

**Treaty of Waitangi Fisheries Commission  
Consolidated Group**

**Interim Half Year Report**

**for the six months ending  
31 March 2004.**

## Half Year Report

This is the first interim financial report prepared by the Treaty of Waitangi Fisheries Commission. The report covers the interim results of the consolidated group for the six months ended 31 March 2004 and also contains comparatives for the financial year ended 30 September 2003 and the six months to 31 March 2003. The interim results incorporated in this report for Te Whaka Unua Limited and its subsidiaries and associated companies, including the Sealord Group, are for the six months ended 31 December 2003.

The publication of this report follows the intention signalled in He Kawai Amokura for the new entities arising from the Maori Fisheries Bill to report on a six monthly basis. The six monthly report follows, where appropriate, the rules applying to Public Listed Companies. Those rules have been modified to take account of the special circumstances that the Commission operates within, while having due regard to attaining the appropriate level of accountability and transparency subscribed to in He Kawai Amokura.

After more than a decade, the Maori Fisheries Bill is now before a parliamentary select committee. The Bill, which was introduced into Parliament in November 2003, contains the legislative framework for the allocation of assets and the distribution of benefits to Iwi and Maori from the full and final Maori fisheries settlement.

Commissioners and staff have paid close attention to the passage of this Bill and taken every opportunity to ensure that the finely balanced model outlined in He Kawai Amokura is given full effect. This has been achieved by long and frequent meetings with Crown officials over the technical details in the Bill and our full participation in the select committee process.

The Fisheries and Other Sea-related Legislation Committee that is charged with considering this mammoth piece of legislation, expects to report back to Parliament in August this year. Uncertainty over exactly when Parliament will enact the Bill poses some challenges for the Commission and Iwi. We are still hopeful that the Bill will be enacted prior to the start of the next fishing season on 1 October 2004.

With the legislative wheels in motion, the Commission has spent considerable time and resources preparing the new entities that will be established under the Act.

A constitutional working group which was set up in the latter half of 2003 has developed constitutions and deeds for all the central entities and corporate trustees that will be established under the Bill. These foundation documents for Aotearoa Fisheries Limited, Te Putea Whakatupu Trust, Te Wai Maori Trust and Te Ohu Kai Moana Trust have been made available via the website. However final work on the constitutions and deeds cannot be completed until the Maori Fisheries Bill is enacted.

## Litigation

The Commission has continued to defend legal challenges to the allocation model during the first half of this financial year. A number of substantive cases have now been dealt with and on all major issues the applications from the various litigants have been declined by the courts.

As at July 2004, the Commission faces no further substantive legal challenges to the allocation model.

## Whakaho

On 1 February 2004, the Commission approved \$700,000 of funding for the Maori Affiliation Service to assist individuals to connect with their respective Iwi organisations.

The Commission hosted the launch of the national campaign on 2 March 2004 to encourage Maori to register on the Maori Affiliation Service, better known as Tuhono. The publicity campaign had generated a 26 percent return rate from Maori voters by June 2004.

### Financials Commentary

These interim financial statements are unaudited, although the results for the full year ended 30 September 2003 are extracted from the Commission's audited Annual Report. The interim statements are prepared using the same accounting policies as those used in the annual audited financial statements and should be read in conjunction with those annual financial statements.

The period being reported shows an improved trading position for the Group when compared with last year. The Net Surplus after Tax for the six months to 31 March 2004 was \$12.7 million compared to \$9.9 million for the whole of last year. This result is slightly behind the same period to March 2003 however that result included \$3.3 million of profits related to the sale of assets and quota.

Trading revenue was also down when compared to the same period last year reflecting the difficult trading conditions experienced resulting from lower volumes of product getting to market and the strengthening of the NZ dollar (NZ\$) against our major trading currencies. Trading conditions and prices showed some improvements towards the end of the period and these should further assist performance over the second half of this year.

There remain, however, difficulties with catch levels for some of the group's key species. A substantial cut in the Hoki TACC is being signalled for the next fishing year and while that will not affect the financial performance of the group in the current year the low catch rates currently being experienced do. There are similar difficulties with some lobster and paua stock where alternatives to TACC reductions are being considered.

In a positive note, catches of Squid have been excellent and matched with good international demand. The prices achieved have compensated somewhat for the Hoki shortfalls.

There has been a focus on streamlining administration and overheads throughout the Treaty of Waitangi Fisheries Commission group (TOWFC Group) and this has shown significant benefits particularly in the two largest companies, Sealord Group and Moana Pacific Fisheries.

