to clients' moving.

We understand that our clients are a diverse group and aim to offer a range of ways for clients to engage with us. In particular, in the 2012 year, we have noticed an increase in the number of people who wish to connect with us through our website, or through email, and are continuing to improve those channels. We will be looking at adding further digital channels for engagement in the 2013 year.

2011 – 2012 Number of website visits:



The spikes in April and November reflect results of online advertising campaigns to gain client contact details.

Assessing our portfolio

During the 2012 year, we invested significant time and resources into developing a Geographic Information System (GIS) and undertaking significant analysis of the data. We now have for the first time an accurate picture of the type and potential of land in our portfolio and its relationship with other Māori-owned land. This work gives us a view of where we can achieve higher potential for owners, along with potential for collaboration with other land owners and organisations to grow the assets for the benefit of all.

Improving our IT

A renewed information technology platform is essential for us to deliver better services to our clients and to operate more cost-effectively. 2012 saw the start of a \$2,600,000 programme of work, which is being delivered through two major IT projects. These will provide a centralised document management system and an efficient client management and financial system.

The planning and design phases have been completed. We expect our new IT base to be fully operational by December 2012. Work is already under way to transition currently held data, much of it in hard copy, to the new system.

Funding agreement services delivered

During the 2012 financial year, we delivered the services set out in the funding agreement within the appropriation provided by the Crown. (See the Statement of Service Performance on page 12). Expenditure for the year was less than expected owing to the implementation timeframe for IT being extended into the 2013 financial year.

Funds

We know that to achieve our goals we need to deliver strong financial performance for our clients, our own organisation, and excellent value in the services we are funded for.

General Purposes Fund

Gross performance (before tax and fees) for the year on the General Purposes Fund portfolio was 4.2%, a reduction from last year's 6.1%. The reduction in performance was owing to a number of bonds with high coupons maturing during the year.

As part of our strategic planning work, a new direction has been signalled for the General Purposes Fund, moving from 'passive' investment in capital markets and uncoordinated equity investments to a strategic investment approach prioritising investment in industries that directly contribute to the growth of assets that the Māori Trustee administers.

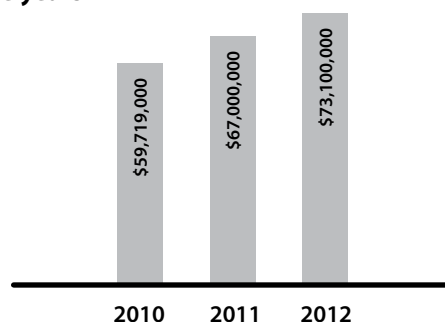
Client funds

Client funds are held in the Common Fund, which returned 5.8% before tax and fees over the year, compared to last year's 7.2%. Again, the reduction in performance was owing to a number of bonds with high coupons maturing during the year.

Distributable income totalling \$3,700,000 was paid during the year, an increase on last year's \$3,400,000. \$6,867,000 was also paid to client accounts following approval from trusts to distribute income earned from properties, up from last year's \$6,716,000. In the 2012 year, \$6,767,000 was paid to clients who had provided contact or payment details, up on last year's \$6,305,000.

The market value of the Common Fund at 31 March 2012 was \$73,100,000 compared to last year's \$67,000,000. Additionally, \$7,850,000 was held in client funds in the Special Investments account. Last year this was \$8,002,000.

Common Fund market value growth over past three years



A significant driver of Common Fund growth is trusts holding funds to use for future investment.

Challenges ahead

Although the Māori Trustee has a 90-year history, the organisation is only at the beginning of this phase of its journey as a sustainable, standalone organisation. We acknowledge that next year, and over the coming years, we expect to face challenges both as an organisation and a sector.

One team

This is a time of rapid change for the Māori Trustee organisation. We are well aware that we will only succeed in achieving our goals if we move together as one team. The senior management team and I are committed to ensuring that Māori Trustee staff are well supported through the change and that we continue to deliver excellence to our clients across our full range of services.

Achieving potential

In taking up the role of Māori Trustee, I brought my personal commitment to raise the aspirations of our people with regard to what they can achieve with their land and assets and to lead an organisation that will find and deliver the solutions that will make those aspirations a reality.

Building on our GIS work, one of our challenges for this coming year is to identify how to achieve higher potential for owners and to engage those owners in discussing options that will deliver higher returns. In many instances, this will involve working closely with other land owners and organisations to establish joint operations for long-term mutual benefit. The Māori Trustee has successfully established this type of operation in the past, for instance, Te Rua o Te Moko. Our challenge now is to identify where greater possibilities can also be successfully brought to many more owners.

Sector challenges

Many of the challenges we face in growing the assets under Māori Trustee administration are common to all Māori land owners – fragmentation of ownership, ensuring the Emissions Trading Scheme does not negatively affect Māori land owners, environmental management issues and the at times restrictive direction of legislation that affects Māori land. As an organisation we have a great willingness to work with others to address these and other issues that affect all Māori landowners. We intend to be a strong contributor to developing and collaborating on innovative and pragmatic solutions to the challenges of growing Māori assets, to benefit not only Māori land owners but the wider Māori and New Zealand economy.



Jamie Tuuta
Māori Trustee

Statement of Responsibility

For the year ended 31 March 2012

In terms of the Crown Entities Act 2004, the Māori Trustee is responsible for the preparation of financial statements, the statement of service performance and for the judgements made in them.

The Māori Trustee is responsible for the establishment and maintenance of a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the Māori Trustee's opinion these financial statements and the statement of service performance for the year ended 31 March 2012, set out on pages 12 to 43, fairly reflect the financial position and operations of the Māori Trustee.



Jamie Tuuta
Māori Trustee

31 July 2012

Independent Auditor's Report

To the readers of
The Māori Trustee and Group's
financial statements, statement of service performance
and statement of trust monies
for the year ended 31 March 2012

The Auditor-General is the auditor of the Māori Trustee (the Trustee) and Group. The Auditor-General has appointed me, Phil Kennerley, using the staff and resources of Audit New Zealand, to carry out an audit of the financial statements, statement of service performance and statement of trust monies of the Trustee and Group on her behalf.

We have audited:

- » the financial statements of the Trustee and Group on pages 17 to 41 that comprise the statement of financial position as at 31 March 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- » the statement of service performance of the Trustee and Group on pages 12 to 16; and
- » the statement of trust monies on pages 42 to 43.

Qualified opinion – The scope of the audit was limited because the financial information of the associate Miraka Limited is not audited

Reason for our qualified opinion

The Group has included in the financial statements unaudited financial figures for the year ended 31 March 2012 relating to its associate, Miraka Limited. This includes the Group's share of Miraka Limited's surplus for the year of \$271,000 (2011: deficit \$39,000) included in share of associates' net deficit/(surplus) of \$2,728,000, other comprehensive income for the year of \$539,000 (2011: \$175,000) included in share of associates' other comprehensive income/(expenditure) of \$172,000, net assets of \$9,378,000 (2011: \$8,568,000) included in investment in associates of \$37,301,000, and the detailed information disclosed in note 9 to the financial statements.

Miraka Limited has a balance date of 31 July and its most recent audited financial statements are for the year ended 31 July 2011. As the equity accounted financial statements for Miraka Limited include unaudited information for the eight month period from 1 August to 31 March 2012, there were no satisfactory audit procedures that we could adopt to obtain sufficient evidence to confirm the financial figures relating to Miraka Limited. Any misstatement of these financial figures would affect the Group's financial position and financial performance for the year ended 31 March 2012. In addition, any misstatement of Miraka Limited's financial information may affect the carrying value of the Trustee's investment in Miraka Limited of \$10,000,000.

Qualified opinion on statement of financial position and the statement of comprehensive income

In our opinion, except for the effects of the matter described in the "Reason for our qualified opinion" paragraph above, the financial statements of the Trustee and Group on pages 17 to 41:

- » comply with generally accepted accounting practice in New Zealand; and
- » fairly reflect the Trustee and Group's:
 - » financial position as at 31 March 2012; and
 - » financial performance for the year ended on that date.

Opinion on the statement of cash flows

In our opinion, the statement of cash flows on page 20 complies with generally accepted accounting practice in New Zealand and fairly reflects the Trustee and group's cash flows for the year ended 31 March 2012.

Opinion on the statement of service performance

In our opinion, the statement of service performance of the Trustee and Group on pages 12 to 16:

- » complies with generally accepted accounting practice in New Zealand; and
- » fairly reflects for each class of output:
 - » its standards of delivery performance achieved as compared with the forecast standards outlined in the funding agreement between the Minister of Māori Affairs and the Trustee (the funding agreement); and
 - » its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the funding agreement.

Opinion on the statement of trust monies

In our opinion, the statement of trust monies on pages 42 to 43 fairly reflects:

- » the account balances held by the Trustee for the Common Fund and Special Investment Accounts as at 31 March 2012; and
- » movements within the Common Fund and Special Investment Accounts for the year ended on that date.

Our audit was completed on 10 August 2012. Our qualified opinion is expressed as at that date.

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

Basis of opinion

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

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements, statement of service performance and statement of trust monies. We are unable to determine whether there are material misstatements in relation to the associate, Miraka Limited, because the scope of our work was limited, as we referred to in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements, statement of service performance and statement of trust monies.

The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, statement of service performance and statement of trust monies, whether due to fraud or error.