The performance for the second six months is expected to be similar to the period under review but is dependent on the achievement of good catch rates, the strength of the NZ\$ relative to our major trading currencies and any continuing improvement in the markets.

### Performance Ratios

Due to the special nature of the Commission and its associated companies, a number of adjustments to the reported results have been made prior to calculating the performance ratios shown on page 9 of the reports. The adjustments are intended to assist the reader by making the particular ratios more useful.

The Commission sells Annual Catch Entitlement (ACE) to Iwi at a substantial discount to market prices as part of its assistance programme to facilitate Maori into the business and activity of fishing. In order to make the ratios comparable to other organisations, the notional benefit received by Iwi from the ACE round has been treated as part of the Group's Earnings Before Interest and Tax when calculating the "Return on Assets" ratio, and, after allowing for tax, as part of the Group's Net Surplus when calculating the "Return on Equity" ratio. The amount of the notional benefit included for each period is as follows:

	\$
6 months to 31 March 2004	13.8 million
12 months to 31 September 2003	23.9 million

6 months to 31 March 2003

11.7 million

Sealord Group Limited is treated as an associated company within the TOWFC Group and accounted for on an equity basis in the financial statements. This means that only the Group's share of Sealord's net profit after tax is included in the statement of Financial Performance.

As Sealord is such a significant part of the Group's assets a modification has been made when calculating the "Return on Assets" ratio by including the Group's share of Sealord's EBIT.

It is important to note that the ratios shown for the March periods are for six months only and have not been annualised. The return on equity shows the Group achieving a return of 4.70% for the six months compared to 5.83% for the twelve months to September 2003. The September result was affected by the writedown of the investment Sealord holds in Argentina as discussed at last years Hui-A-Tau.

While the 2004 six monthly results are slightly down on 2003, the second six months for 2004 are projected to be much better than 2003.

## **INDIVIDUAL COMPANY COMMENTARIES**

### **Sealord Group**

Wellington based Sealord Group operates on a 30 June year-end and the financial results for 2003/04 are near completion.

The bottom line trading result for 2003/04 is forecast to be well up on 2002/03.

This will be achieved despite difficulties in trading conditions brought about by a strengthening NZ\$ against our major trading currencies, lower industry-wide Hoki catches, continuing low international mussel returns and higher fuel prices.

The improved result has been achieved largely due to:-

- The Company's foreign exchange hedging programme, which has provided insulation against the impacts of the strengthening NZ\$.

- Benefits arising from the cost reduction and operational improvement programme, which were signalled in last year's Strategic Plan.

- An unexpectedly good industry-wide Squid catch, together with solid international demand and returns for this product.

As a result of the good bottom line trading result and tight control over capital expenditure, strong cash flows have been generated. These are continuing to be channelled towards the reduction of debt. This was flagged as a priority in the Strategic Plan which was formulated last year.

The outlook for the year ahead is very challenging with a cut expected in the Hoki TACC for the 2004/05 fishing year between 100 - 140,000 metric tonnes (current TACC 180,000 MT). This, together with the expectation that the NZ\$ spot exchange rates will be running well above long term averages will make achievement of the Company's profit and growth targets for the new year a challenge.

The priorities for the year ahead include:-

- A continuation of the cost and productivity focus which yielded considerable benefits in the past year. This will be even more imperative as impacts from the expected Hoki TACC reduction begin to eventuate.

Consolidation and growth in the domestic New Zealand and Australian markets. This was identified last year as a key priority. The Australian canned retail launch which commenced in late 2003 has had pleasing results so far, with a good initial foothold established in that market.

A greater emphasis on growing the profit contribution from externally supplied product (ie non-NZ caught), via Australia / NZ, European, US and Asian market channels.

Achieving Debt levels and Return on Operating Asset targets which are consistent with the improvements which were laid out in our Strategic Plan.

In conclusion, the outlook for 2004/05 is once again for a potentially volatile year where the vagaries of the international markets, exchange rates and catch volumes will continue to create uncertainty. At the same time there is realistic optimism that the short and medium term efficiency, profitability and growth targets as laid out in our Strategic Plan will be achieved.

### **Moana Pacific Fisheries Limited**

Trading activities for the current financial year which ends 30 September 2004 will be significantly impacted by the NZ exchange rate which has been and is still well above 10 year averages against the US\$ and AUS\$.

On a positive note, reasonable prices have been obtained from the Australian, US and Asian markets for most of the Company's key species. Despite the fact that these returns are diminished when converted into NZ\$, solid international pricing is a promising indicator of the health of our key markets and customers.

Good progress was made during the year in streamlining the Company's overhead structure, with significant reductions in administrative and overhead expenditure.

The forecast for 2003/04 operating earnings projects a modest improvement when compared to last years result. Despite the forecast improvement, the Company will continue actively working to further increase future operating returns.

Looking beyond this financial year, the major influences on the Company's performance will continue to be the strength of the NZ\$ and the uncertainty around the stocks of some of our key species, including lobster.

The key initiatives which the Company is focussing on in order to improve operating earnings include:-

Securing benefits from greater cooperation and coordination with other TOWFC Group companies once the proposed AFL structure has been legislated and formalised. Progress has already been made with benefits accruing from Chatham Processing Limited distributing its lobster and wetfish products through the Moana networks.

Securing new sources of supply for the Company's fresh / chilled wetfish business. Some success has already been achieved with new supply contracts expected to increase fish volumes landed into the Company this year. Developing a stronger relationship with Iwi quota holders will be a primary focus for Moana for the new year. As a 100% Iwi owned fishing company with a sound processing infrastructure, a well established distribution network and access to key international markets, further mutually beneficial commercial arrangements with Iwi quota owners must be achievable.

A continued focus on improving efficiencies in the areas of overhead support, processing, and distribution of products to markets.

Well in all challenging times ahead, with the exchange rate likely to be a major influence again. The Company remains focussed on obtaining earnings growth through securing new sources of fish supply, developing beneficial commercial relationships with Iwi and good cost control.

## **Prepared Foods Group**

The Prepared Foods Group continues to operate well in the current 2003/04 financial year, considering the difficulties faced by the export sector brought about by the strength of the NZ\$.

The Company is forecasting that it will maintain its Paua sales volumes this year. Price returns however are somewhat sluggish, although still quite close to plan levels. Once again the Company continues to place a strong emphasis on maintaining valuable long term customer relationships in our key export markets.

Of increasing concern in recent times is the prevalence of poaching throughout New Zealand's paua fisheries. As part of the TOWFC Group, which has the biggest single stake in these valuable fisheries, it is of benefit to all key stakeholders to be vigilant and proactive as possible in addressing this serious problem. This is a real threat to the sustainability of this most valuable of TOWFC Group and Iwi assets.

The non-Abalone business of the Prepared Foods Group comprises mainly shelf stable pouched food products, sold mainly to Australian and New Zealand Defence Forces. This remains an important component of the overall business. New product research and development is on going with the Company hopeful of growing this segment of the business in the upcoming year.

The forecast Prepared Foods Group earnings for the current year are expected to be close but marginally down on last year's result.

## **Chatham Processing Limited**

As is the case for all export oriented businesses, the current 2003/04 year has had its difficulties, mainly due to the strength of the NZ\$ particularly against our major trading currency the US\$.

Low lobster landings for the first 6 months of the financial year have also affected all participants involved in the Chatham shery. The low catches appear to be driven, at least in part, by unusual wind patterns. The new fishing season recently commenced in May with some improvement evident in lobster catches.

In order to provide an alternative revenue stream from the US\$ denominated lobster business, the Company commenced a programme in the current year to promote and increase its chilled Blue Cod business into mainland New Zealand. This has met with initial success which the Company expects to further develop.

Progress has been made bedding in new distribution arrangements for Chatham Processings products via fellow subsidiary company Moana Pacific Fisheries, with consequent benefits to profitability.

The earnings outlook for year end will be very dependent on the level of catches achieved and the exchange rate for the remainder of the year.

## **Pacific Marine Farms Limited**

The current financial year ending 30 September 2004 got off to quite a slow start, however a recovery in sales over the April period has resulted in year to date oyster sales volumes running ahead of Plan.

Price returns from major markets have been reasonably firm. However of particular concern in recent months has been the steady appreciation in the NZ\$ against the AUS\$. Australia is the Company's biggest single export destination.

he new seasons harvesting normally starts around June, with farm harvest volumes looking promising at this point. Water quality problems particularly in Northern harbours is still an ongoing concern, posing major potential problems for our supply base. To partially address this exposure, expansion into other South Island areas is envisaged, this has been signalled previously. Opportunities have been identified and progress is being made although acquisitions have still to occur at this stage.

The outlook for the year ending September 2004 is for an improved operating result on last year, which was seriously affected by the SARS outbreak and the subsequent effects on tourism and demand in major markets.