In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements, statement of service performance and statement of trust monies that fairly reflect the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also involves evaluating:

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

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

Responsibilities of the Trustee

The Trustee is responsible for preparing the financial statements and the statement of service performance:

- » in accordance with generally accepted accounting practice in New Zealand;
- » that fairly reflect the Trustee and Group's financial position, financial performance and cash flows; and
- » that fairly reflect its service performance that include achievements compared to forecasts.

The Trustee is also responsible for preparing the statement of trust monies that fairly reflects activities within the Common Fund and Special Investment Accounts.

The Trustee's responsibilities arise from the Public Finance Act 1989 and the Māori Trustee Act 1953. Those responsibilities include the design, implementation, and maintenance of internal control relevant to the preparation of the financial statements, statement of service performance and statement of trust monies so that those statements are free from material misstatement, whether due to fraud or error.

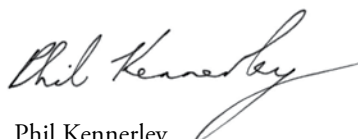
Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements, statement of service performance and statement of trust monies and reporting that opinion to you based on the audit. This responsibility arises from section 15 of the Public Audit Act 2001 and the Māori Trustee Act 1953.

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 Trustee, its subsidiary or its associates.

A handwritten signature in black ink, reading "Phil Kennerley". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Phil Kennerley
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Statement of Service Performance

For the year ended 31 March 2012

The Māori Trustee is listed in Schedule 4 of the Public Finance Act 1989 requiring the preparation of the statement of service performance in compliance with requirements of the Crown Entities Act 2004.

In a letter dated 5 August 2009, the Minister of Finance, as empowered by section 45N(2) of the Crown Entities Act, granted the Māori Trustee the following exemptions from the provisions of the Crown Entities Act:

- » An exemption from providing “an assessment against the intentions, measures and standards set out in a statement of intent prepared at the beginning of the financial year”. This exemption recognises that the Māori Trustee is not required, under Schedule 4 of the Public Finance Act, to prepare a statement of intent. However, the annual report must provide the

information that is necessary to enable an informed assessment to be made of the operations and performance for the financial year.

- » An exemption from preparing a statement of service performance “in respect of any class of outputs that is not funded (in whole or in part) by the Crown”. This exemption addresses outputs not directly funded in whole or part by the Crown.

This statement of service performance reports against the outputs stated in the funding agreement between the Minister of Māori Affairs (on behalf of the Crown) and the Māori Trustee.

The total cost of outputs for the year ended 31 March 2012 is summarised below.

	2012		2011
	Actual	Budget	Actual
	\$000	\$000	\$000
Crown appropriation	10,366	10,366	10,478
Administration of trusts	4,136	4,401	3,976
Share registry	1,323	1,488	1,172
Lease administration	1,794	1,657	1,581
Land and business development	1,632	1,731	1,420
Common Fund management	1,089	1,044	1,003
Distributions to owners	531	569	512
Total output expenditure	10,505	10,890	9,664

Output 1 – Administration of Trusts

Quantity

Performance measures	Actual 2012	Planned 2012	Actual 2011
Entities administered	1,997	1,977	2,023
Owner meetings held	320	328	462
Trustee meetings held	204	98	209
Entities' reports sent to owners	283	316	249

The number of entities administered has reduced from 2011, mainly because 17 entities administered by the

Māori Trustee have been handed back to trustees to manage.

The number of owner and trustee meetings vary annually depending on the requirements of the individual trust orders. The number of trustee meetings held exceeded the planned meetings as the Māori Trustee

received requests by trustees to hold additional meetings and these were accommodated.

Reports are sent to owners to provide an update about the Māori Trustee's administration of their entity.

Quality

Performance measures	Actual 2012	Planned 2012	Actual 2011
Improvements in customer satisfaction levels	65%	>60%	60%

Client satisfaction monitor

Results from the 2011 Client Satisfaction Monitor showed an improvement on the 2010 results across all key measures.

Overall, 65% of clients were very or fairly satisfied with the management of their land and assets (2010 60%).

The key drivers of satisfaction were shown to be:

- » how well the Māori Trustee understands and supports owners' aspirations,
- » the accessibility of payments and information, and
- » how the Māori Trustee works solely for the collective owners.

A significant opportunity exists to increase clients' understanding about the Māori Trustee, with only 30% stating they know a lot or a fair amount (2010 25%). The Māori Trustee is most commonly known for paying income from land to owners, maintaining a register of landowners, acting as a trustee or agent and keeping owners informed about their land.

Meeting of owners survey

Research to monitor feedback from clients attending a meeting of owners was initiated in October 2011. The

first quarter results show this group of clients have a high degree of satisfaction overall, with high scores received across all areas measured:

- » 84% were very or fairly satisfied with the management of their land and assets,
- » 97% were very or fairly satisfied with the amount of information they were provided.

Therefore, encouraging attendance at a meeting of owners, or reaching owners unable to attend the meeting with the same information, will drive improved client satisfaction. The survey will also accumulate suggestions for ways to improve meetings and increase attendance.

Owner's secure site

During the June quarter, the Māori Trustee launched a pilot owners' secure site as a means to enhance engagement with owners and improve the capability to report to owners about the performance of their land. The secure website was established specifically for one trust. Nearly 100 owners from the trust registered on the secure website as part of the pilot and feedback was very positive. The pilot has been evaluated with a view to rolling the initiative out to other trusts.

Output 2 – Share Registry

Quantity

Performance measures	Actual 2012	Planned 2012	Actual 2011
Owner accounts	96,700	95,900	95,300
Ownership interests	199,000	198,000	198,200
New interests added	3,945	4,000	3,200

Quality

Performance measures	Actual 2012	Planned 2012	Actual 2011
Contact details held for live owners (%)	65.4%	64.0%	62.2%

The following activities have been undertaken to increase contact details held:

The first on-line newsletter was sent to clients in November 2011. The newsletter was popular and generated contact detail updates from clients.

On-line advertising to attract clients to the Māori Trustee website was undertaken in April 2011. Website visitors have increased to between 6,000-7,000 per month (from 3,000 per month at the beginning of the year) and there is a steady conversion of these visits to updates to owner contact details.

The website refresh was completed and launched on 11 October 2011. This enhances the ability of

owners to identify any land interests administered by the Māori Trustee.

The Māori Affairs Select Committee recommended the Māori Trustee investigate sourcing data from the Electoral Roll and Inland Revenue Department (IRD) to further enhance the client database.

- » IRD has advised that the Tax Administration Act 1994 does not have a specific provision to allow this information to be given to the Māori Trustee and the Māori Trustee does not meet requirements under a general exception within the Tax Administration Act.
- » Te Puni Kōkiri is progressing changes to the regulations, which will enable the Māori Trustee to access Electoral Roll information.

Output 3 – Lease Administration

Quantity

Performance measures	Actual 2012	Planned 2012	Actual 2011
Total leases administered	2,189	2,150	2,198
New leases	233	225	252
Lease renewals	75	107	80

Lease administration work was generally completed as scheduled.

A process was developed to advertise vacant tenancies on the Māori Trustee website for wider promotion of leases to potential lessees.

Quality

Performance measures	Actual 2012	Planned 2012	Actual 2011
Lease inspections	605	623	683
Total debtor arrears	\$1,067,000	<\$1,470,000	\$1,470,000
Debtor arrears > 90 days	\$697,000	<\$1,002,000	\$1,002,000

For the year ended 31 March 2012, total arrears have reduced by \$400,000. This was owing to the settlement of some rental disputes. Legal action before the High Court terminated two perpetual Māori Reserved Land leases and further action is under way to recover arrears of \$187,000.

As part of the risk management programme, a review was completed on leasing practices. The report highlighted a number of areas where improvements can be made.

A further review was completed on how the leasing work could be resourced and managed. The conclusions from these reviews have resulted in a decision to separate the property management functions from the trust management area of the business. An experienced property manager was appointed in March to oversee the creation of the new structure, resources and processes for this area of the business.

Quantity

Performance measures	Actual 2012	Planned 2012	Actual 2011
Ventures administered	19	17	16

Potential Ventures

Ventures are where trusts have moved from passive leasing of the land to having more active agri-business ventures on the land. Current ventures include dairy, sheep and cattle, kiwifruit and forestry.

There were 12 potential projects identified in the business planning process. A robust project management methodology was developed early in the year and applied to these projects. Following this, feasibility studies were commissioned for two potential dairy ventures.

A GIS tool was implemented during the year. It provides an accurate evaluation of the property portfolio and enables the identification and assessment of land use options. The analysis showed that the Māori Trustee portfolio has a significant level of high quality land. The future potential of the land will be factored into the individual block plans that are being developed.

The GIS tool also enabled the identification of blocks with forestry interests, as part of the preparation for carbon credit applications.

Horticulture

A preliminary study of the value chain in the horticultural sector was completed to provide information to land owners to assist with considering future potential options.

Forestry and Emissions Trading Scheme (ETS)

Various forestry blocks managed by the Māori Trustee have commenced harvesting and a joint venture with Auckland Council was commenced at the end of the financial year. The Māori Trustee is working with the

various parties to ensure the ETS obligations (where applicable) are met.

The Māori Trustee engaged with the Ministry of Agriculture and Forestry (MAF) and provided submissions to the 2011 independent Review Panel of the NZ Emissions Trading Scheme. The submission highlighted key issues and impacts on Māori land owners from the current legislative framework because the Māori Trustee is not able to apply for the less than 50 hectare exemption from deforestation obligations for the individual land blocks. One of the Review Panel recommendations addresses this issue.

Following the recommendations made by the ETS Review Panel, the Māori Trustee has not made applications for less than 50 hectare allocations, should the option for the exemption be available in the future. Ministry of Agriculture and Fisheries (MAF) can accept late applications for pre-1990 forest land allocations and less than 50 hectare exemptions. The Māori Trustee team is continuing to work closely with MAF on the allocation and exemption issues.

Applications on behalf of owners have been made for the allocation of NZ Carbon Units (NZUs) for 24 blocks (greater than 50 hectares) totalling 4,400 hectares of pre-1990 forest land.

Kiwifruit

The spread of the PSA virus is of concern and best practice measures have been put in place to prevent contamination entering the orchards. Contingency plans have also been established in the event that one of the orchards is affected.

Quality

A review was completed of the performance of the ventures. The review identified that a number of the ventures are performing at or above industry benchmarks, but there are also some where there are

opportunities to help the owners lift the performance of their businesses. The Māori Trustee has been establishing resources and processes to provide more pro-active ongoing support to these entities in the future.

Output 5 – Common Fund Management

The Common Fund represents monies received by the Māori Trustee under sections 23 and 25 of the Māori

Trustee Act 1953 and held in trust for the persons entitled to receive the monies.

Quantity

Performance measures	Actual 2012	Planned 2012	Actual 2011
Investments managed (market value)	\$73,100,000	\$67,000,000	\$67,000,000

Quality

Performance measures	Actual 2012	Benchmark	Actual 2011
Gross Performance – Money Market Returns (Benchmark NZX 90 Day Bill Index)	4.11%	2.76%	4.40%
Gross Performance – Fixed Interest Instruments (Benchmark NZX Composite A Grade Index)	6.25%	9.35%	8.30%
Gross Performance – Overall	5.83%	9.35%	7.24%

The Māori Trustee's investment committee meets monthly and the funds management performance is reviewed at least quarterly.

The Common Fund performed above the benchmark for the money market returns but below the benchmark for the fixed interest bonds.

The gross performance for fixed interest instruments is less than in 2011 because a number of bonds with high interest rates matured during the year.

Output 6 – Distributions to Owners

Quantity

Performance measures	Actual 2012	Actual 2011
Number of payments to owners	28,636	26,194
Value of payments to owners	\$6,767,000	\$6,305,000
Percentage of payments effected	79%	73%

The target was to effect payments to at least 75% of eligible owners. The value of payments to owners reported above and the value reported as client payments

under the statement of trust monies differs mainly owing to reversal of stale cheques and direct credits of \$199,000 (2011 \$157,000).

Quality

Distributable income is calculated and paid in accordance with section 26 of the Māori Trustee Act 1953. See note (ii) under statement of trust monies.

The Māori Trustee continues to meet all reporting requirements to owners in respect of the Common Fund and distributable income, in accordance with regulation 10 of the Māori Trustee Regulations 2009.

Statement of Comprehensive Income

For the year ended 31 March 2012

		Group			Parent	
	Notes	2012 Actual \$000	2012 Budget \$000	2011 Actual \$000	2012 Actual \$000	2011 Actual \$000
Revenue						
Fees and commission		3,539	3,248	3,037	3,557	3,055
Revenue from Crown	1	10,666	10,666	11,434	10,666	11,434
Investment income	2	4,540	4,364	4,801	4,539	4,798
Revenue from operations		18,745	18,278	19,272	18,762	19,287
Expenditure						
Employee benefits	3	6,366	5,986	5,664	6,366	5,664
Depreciation	10	294	302	210	294	210
Amortisation	11	43	306	56	43	56
Other expenditure	4	3,981	4,136	3,721	2,406	6,565
Total operating expenditure		10,684	10,730	9,651	9,109	12,495
Net surplus from operations		8,061	7,548	9,621	9,653	6,792
Other income						
Other income		142	60	29	142	29
Impairment of investments in associates	9	-	-	(1,568)	-	(669)
Share of associates' net deficit/(surplus)	9	2,728	-	(5,089)	-	-
Total other income		2,870	60	(6,628)	142	(640)
Net surplus		10,931	7,608	2,993	9,795	6,152
Other comprehensive income						
Share of associates' other comprehensive income/(expenditure)	9	172	-	1,454	-	-
Total comprehensive income		11,103	7,608	4,447	9,795	6,152

The above financial statements should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 31 March 2012

	Group			Parent	
	2012	2012	2011	2012	2011
	Actual	Budget	Actual	Actual	Actual
	\$000	\$000	\$000	\$000	\$000
Equity at beginning of year					
General Purposes Fund	101,459	81,810	99,176	102,845	98,857
Appropriation Account	6,600	6,911	4,436	6,600	4,436
Total equity at beginning of year	108,059	88,721	103,612	109,445	103,293
Transfers from statement of comprehensive income					
General Purposes Fund	10,522	7,554	2,283	9,214	3,988
Appropriation Account	581	54	2,164	581	2,164
Total comprehensive income	11,103	7,608	4,447	9,795	6,152
Equity at end of year					
General Purposes Fund	111,981	89,364	101,459	112,059	102,845
Appropriation Account	7,181	6,965	6,600	7,181	6,600
Total equity at end of year	119,162	96,329	108,059	119,240	109,445

The above financial statements should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 31 March 2012

		Group			Parent	
	Notes	2012 Actual \$000	2012 Budget \$000	2011 Actual \$000	2012 Actual \$000	2011 Actual \$000
Assets						
Current assets						
Cash and cash equivalents	5	8,209	11,013	10,485	8,186	10,427
Debtors and other receivables	6	818	1,112	630	818	630
Term deposits		12,200	6,500	6,956	12,200	6,956
Held-to-maturity investments	7	11,419	10,000	10,470	11,419	10,470
Total current assets		32,646	28,625	28,541	32,623	28,483
Non-current assets						
Held-to-maturity investments	7	44,505	43,943	39,671	44,505	39,671
Loans and receivables	8	4,430	4,782	4,940	27,487	26,442
Investments in subsidiary		-	-	-	-	-
Investments in associates	9	37,301	15,337	34,401	14,331	14,331
Property, plant and equipment	10	4,891	4,525	5,110	4,891	5,110
Intangible assets	11	804	1,322	27	804	27
Total non-current assets		91,931	69,909	84,149	92,018	85,581
Total assets		124,577	98,534	112,690	124,641	114,064
Liabilities and equity						
Current liabilities						
Creditors and other payables	12	1,867	1,845	1,590	1,853	1,578
Crown revenue in advance	19	2,587	-	2,605	2,587	2,605
Employee benefits	13	841	320	393	841	393
Total current liabilities		5,295	2,165	4,588	5,281	4,576
Non-current liabilities						
Employee benefits	13	120	40	43	120	43
Total non-current liabilities		120	40	43	120	43
Total liabilities		5,415	2,205	4,631	5,401	4,619
Equity		119,162	96,329	108,059	119,240	109,445
Total liabilities and equity		124,577	98,534	112,690	124,641	114,064

The above financial statements should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 31 March 2012

	Notes	2012 Actual \$000	Group 2012 Budget \$000	2011 Actual \$000	Parent 2012 Actual \$000	2011 Actual \$000
Cash flows from operating activities						
Fees and commissions		3,430	2,763	3,165	3,448	3,183
Revenue from Crown		10,648	10,666	11,377	10,648	11,377
Investment income		4,511	4,364	4,740	4,510	4,736
Other income		142	583	29	142	29
Employee benefits		(5,841)	(5,743)	(5,715)	(5,841)	(5,715)
Suppliers		(3,900)	(4,391)	(3,678)	(3,881)	(3,655)
Goods and services tax (GST) (net)		(2)	107	358	(2)	358
Net receipts from Ahuwhenua and Agribusiness		(99)	-	(442)	(99)	(442)
Net cash flows from operating activities	14	8,889	8,349	9,834	8,925	9,871
Cash flows from investing activities						
Loans and receivables repaid		862	500	536	862	536
Held-to-maturity investments matured or sold		11,317	10,000	5,047	11,317	5,047
Term deposits matured/(invested)		(5,244)	-	3,132	(5,244)	3,132
Property, plant and equipment purchased		(75)	(120)	(4,932)	(75)	(4,932)
Intangible assets purchased		(566)	(1,322)	(4)	(567)	(4)
Loans and receivables advanced		(334)	(500)	(304)	(334)	(304)
Investments in associates		-	-	(10,000)	-	(10,000)
Held-to-maturity investments purchased		(17,125)	(16,907)	(3,000)	(17,125)	(3,000)
Net cash flows from investing activities		(11,165)	(8,349)	(9,525)	(11,166)	(9,525)
Net increase/(decrease) in cash		(2,276)	-	309	(2,241)	346
Cash at beginning of year		10,485	11,013	10,176	10,427	10,081
Cash at end of year	5	8,209	11,013	10,485	8,186	10,427

The GST (net) component of cash flows from operating activities reflects the net GST paid to and received from the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the

gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis for the other primary financial statements.

The above financial statements should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the year ended 31 March 2012

E.37

Statement of accounting policies

Reporting entity

The Māori Trustee is a corporation solely defined under the Māori Trustee Act 1953 (the Act) and is domiciled in New Zealand. The fundamental role of the Māori Trustee is to work with owners to protect and build their land and other assets.

These financial statements have been prepared in terms of section 23 of the Act for the General Purposes Fund and the Appropriation Account. The Māori Trustee operates and manages trust accounts on behalf of their clients under section 23 of the Act. The transactions and balances are not included in the Māori Trustee's financial statements.

The General Purposes Fund represents funds held by the Māori Trustee in its own right.

The Appropriation Account was established on 1 July 2009 under the Māori Trustee Amendment Act 2009 to account for revenue received from the Crown.

Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

Budget figures

The budget figures were approved by the Māori Trustee. The budget figures were prepared in accordance with NZ IFRS and are consistent with the accounting policies adopted by the Māori Trustee for the preparation of the financial statements.

Measurement base

The financial statements have been prepared on a historical cost basis modified by the revaluation of held-to-maturity investments. The methods used to measure fair value are detailed in the specific accounting policies.

Functional and presentation currency

The financial statements and notes are presented in New Zealand dollars, which is the Māori Trustee's functional currency.

Standards, amendments and interpretations

Standards, amendments and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the Māori Trustee, are:

- » *NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments:*

Recognition and Measurement in its entirety.

In order to allow for the International Accounting Standards Board's (IASB's) phased approach to the completion of the overall project, NZ IFRS 9 is structured in terms of chapters.

When first published in November 2009, NZ IFRS 9 addressed only the classification and measurement of financial assets. It has, however, subsequently changed in October 2010, to add requirements for classifying and measuring financial liabilities and derecognising financial assets and financial liabilities. New chapters will be added on impairment methodology and hedge accounting before the standard comes into mandatory effect on 1 January 2015.

The new standard is required to be adopted for the year ended 31 March 2016. The Māori Trustee has not yet assessed the effect of the new standard and expects it will not be adopted early.

- » *NZ IAS 24 Related Party Disclosures* (effective for accounting periods beginning 1 January 2011) – Under the revised version of NZ IAS 24, a reporting entity is exempt from providing IAS 24's normal disclosures for transactions with: a) government that has control, joint control or significant influence over the entity – b) other entities controlled, jointly controlled or significantly influenced by the same government.

If a reporting entity applies this exemption, it is required to disclose the name of the government in concern and the nature of its relationship with the reporting entity. It is also required to disclose information on the nature and amount of each individually significant transaction with the government or government-related entity.

The Māori Trustee is a stand-alone organisation and acts independently, free from any direction or instruction from the Crown under the Māori Trustee Amendment Act 2009; hence it is not required

to comply with the disclosure requirements and exemptions as specified in part NZ 25.1 of *NZ IAS 24 Related Party Disclosures*.

Basis of consolidation

Investments in subsidiaries

The consolidated financial statements comprise the financial statements of the Māori Trustee and its wholly owned subsidiary, Te Māori Lodges Limited (TML). Subsidiaries are those entities over which the Māori Trustee has the power to govern the financial and operating policies as to obtain benefits from their activities.

The principal activity of TML is that of a holding company that holds shares in Quantum Limited.

The financial statements of the subsidiary are prepared for the same reporting period and using consistent accounting policies as the Māori Trustee.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of the acquisition.

If the cost of acquisition is less than the Group's share of fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss component of the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between subsidiary company and group are eliminated. Investments in subsidiaries are subject to annual review for impairment.

Investments in associates

Associates are entities over which the Māori Trustee has significant influence that are neither subsidiaries nor joint ventures. Significant influence is where the Māori Trustee has over 20% of the voting rights. The Māori Trustee investments in associates include Putake Limited, Putake Investments Limited Partnership and Miraka Limited. Quantum Limited is an investment in associates in the group financial statements.

Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements. Under the equity method, investments in associates are carried at cost plus post-acquisition changes in the Māori Trustee's share of the net assets in the associate, less provision for impairment.

The financial statements of associates are prepared for the same reporting period as the Māori Trustee, with the exception of Miraka Limited, which has a 31 July balance date and Quantum Limited, which has a 31 December balance date. The financial statements of associates are prepared using consistent accounting policies.

The Māori Trustee is required, as an entity listed in Schedule 4 of the Public Finance Act 1989, to have audited financial statements available within four months of the 31 March 2012 balance date in terms of the Crown Entities Act 2004, section 156(2). The audit opinion was delayed due to the late confirmation of material balances for an associate company.

Significant accounting policies

Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that economic benefits will flow to the Māori Trustee and that the revenue can be reliably measured.

Fees and commissions

The Māori Trustee can only deduct fees and/or commissions upon actual receipt of trust monies. Therefore, fees and commissions are recognised on a cash basis.

Interest

Interest revenue is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated cash flows associated with the financial instrument over the expected life of the instrument.

Revenue from the Crown

The Māori Trustee receives revenue from the Crown pursuant to the funding agreement.

Revenue from the Crown is recognised as revenue when earned and is reported in the financial period to which it relates.

Leases

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to the Māori Trustee are classified as operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the term of the lease in the statement of comprehensive income.

Financial instruments

The Māori Trustee is party to financial instruments as part of its normal operations. Financial instruments include:

- » financial assets – cash and cash equivalents, debtors and other receivables, term deposits, held-to-maturity investments and loans and receivables
- » financial liabilities – creditors and other payables and employee benefits.

Purchases and sales of financial assets are recognised on the date when the Māori Trustee becomes party to a financial contract. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

Financial instruments are initially recognised at fair value plus transaction costs. Subsequent measurement of financial instruments depends on the classification of the financial instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Debtors and other receivables

Debtors and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

A provision for impairment of debtors is established when there is objective evidence that the Māori Trustee will not be able to collect all amounts due according to the original terms of the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment.

The amount of the provision for impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognised in the statement of comprehensive income. When the debtor is uncollectible, it is written off against the provision account.

Term deposits

Investments in term deposits are initially measured at fair value plus transaction costs. For term deposits, impairment is established when there is objective evidence that the Māori Trustee will not be able to collect amounts due according to the original terms of the deposit.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments are classified as held-to-maturity investments when the Māori Trustee has the positive intention and ability to hold these investments to maturity. Held-to-maturity investments include government stock, bank bonds and corporate bonds. Investments intended to be held for an undefined period are not included in this classification.

Held-to-maturity investments are initially recorded at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest method less any impairment losses. The amortisation is recorded in the statement of comprehensive income as interest income. Gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Loans and receivables include loans and mortgages, advances to Te Māori Lodges Limited, Conversion Fund loans and other advances.

These assets are initially recorded at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest method less provision for impairment.

A provision for impairment of loans and receivables is established when there is objective evidence that the Māori Trustee will not be able to collect all amounts due according to the original terms of the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment.

The amount of the provision for impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognised in the statement of comprehensive income.

When the asset is uncollectible, it is written off against the provision account.

Investments in associates

The Māori Trustee's share of post-acquisition surplus/(deficits) and other comprehensive income/(expenditure) are recognised in the statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Property, plant and equipment

Property, plant and equipment consists of IT equipment, office equipment, furniture and fittings, motor vehicles, land and building.

Property, plant and equipment are measured at historical cost, less accumulated depreciation and impairments.

Depreciation is charged to the statement of comprehensive income on all property, plant and equipment, other than work in progress and land. Depreciation is calculated on a straight-line basis at rates estimated to allocate the cost of an asset over the estimated useful life. The estimated useful lives and associated depreciation rates of the asset classes are as follows:

IT equipment	3 years	33%
Office equipment	5 years	20%
Furniture and fittings	5 years	20%
Motor vehicles	5 years	20%
Building	50 years	2%

Property, plant and equipment assets are derecognised when disposed or when no further future economic benefits are expected from use of the assets. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposal are included in the statement of comprehensive income.

Intangible assets

Intangible assets consist of acquired software and software modified for use by the Māori Trustee.

Intangible assets are measured at historical cost less accumulated amortisation and impairments. Costs that are directly associated with the development of software for internal use are included in intangible assets. Direct costs include software development and employee costs.

Amortisation is charged to the statement of comprehensive income on all intangible assets, other than work in progress. Amortisation is calculated on a straight-line basis at rates estimated to allocate the cost of an asset over the estimated useful life. The useful lives of the intangible assets have been assessed to be finite.

The estimated useful lives and associated amortisation rates of the asset classes are as follows:

Acquired software	3 years	33%
Developed software	3 years	33%

Impairment of non-financial assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognised in the statement of comprehensive income for the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Creditors and other payables

Creditors and other payables represent liabilities for goods and services provided to the Māori Trustee prior to the end of the financial year.

Creditors and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Employee benefits

Employee benefits include accrued salaries and wages, annual leave earned and retiring and long service leave entitlements.

Employee benefits expected to be settled within 12 months of balance date are measured at the undiscounted current rates of pay and the accrued entitlements.

Employee benefits that are payable beyond 12 months of balance date, such as long service leave, are calculated on an actuarial basis, which takes into account years of service, years until entitlement, the likelihood that staff will reach the point of entitlement and the net present value of the estimated cash flows.

Superannuation schemes

Obligations for contributions to Kiwisaver and the State Sector Retirement Savings Scheme are accounted for as defined contribution superannuation schemes and are expensed in the statement of comprehensive income as incurred.

Provisions

The Māori Trustee recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation as a result of a past event, it is probable the expenditure will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Restructuring

The Māori Trustee recognises a provision for restructuring when an approved detailed formal plan for the restructure has either been announced publicly to those affected or implementation of the restructure has already commenced.

Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, except for receivables and payables, which are presented on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST receivable or payable to the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Income taxation

The Māori Trustee is defined as a public authority under the Income Tax Act 2007 and therefore is exempt from income taxation. Accordingly, no provision has been made for income tax.

Statement of cash flows

The makeup of cash and cash equivalents in the statement of cash flows is the same as cash and cash equivalents in the statement of financial position.

Operating activities include cash received from all income sources and cash payments made for the supply of goods and services.

Investing activities include the acquisition and disposal of non-current assets and other investments not included in cash equivalents.

Financing activities include activities that result in changes to the size and composition of equity.

Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are disclosed in the notes to the financial statements at the point at which the contingency is evident. Contingent assets are disclosed if it is probable that the benefits will be realised. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote.

Commitments

Commitments are future expenses and liabilities to be incurred on contracts that had been entered into before balance date.

Cancellable commitments that have penalty or exit costs explicit in the agreement are reported at the minimum future payments, including the value of the penalty or exit cost.

Commitments include:

- » non-cancellable operating leases for property, which are measured as the future payments due under the lease contract, and
- » other non-cancellable commitments for consulting contracts, which are measured as the future payments due under the contract.

Significant judgements, accounting estimates and assumptions

The preparation of financial statements in conformity with NZ IFRS requires the Māori Trustee to make judgements, estimates and assumptions concerning the future. The estimates and associated assumptions are continually reviewed and are based on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimation of asset useful lives

The useful lives of assets have been based on historical experience. In addition, the condition of the assets are assessed annually and considered against the remaining useful lives. Adjustments to useful lives are made when considered necessary.

Significant judgements

The Māori Trustee has exercised the following critical judgements in applying the accounting policies.

Impairment of financial and non-financial assets

The Māori Trustee assesses the impairment of assets at each reporting date by evaluating conditions specific to the Māori Trustee and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined.

Changes in accounting policies

There have been no changes in accounting policies. All policies have been applied on a basis consistent with previous years.

1. Revenue from Crown

The Māori Trustee received revenue from the Crown in accordance with the funding agreement between the Minister of Māori Affairs and the Māori Trustee. The revenue in the current financial year (\$10,666,000) was less than the 2011 financial year (\$11,434,000) as 2011 included funding for transitional capital expenditure.

2. Investment income

	Group		Parent	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Interest income from investments	4,225	4,437	4,224	4,434
Interest income from lending	315	364	315	364
Total investment income	4,540	4,801	4,539	4,798

3. Employee benefits

	Group		Parent	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Salaries and wages	5,580	5,457	5,580	5,457
Voluntary severance	494	-	494	-
Defined contribution plan employer contributions	127	125	127	125
Increase/(decrease) in employee entitlements	31	56	31	56
Training and recruitment	134	26	134	26
Total employee benefits	6,366	5,664	6,366	5,664

The severance expenditure relates to voluntary severance approved by the Māori Trustee and notified to those affected before 31 March 2012.

4. Other expenditure

	Group		Parent	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Fees paid to auditors				
Audit fees for parent	133	132	133	132
Audit fees for subsidiary	10	8	-	-
Impairment of loans and receivables	(18)	(27)	(1,573)	2,838
Occupancy	425	511	425	511
Consultants' fees	1,594	1,494	1,585	1,480
Legal fees	25	168	25	168
TPK support costs	235	348	235	348
Travel	187	218	187	217
Telecommunications	172	126	172	126
Printing and stationery	135	94	135	94
Insurance	115	64	115	64
Other operating costs	968	585	967	587
Total other expenditure	3,981	3,721	2,406	6,565

5. Cash and cash equivalents

	Group		Parent	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Cash at bank and on hand	3,116	3,115	3,116	3,115
Deposits at call	5,093	5,370	5,070	5,312
Short-term deposits	-	2,000	-	2,000
Total cash and cash equivalents	8,209	10,485	8,186	10,427

The carrying value of cash at bank, deposits at call and short-term deposits with maturities less than three months approximates their fair value.

6. Debtors and other receivables

	Group		Parent	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Trade debtors	515	417	515	417
Interest receivable	145	91	145	91
Sundry receivables	158	122	158	122
Total debtors and other receivables	818	630	818	630

The carrying value of debtors and other receivables approximates their fair value.

Trade debtors are non-interest bearing and are generally on 30 day terms. All trade debtors are current.

An impairment loss is recognised when there is objective evidence that an individual trade debtor is impaired.

All overdue debtors have been assessed for impairment and no provision has been deemed necessary.

7. Held-to-maturity investments

	Group		Parent	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Current portion				
Government stock	45	1,017	45	1,017
Bank bonds	3,857	502	3,857	502
Corporate bonds	7,517	8,951	7,517	8,951
Total current portion	11,419	10,470	11,419	10,470
Non-current portion				
Government stock	1,503	1,551	1,503	1,551
Bank bonds	15,632	14,302	15,632	14,302
Corporate bonds	27,370	23,818	27,370	23,818
Total non-current portion	44,505	39,671	44,505	39,671
Total held to maturity investments	55,924	50,141	55,924	50,141

The above amounts include a subordinated bond of \$1,000,000 at a coupon rate of 8.23% due to mature in July 2012 (2011 \$1,000,000 at a coupon rate of 8.23%).

8. Loans and receivables

	Group					
	2012			2011		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Loans and mortgages	4,843	(496)	4,347	5,346	(464)	4,882
Conversion Fund loans	3,267	(3,223)	44	3,300	(3,275)	25
Other advances	41	(2)	39	33	-	33
Total loans and receivables	8,151	(3,721)	4,430	8,679	(3,739)	4,940

	Parent					
	2012			2011		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Loans and mortgages	4,843	(496)	4,347	5,346	(464)	4,882
Conversion Fund loans	3,267	(3,223)	44	3,300	(3,275)	25
Advances to Te Māori Lodges Limited	61,227	(38,170)	23,057	59,571	(38,069)	21,502
Other advances	41	(2)	39	33	-	33
Total loans and receivables	69,378	(41,891)	27,487	68,250	(41,808)	26,442

The carrying value of loans and receivables approximates their fair value.

Movements in the provision for impairment of loans and receivables are as follows:

	Group		Parent	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Provision for impairment at beginning of year	3,739	3,766	41,808	36,939
Increase/(decrease) in provision for impairment	(18)	(27)	83	4,869
Provision for impairment at end of year	3,721	3,739	41,891	41,808

All loans and receivables have been reviewed at balance date and impaired where necessary to approximate their fair value.

Conversion Fund loans were established under the Māori Affairs Act 1953. The Māori Trustee is either receiving funds from distributions or converting the Conversion Fund loan to an interest-free loan with repayment terms.

In 1991, the Māori Trustee gave certain guarantees in favour of National Bank of New Zealand in relation to certain borrowings by TML to purchase an interest in the Quality Inns New Zealand Limited (QINZ) hotel chain. Subsequently, the Māori Trustee bought the loan off National Bank and took over TML. TML borrowed \$12,680,000 from the Māori Trustee to buy shares in QINZ costing \$12,680,000. QINZ subsequently became Quantum Limited.

The loan value to TML increases annually by the capitalisation of interest \$1,656,000 (2011 \$2,031,000).

The loan is accessed for impairment annually.

The ageing profile of loans and receivables at year end is detailed below:

E.37

	Group					
	2012			2011		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due	4,240	(124)	4,116	4,978	(215)	4,763
Past due 1 – 30 days	30	-	30	6	-	6
Past due 31 – 60 days	6	-	6	6	-	6
Past due 61 – 90 days	25	-	25	6	-	6
Past due over 90 days	3,850	(3,597)	253	3,683	(3,524)	159
Total loans and receivables	8,151	(3,721)	4,430	8,679	(3,739)	4,940

	Parent					
	2012			2011		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due	4,240	(124)	4,116	4,978	(215)	4,763
Past due 1 – 30 days	30	-	30	6	-	6
Past due 31 – 60 days	6	-	6	6	-	6
Past due 61 – 90 days	25	-	25	6	-	6
Past due over 90 days	65,077	(41,767)	23,310	63,254	(41,593)	21,661
Total loans and receivables	69,378	(41,891)	27,487	68,250	(41,808)	26,442

Impairment on 'Not past due' category relates to fair value impairment on loans that have an interest rate of 0%.

9. Investments in associates

Associate	Equity Holding	Group		Parent	
		2012	2011	2012	2011
		\$000	\$000	\$000	\$000
Putake Limited	50% (2011 50%)	1,185	1,248	1,248	1,248
Putake Investments Limited Partnership	50% (2011 50%)	3,681	3,083	3,083	3,083
Miraka Limited	15.43% (2011 15.43%)	9,378	8,568	10,000	10,000
Quantum Limited	30% (2011 30%)	23,057	21,502	-	-
Total investments in associates		37,301	34,401	14,331	14,331

Movements in the carrying amount of the investments in associates are as follows:

	Group		Parent	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Investments in associates at beginning of year	34,401	29,604	14,331	5,000
Share of associates' net surplus/(deficit)	2,728	(5,089)	-	-
Share of associates' other comprehensive income/(expenditure)	172	1,454	-	-
Investments purchased	-	10,000	-	10,000
Impairment of investments in associates	-	(1,568)	-	(669)
Investments in associates at end of year	37,301	34,401	14,331	14,331

Summarised financial information of associates are as follows:

	Group	
	2012 \$000	2011 \$000
Assets	274,266	224,429
Liabilities	126,902	88,571
Net assets	147,364	135,858
Revenues	59,667	49,556
Net surplus/(deficit) after tax	9,230	(15,638)
Other comprehensive income	-	-
Total comprehensive income	68,897	33,918
Share of Associates' total comprehensive income		
Net surplus/(deficit) after tax	2,728	(5,089)
Increase/(decrease) in property revaluation reserve	-	-
Other comprehensive income/(expenditure)	172	1,454
Total share of associates' comprehensive income	2,900	(3,635)

Putake Limited and Putake Investments Limited Partnership

Putake Limited is an investment vehicle for investment in Māori business. On 10 December 2010, the shareholders of Putake Limited established a limited liability partnership, Putake Investments Limited Partnership, and then investments were sold to the partnership. The shareholders of Putake Limited are the limited partners with a 50% ownership each and Putake Limited is the general partner. Putake Limited repurchased and cancelled shares totalling \$7,307,000 and the shareholders used the cash proceeds as the cash contribution to the partnership.

Miraka Limited

Miraka Limited is a whole milk powder production company. The investment is an associate because the Māori Trustee has one of the five seats on the Board and is therefore deemed to have significant influence. The equity accounted results for Miraka Limited for the eight months to 31 March 2012 are unaudited.

In the Group financial statements, the carrying value of Miraka Limited has been adjusted to reflect the share of associates' net assets in compliance with NZ IAS 28 Investments in Associates. In the Parent financial statements Māori Trustee has not impaired the carrying value of the investment because Miraka Limited only commenced production in August 2011 and it was considered that there was no impairment.

Quantum Limited

The Māori Trustee's subsidiary Te Māori Lodges Limited holds shares in the associate Quantum Limited, which manages and operates hotels.

10. Property, plant and equipment

E.37

Group and Parent 2012							
	IT equipment \$000	Office equipment \$000	Furniture and fittings \$000	Motor vehicles \$000	Building \$000	Land \$000	Total \$000
Cost at beginning of year	343	172	673	275	2,375	1,925	5,763
Additions	2	6	78	-	-	-	86
Disposals	-	(54)	(13)	(30)	-	-	(97)
Cost at end of year	345	124	738	245	2,375	1,925	5,752
Accumulated depreciation at beginning of year	231	109	165	124	24	-	653
Depreciation	43	19	122	63	47	-	294
Depreciation on disposals	-	(54)	(12)	(20)	-	-	(86)
Accumulated depreciation at end of year	274	74	275	167	71	-	861
Net carrying value at end of year	71	50	463	78	2,304	1,925	4,891

Group and Parent 2011							
	IT equipment \$000	Office equipment \$000	Furniture and fittings \$000	Motor vehicles \$000	Building \$000	Land \$000	Total \$000
Cost at beginning of year	283	169	184	275	-	-	911
Additions	93	39	525	-	2,375	1,925	4,957
Disposals	(33)	(36)	(36)	-	-	-	(105)
Cost at end of year	343	172	673	275	2,375	1,925	5,763
Accumulated depreciation at beginning of year	230	129	109	53	-	-	521
Depreciation	32	16	67	71	24	-	210
Depreciation on disposals	(31)	(36)	(11)	-	-	-	(78)
Accumulated depreciation at end of year	231	109	165	124	24	-	653
Net carrying value at end of year	112	63	508	151	2,351	1,925	5,110

There are no restrictions over the title of Māori Trustee's items of property, plant and equipment, nor are any property, plant and equipment assets pledged as security for liabilities.

Valuation

The most recent valuation of land and buildings was performed by a registered independent valuer, Colliers International, and the valuation is effective as at 31 May 2010. The total fair value of land and buildings valued by Colliers International amounted to \$4.6 million.

There has been no impairment to the value of land and buildings in the current year. The Māori Trustee will contract an external valuer to undertake an independent valuation of land and buildings every three years.

11. Intangible assets

	Group and Parent	
	2012 \$000	2011 \$000
Cost at beginning of year	1,378	1,374
Additions	27	4
Work in progress	793	-
Cost at end of year	2,198	1,378
Accumulated amortisation at beginning of year	1,351	1,295
Amortisation	43	56
Accumulated amortisation at end of year	1,394	1,351
Net carrying value at end of year	804	27

There are no restrictions over the title of the Māori Trustee's intangible assets nor are any intangible assets pledged as security for liabilities.

12. Creditors and other payables

	Group		Parent	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Creditors and accruals	1,273	994	1,259	982
GST payable	594	596	594	596
Total creditors and other payables	1,867	1,590	1,853	1,578

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value approximates the fair value.

13. Employee Benefits

	Group		Parent	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Current portion				
Accrued salaries and wages	48	22	48	22
Voluntary severance	494	-	494	-
Annual leave	274	344	274	344
ACC liabilities	25	27	25	27
Total current portion	841	393	841	393
Non-current portion				
Retirement and long service leave	120	43	120	43
Total non-current portion	120	43	120	43
Total employee benefits	961	436	961	436

The voluntary severance relates to voluntary severance approved by the Māori Trustee and notified to those affected before 31 March 2012.

The present value of retirement and long service leave obligations depend on a number of factors that are determined on an actuarial basis. These factors include: discount rate, salary inflation, years of service, years until entitlement, the

likelihood that staff will reach the point of entitlement and the net present value of the estimated cash flows. Any changes to these factors will affect the carrying amount of the liability.

Expected future payments are discounted using forward discount rates derived from The Treasury website.

14. Reconciliation of net operating surplus with net cash flows from operating activities

	Notes	Group		Parent	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
Net surplus		10,931	2,993	9,795	6,152
Add/(deduct) non-cash items					
Amortisation of premiums/discount		25	(72)	25	(72)
Depreciation	10	294	210	294	210
Amortisation of intangible assets	11	43	56	43	56
Impairment losses/(gains)		(18)	1,541	(1,573)	3,507
Share of associates' net deficit/(surplus)	9	(2,728)	5,089	-	-
Add/(deduct) movements in working capital					
(Increase)/decrease in debtors and other receivables		(188)	85	(189)	84
Increase/(decrease) in creditors and other payables		530	(68)	530	(66)
Net cash flows from operating activities		8,889	9,834	8,925	9,871

15. Commitments

	Group		Parent	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Commitments – lessee				
Lease commitments as lessee				
Less than 1 year	174	143	174	143
1 year to 2 years	148	131	148	131
2 years to 5 years	75	172	75	172
Greater than 5 years	-	-	-	-
Total lease commitments as lessee	397	446	397	446

The Māori Trustee leases premises for the regional offices. A significant portion of the non-cancellable operating lease expense relates to the lease of the Hamilton and Rotorua region offices.

» Hamilton lease has a right of renewal in June 2014 and a termination date of February 2023.

» Rotorua lease has a right of renewal in December 2015 and a termination date of December 2021.

The Māori Trustee does not have the option to purchase the asset at the end of the lease term. There are no restrictions placed on the Māori Trustee by any of its leasing arrangements.

	Group		Parent	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Commitments – lessor				
Lease commitments as lessor				
Less than 1 year	61	60	61	60
1 year to 2 years	51	50	51	50
2 years to 5 years	-	-	-	-
Greater than 5 years	-	-	-	-
Total lease commitments as lessor	112	110	112	110

16. Contingent liabilities and assets

Unclaimed Monies (1963 to 1993)

A contingent liability of \$7,644,000 (2011 \$7,644,000) relates to beneficiary monies paid out by the Māori Trustee under section 30 (9) of the Māori Trustee Act 1953 to the Māori Education Trust, the Māori Purposes Fund Board and the New Zealand Māori Council. This section was later substituted by section 2 (1) of the Māori Trustee Amendment Act 1996, which became effective on 24 June 1996. The Māori Trustee will be liable to make payment to beneficiaries who establish an entitlement in the future.

Compensation Leases

The Māori Trustee administers leases where compensation is payable to the lessee on expiry or resumption of a lease.

In some of these cases, the Māori Trustee is required by the Māori Vested Land Administration Act 1954 to advance to the owners the funds required to meet compensation payments, as the level of funds required to be set aside during the course of the lease is insufficient. The value of advances that the Māori Trustee may be required to make upon resumption of a lease is not quantifiable at this time.

In other cases where the lease provides for compensation to be paid to the lessee, and there is insufficient funds held on behalf of the owners, the Māori Trustee is not required by statute to provide these funds. However, the Māori Trustee is often called upon to provide a loan from the General Purposes Fund to provide the finance required generally to pay out the lessee for improvements. The value of advances is not quantifiable at this time.

Land Overlay 3A

A number of Māori land trusts administered by the Māori Trustee as responsible trustee have received notification from the Gisborne District Council that parts of their land are subject to serious land erosion and have been classified as 'Land Overlay 3A' under the Council's Combined Regional Land and District Plan. Under the Combined Regional Land and District Plan a works plan must be developed for land classified as Land Overlay 3A, which provides, amongst other things, for the establishment of effective tree cover for the affected land by 2021.

The Māori Trustee has been in communication with the Gisborne District Council regarding this issue and the challenges facing many of the affected trusts to meet the compliance costs associated with the Land Overlay 3A requirements. As Land Overlay 3A obligations ultimately rest with the legal landowner, the Māori Trustee could in the future be required to cover compliance costs associated with the Land Overlay 3A requirements, which are unable to be met by the affected trusts.

The potential costs (if any) are unable to be quantified at this time. Factors that would impact quantification include the outcome of the discussions with the Gisborne District Council and other agencies, whether affected trusts are eligible to meet some of the compliance costs from the East Coast Forestry Project grant (and if so, the amount of the grant) and the financial ability of individual trusts to meet compliance costs when called upon to do so.

Pre-1990 Forest

A number of Māori land trusts administered by the Māori Trustee as responsible trustee or as custodian trustee owns a 'pre-1990 forest' (as defined under the Climate Change Response Act 2002). The Māori Trustee has the obligations of the legal landowner of 'pre-1990 forest' under the Act, associated legislation and rules.

If 'deforestation' (as defined under the Act) of any pre-1990 forest were to occur, the trusts concerned would need to meet the deforestation liability by surrender of emissions units – NZUs - (except where the Environmental Protection Authority determined that responsibility for the deforestation lay with a third party e.g. the holder of a forest right or lessee). If a land trust that the Māori Trustee administers as responsible trustee or custodian trustee did not have sufficient NZUs to meet a deforestation liability and did not have, or could not obtain third party finance to acquire, sufficient NZUs to surrender to meet the deforestation liability, the Māori Trustee as legal landowner would need to ensure that the affected trust acquired and surrendered NZUs to meet the deforestation liability.

The potential costs (if any) are unable to be quantified at this time. Factors that would impact quantification in the event of deforestation include the number of hectares subject to deforestation (and accordingly the number of NZUs that need to be surrendered) whether the NZUs held by an affected trust are sufficient to meet the deforestation liability and if not, the cost to acquire additional NZUs at the time.

17. Financial instruments

E.37

The carrying amounts of each category of financial assets and financial liabilities are as follows:

	Notes	Group		Parent	
		2012	2011	2012	2011
		\$000	\$000	\$000	\$000
Financial assets					
Cash and cash equivalents	5	8,209	10,485	8,186	10,427
Debtors and other receivables	6	818	630	818	630
Term deposits		12,200	6,956	12,200	6,956
Held-to-maturity investments	7	55,924	50,141	55,924	50,141
Loans and receivables	8	4,430	4,940	27,487	26,442
Total financial assets		81,581	73,152	104,615	94,596
Financial liabilities					
Creditors and other payables	12	1,867	1,590	1,853	1,578
Crown revenue in advance	19	2,587	2,605	2,587	2,605
Employee benefits	13	961	436	961	436
Total financial liabilities		5,415	4,631	5,401	4,619

Fair Value

The fair value of all loans and receivables is equivalent to the carrying amount disclosed in the Māori Trustee's statement of financial position.

The held-to-maturity investments had a fair value of \$57,418,000 as at 31 March 2012 (2011 \$51,939,000). The fair value is determined using quoted market prices.

Financial instruments risk

Māori Trustee's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Māori Trustee has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instrument risks. These policies do not allow any transactions that are speculative in nature to be entered into.

Market Risk

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in exchange rates. The Māori Trustee has no foreign denominated financial instruments and, accordingly, has no exposure to currency risk. Miraka Limited purchases goods and services overseas, which require it to enter into transactions denominated in foreign currencies. The foreign currency risk is managed by entering into foreign exchange forward contracts.

Sensitivity analysis

As at 31 March 2012, if the NZ dollar had weakened/strengthened by 5% against the US dollar with all other variables held constant, the surplus for the year would have been:

	Group		Parent	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
5% increase/(decrease) in NZ dollar against US dollar would increase /(decrease) the net surplus	85	258	-	-

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Māori Trustee is exposed to interest rate risk on those financial instruments that have a floating interest rate.

The investments that have floating or variable interest rates or coupon payments are as follows:

		Group		Parent	
		2012	2011	2012	2011
Cash and cash equivalents sensitivity analysis					
Weighted average effective interest rate	%	3.36	2.89	3.36	2.88
1% increase/(decrease) in interest rates would increase/(decrease) interest income and equity	\$000	148	105	148	104
Held-to-maturity investments sensitivity analysis					
Weighted average effective interest rate	%	3.50	3.67	3.50	3.67
1% increase/(decrease) in interest rates would increase/(decrease) interest income and equity	\$000	50	56	50	56

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Māori Trustee, causing a loss to be incurred. Credit risk arises from the financial assets of the Māori Trustee, which comprise cash and cash equivalents, term deposits, debtors and other receivables, loans and receivables and held-to-maturity investments.

Cash, cash equivalents and term deposits

Cash, cash equivalents and term deposits are invested with registered banks. The Māori Trustee's maximum credit exposure from potential default is the carrying amount of these instruments.

Debtors and other receivables

There are no significant concentrations of credit risk with respect to debtors.

Held-to-maturity investments

The financial instruments are spread amongst a number of financial institutions to minimise the risk of default. The Māori Trustee and the Māori Trustee Investment Committee apply the following parameters when investing money to minimise exposure to credit risk:

- » 85% of fixed income securities are to have an A grade rating or better.
- » For New Zealand Government stock, State Owned Enterprise and Local Authority stock and bank items, no single entity shall exceed 10% of the fixed income portfolio.
- » For corporate issuers, no single issuer shall exceed 5% of the fixed income portfolio.

Downgrades by rating agencies during the months of November and December impacted on the quality of both portfolio's fixed interest sector bond holdings resulting in a decline below the minimum 85% A rated bonds or better. New Zealand Government bond ratings have gone from AAA to AA+ resulting in subordinated bank debt being re-rated to (A-) down from A.

The current statement of investment policy at this time for both portfolios is also under review.

Loans and receivables

The Māori Trustee has issued mortgages under Section 32 of the Māori Trustee Act 1953 and Section 248 of the Māori Affairs Act 1953, Conversion Fund loans and other advances.

Advances under Section 32 of the Māori Trustee Act 1953 may or may not be secured. Where a security is taken, the security may be a first or second mortgage security over a freehold interest in land, a memorial of charge over land or a debenture.

Advances under Section 248 of the Māori Affairs Act 1953 may or may not be secured. Where a security is taken, the security is a memorial of charge over land.

The Conversion Fund was abolished by the Māori Affairs Amendment Act 1987, which effectively vested the Conversion Fund assets in the Māori Trustee. Conversion Fund loans are 'deemed advances' and are not secured but the Māori Trustee owns shares in the land in which the Conversion Fund loans relate.

The Māori Trustee has made impairment provisions for advances and Conversion Fund loans.

The following table analyses the credit quality of financial assets that are neither past due nor impaired, with reference to Standard and Poor's credit ratings (if available) or to historical information about counterparty default rates.

The change in credit rating is the change in the bank's credit worthiness rather than the change in investment mix.

	Group		Parent	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Cash and cash equivalents and term deposits				
AA	-	16,505	-	16,447
AA-	20,409	936	20,386	936
Total cash and cash equivalents and term deposits	20,409	17,441	20,386	17,383
Held to maturity investments				
AAA to A	37,008	41,617	37,008	41,617
A- to BB-	17,916	6,518	17,916	6,518
Unrated Councils	1,000	2,006	1,000	2,006
Total held-to-maturity investments	55,924	50,141	55,924	50,141

Liquidity risk

Liquidity risk is the risk that the Māori Trustee will not have sufficient funds to meet commitments as they fall due.

The Māori Trustee monitors forecast cash requirements daily. Surplus funds are invested for terms appropriate for the expected cash requirements. A minimum buffer is maintained, which provides access to funds in excess of the forecast cash requirements.

The Māori Trustee applies the following parameters when investing money:

- » A target of 10% of the portfolio is to be invested in money market accounts with a maximum term of 364 days.
- » A target of 75% to be invested in fixed income securities.
- » A target of 15% to be invested in equity securities.

The table below analyses the Māori Trustee's financial liabilities into maturity groupings based on the remaining period from end of year to the contractual maturity date.

Financial liabilities

	Group		Parent	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Less than six months	4,454	4,195	4,440	4,183
6 – 12 months	841	393	841	393
Later than 12 months	120	43	120	43
Total financial liabilities	5,415	4,631	5,401	4,619

18. Capital management

The Māori Trustee's capital is its equity, which is comprised of accumulated funds. Equity is represented by net assets. The Māori Trustee is subject to the financial management and accountability provisions of the Māori Trustee Act 1953.

The Māori Trustee manages its equity as a by-product of prudently managing revenues, expenses, assets and liabilities, investments and general financial dealings to ensure the Māori Trustee effectively achieves its strategies and remains a going concern.

19. Related parties

All related party transactions have been entered into on an arm's length basis. The Māori Trustee transacts with the related parties below:

Related entities	Nature of Relationship
Te Māori Lodges Limited	Wholly owned subsidiary
Miraka Limited	Investment in associate
Putake Limited	Investment in associate
Putake Investments Limited Partnership	Investment in associate
Crown	Government related entity
Māori Trustee Common Fund	Management

The following transactions were entered into with related parties during the year:

Te Māori Lodges Limited (TML)

Te Māori Lodges Limited (TML) is a wholly-owned subsidiary of the Māori Trustee. During the year the Māori Trustee provided management services to TML for \$18,000 (2011 \$18,000).

The Māori Trustee has an advance to TML at 31 March 2012 of \$61,227,000 (2011 \$59,571,000). The provision for impairment against the advance at 31 March 2012 was \$38,170,000 (2011 \$38,069,000).

The Māori Trustee charged interest on the TML advance of \$1,656,000 (2011 \$2,031,000). The interest income was capitalised to the advance. Intercompany transactions and balances have been eliminated in the Group financial statements.

Miraka Limited

The Māori Trustee has a 15.43% shareholding in the associate Miraka Limited. The company is a milk powder production company.

John Paki, former Māori Trustee, was the Māori Trustee's director of Miraka Limited until 1 June 2012 and replaced by Timothy Gibson on the same date. The Māori Trustee received \$51,000 for directors' fees in 2012 (2011 \$nil).

Putake Limited

The Māori Trustee has 50% shareholding in the associate Putake Limited. Putake Limited invests in enterprises intended to create greater Māori wealth, commercial understanding, transparency, corporate governance and choice. On 10 December 2010, Putake Limited sold its investments to Putake Investments Limited Partnership.

Putake Investments Limited Partnership

The Māori Trustee is a 50% owner in the partnership. The partnership invests in enterprises that create greater Māori wealth, commercial understanding, transparency, corporate governance and choice. The partnership was established on 10 December 2010 and purchased the investments from Putake Limited.

Crown

The Crown is a major source of revenue for the Māori Trustee.

Appropriation revenue from the Crown of \$10,666,000, including \$300,000 capital funding (2011 \$10,478,000 and capital funding of \$956,000) is provided pursuant to a Funding Agreement dated 27 June 2011 between the Māori Trustee and the Minister of Māori Affairs. The current funding agreement ceases as at 31 March 2013. The funding provided by the Crown enables the Māori Trustee to fulfil statutory and other common law obligations. The statement of service performance reports against the outputs detailed in the Funding Agreement. Payment for these services is managed by Te Puni Kōkiri on behalf of the Crown.

As at 31 March 2012 Crown appropriation of \$2,587,000 had been received in advance for the April to June quarter (2011 \$2,605,000).

Common Fund

The Māori Trustee manages the Common Fund and this management relationship confers significant influence on the funds. The Māori Trustee is entitled to charge the Common Fund a management fee under section 26A of the Māori Trustee Amendment Act 2009. A total management fee of \$523,000 was charged during the year (2011 \$467,000). The management fee receivable as at 31 March 2012 was \$45,000 (2011 \$42,000).

Statutory role

The core function of the Māori Trustee is to hold land as trustee or administer land as agent for Māori land owners. The Māori Trustee also administers other entities under statute, for example, the Māori Soldiers Trust, including Hereheretau Station.

The Māori Trustee has a statutory entitlement under the Māori Trustee Act 1953 to charge fees and commissions for managing trusts, agencies and properties, providing accounting and tax services and taking instructions for special investments.

For the year ended 31 March 2012, the Māori Trustee earned \$3,047,000 fees and commissions (2011 \$2,585,000).

The Māori Trustee is able to lend monies under the Māori Trustee Act 1953. Loans made to trusts, agencies and other land owners are generally at market interest rates. Loans advanced to replace a Conversion Fund loan are non-interest bearing (Note 8).

Key management personnel

The Māori Trustee maintains an interests register. There were no payments made or payments received from entities that key management personnel have control or significant influence over, other than the entities noted above.

There were no consultancy services provided by immediate family members of the key management personnel to the Māori Trustee during the year (2011 \$79,000).

	Group		Parent	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Key management personnel benefits				
Salaries and other current employee benefits	1,424	1,257	1,424	1,257
Post-employment benefits	58	43	58	43
Total key management personnel benefits	1,482	1,300	1,482	1,300

Key management personnel comprises the former and current Māori Trustee (changeover took place in August 2011), Chief Operating Officer and Deputy Māori Trustee (appointed in March 2012).

20. Remuneration of employees

	Parent 2012 \$000	Parent 2011 \$000
Total remuneration paid or payable		
\$100,000 – \$109,999	1	-
\$110,000 – \$119,999	-	2
\$120,000 – \$129,999	3	3
\$130,000 – \$139,999	4	1
\$140,000 – \$149,999	2	2
\$150,000 – \$159,999	-	1
\$160,000 – \$169,999	2	-
\$190,000 – \$199,999	-	1
\$200,000 – \$209,000	2	-
\$210,000 – \$219,999	-	1
\$250,000 – \$259,999	-	1
	14	12

21. Subsequent events after the balance date

The following events occurred after 31 March 2012:

- » On Monday 21 May 2012, the Māori Trustee announced that Tiaki Hunia had been appointed as General Manager Trusts, effective from 2 July 2012.
- » During 2012, the Māori Trustee approved a restructure of the senior management team and announced a complete restructure would be completed in the 2012-2013 financial year. Employees were offered an opportunity to apply for voluntary severance. The detailed restructure plan was announced to staff in June 2012 and the proposed structure was under consultation during June and July. The final structure was confirmed on 16 July 2012 and is expected to be operational effective 1 November 2012. Redundancy costs arising from the restructure could potentially be around \$1,300,000.

There have been no other significant subsequent events after balance date.

22. Explanation of significant variances against budget

Statement of comprehensive income

Revenue

Revenue from fees and commission are \$291,000 over budget. This is mainly owing to:

- » increased commissions resulting from the reduction in debtors arrears,
- » the impact of the change in fee structure from November 2010 not fully taken up in the 2011–12 budgets, and
- » increased Common Fund management fee based on the higher than expected market value of the Common Fund.

Investment income is \$176,000 higher than the budget owing to:

- » higher interest income because funds held were higher than budgeted with the IT expenditure not incurred as budgeted and also higher interest rates than budgeted.

Expenditure

Employee benefits are over budget mainly owing to provision for voluntary severance costs of \$494,000.

Depreciation and amortisation are \$271,000 less than budget because the budget assumptions were for the new core systems to be implemented by August 2011 and these are now planned to be completed by the end of September 2012.

Other expenditure/(income)

Impairment gains on investment in the value of Quantum Limited were \$1,555,000 (2011 \$2,865,000 impairment loss). Share of associates' net surplus was higher than budget by \$2,728,000 and the share of associates' other comprehensive income was higher than budget by \$172,000 as these were not known at the time the budgets were prepared.

Excluding the impairment gains, other expenditure is under budget mainly owing to Telecommunication and IT cost that came under budget by \$230,000 as the IT maintenance and licence costs budgeted for the new system have not been implemented yet. Professional fees were under budget by \$187,000 as the actual project costs incurred were less. These are offset by higher costs in other categories.

Statement of changes in equity

The transfer from the statement of comprehensive income for the Appropriation Fund is \$527,000 higher than budget and the General Purpose Fund is \$2,968,000 higher than the budget. This is a result of the budget variances for income and expenditure explained above.

Statement of financial position

Assets

Cash and cash equivalents, term deposits and held-to-maturity investments are higher than budget by \$4,877,000 owing to income received in advance from the Crown (\$2,587,000) for funding for the first quarter of the next financial year and the growth in the balance sheet.

Investments in associates are higher than budget by \$21,964,000 because investment in Quantum Limited was measured at nil in 2010 and at the time of preparing the budget. Investment in Quantum Limited has been measured at carrying value in the Māori Trustee's group accounts from the 2011 year, with 2010 comparatives restated.

Liabilities Employee benefits are higher than budget by \$601,000 owing to the creation of a provision for voluntary severance of \$494,000, which was not included in the budget. Crown revenue in advance is higher than the budget as the Crown appropriation for the April to June 2012 quarter of \$2,587,000 was not budgeted to receive in advance.

Statement of changes in cash flows

The net cash flows from operating activities are higher than budget by \$540,000. This is a result of the budget variance explained for the statement of comprehensive income.

Net cash flows from investment activities are higher than the budget by \$2,816,000 as surplus funds are invested in bonds and the budget for purchase of the new system was higher than what was actually spent, as the budget assumptions were for the new core systems to be purchased and implemented by August 2011.

Statement of Trust Monies

For the year ended 31 March 2012

The Māori Trustee operates trust accounts under section 23 of the Māori Trustee Amendment Act 2009 (the Act). The transactions through these accounts and the balances at 31 March 2012 are not included in the Māori Trustee's financial statements. Movements in these accounts were as follows:

	Notes	Common Fund		Special Investment Accounts	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
Account balances at beginning of year		65,122	58,072	8,002	7,907
Cash proceeds from trusts and land administration	i	10,102	10,010	-	-
Net distributable income after tax paid to client accounts	ii	3,030	2,755	-	-
Client payments		(6,568)	(6,148)	-	-
Net investments matured/(invested)		11	609	(152)	95
Net loans advanced/(repaid)		(406)	(362)	-	-
Capital introduced		262	39	-	-
Movement in Tax and Management fee liability		(9)	147	-	-
Account balances at end of year		71,544	65,122	7,850	8,002

The Common Fund represents monies received by the Māori Trustee under sections 23 and 25 of the Act, in trust for persons entitled to receive them. All Common Fund monies are guaranteed by the Crown under section 27 of the Act.

Special Investment Accounts are investments made in accordance with section 24 of the Act.

The Common Fund and Special Investment accounts are invested as follows:

	Common Fund		Special Investment Accounts	
	2012	2011	2012	2011
Cash and cash equivalents	8.4%	9.6%	26.7%	37.9%
Term deposits	8.4%	18.1%	71.9%	60.7%
Bonds	83.2%	72.3%	1.4%	1.4%
	100.0%	100.0%	100.0%	100.0%

The market value of Common fund investments as at 31 March 2012 were \$73,100,000 (2011 \$67,000,000).

(i) Cash proceeds from trusts and land administration


	Common Fund	
	2012 \$000	2011 \$000
Rent and other income	22,086	20,167
Māori Trustee fees and commissions	(3,509)	(2,715)
Operating and administration expenditure	(5,957)	(4,473)
Tax payments to Inland Revenue	(2,518)	(2,969)
Cash proceeds from trusts and land administration	10,102	10,010

(ii) Net distributable income after tax paid to client accounts

E.37

	Common Fund	
	2012	2011
	\$000	\$000
Common Fund investment income	4,228	3,909
Māori Trustee Common Fund management fee	(523)	(467)
Net distributable income	3,705	3,442
Tax withheld	(675)	(687)
Net distributable income after tax paid to client accounts	3,030	2,755

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Pupuritia te mana o te tangata o
te whenua puta ki te ao mārama