Shane Jones  
Chairman  
Treaty of Waitangi Fisheries Commission

# APPENDIX I

TREATY OF WAITANGI FISHERIES COMMISSION

## CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 MARCH 2004

	<b>INTERIM 2004</b>	<b>FINAL</b>	<b>INTERIM</b>
	<b>SIX MONTHS</b>	<b>YEAR ENDED</b>	<b>SIX MONTHS</b>
	<b>31 MAR 2004</b>	<b>30 SEPT 2003</b>	<b>31 MAR 2003</b>
	<b>(\$000s)</b>	<b>(\$000s)</b>	<b>(\$000s)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers	69,074	124,853	68,955
Interest Received	2,976	5,726	2,755
Other	1,337	1,586	467
<b>Sub total</b>	<b>73,387</b>	<b>132,165</b>	<b>72,177</b>
Payments to Suppliers and Employees	(58,777)	(113,854)	(57,144)
Interest paid	(1,657)	(3,120)	(1,583)
Taxation paid	(1,329)	(5,959)	(834)
Other	0	(1,035)	0
<b>Sub total</b>	<b>(61,763)</b>	<b>(123,968)</b>	<b>(59,561)</b>
<b>Net Operating Cash Flows</b>	<b>11,624</b>	<b>8,197</b>	<b>12,616</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of Assets	529	915	821
Proceeds from sale of Quota	0	7,617	7,451
Net proceeds from other Investments	5,500	4,825	4,825
<b>Sub total</b>	<b>6,029</b>	<b>13,357</b>	<b>13,097</b>
Purchase of Fixed assets	(1,245)	(5,858)	(4,196)
Purchase of quota	(400)	(920)	(400)
Net Purchase of Financial Investments	(5,091)	(1,999)	308
Increase Shareholding in Subsidiaries	0	(6,453)	0
Other	928	(447)	0
<b>Sub total</b>	<b>(5,808)</b>	<b>(15,677)</b>	<b>(4,288)</b>
<b>Net Investing Cash Flows</b>	<b>221</b>	<b>(2,320)</b>	<b>8,809</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash from Borrowings	0	2,500	0
Repayment of Borrowings	(325)	(3,239)	(325)
Other	(28)	(1,085)	0

<b>Net Financing Cash Flows</b>	<b>(353)</b>	<b>(1,824)</b>	<b>(325)</b>
<b>NET INCREASE / (DECREASE) IN CASH HELD</b>	<b>11,492</b>	<b>4,053</b>	<b>21,100</b>
Opening Cash Brought forward	<b>54,992</b>	50,976	50,976
Exchange rate adj on Opening balance	<b>(39)</b>	(37)	(87)
<b>CASH HELD AT PERIOD END</b>	<b>66,445</b>	<b>54,992</b>	<b>71,989</b>
Represented By :			
Cash and bank balances	<b>17,732</b>	19,755	28,456
Liquid Financial Investments	<b>52,779</b>	39,414	44,357
Bank Overdrafts	<b>(4,179)</b>	(3,960)	(919)
Other	<b>113</b>	(217)	95
<b>Total Cash held at Period End</b>	<b>66,445</b>	<b>54,992</b>	<b>71,989</b>

## APPENDIX II

*TREATY OF WAITANGI FISHERIES COMMISSION*  
**CONSOLIDATED INTERIM RECONCILIATION OF OPERATING CASH FLOWS**  
*FOR THE SIX MONTHS ENDED 31 MARCH 2004*

	<i>INTERIM 2004</i>	<i>FINAL</i>	<i>INTERIM 2003</i>
	<i>SIX MONTHS 31 MAR 2004</i>	<i>YEAR ENDED 30 SEPT 2003</i>	<i>SIX MONTHS 31 MAR 2003</i>
	<i>(\$000s)</i>	<i>(\$000s)</i>	<i>(\$000s)</i>
<b>OPERATING SURPLUS AFTER TAX</b>	<b>5,122</b>	<b>7,002</b>	<b>8,457</b>
<b><i>Non cash Items:</i></b>			
Depreciation	1,208	2,457	1,237
Unrealised exchange gains and losses	(153)	38	(235)
Other	(516)	(348)	(101)
<b>Sub total</b>	<b>539</b>	<b>2,147</b>	<b>901</b>
<b><i>Movements in Working Capital items:</i></b>			
(Increase) / Decrease in Receivables	(10)	2,318	2,266
(Increase) / Decrease in Inventories	(490)	(391)	926
Increase / (Decrease) in Tax Payable	908	419	2,202
Increase / (Decrease) in Payables	3,619	(1,400)	(1,168)
Other	559	178	324
<b>Sub total</b>	<b>4,586</b>	<b>1,124</b>	<b>4,550</b>
<b><i>Items classified as Investing &amp; Financing activities :</i></b>			
(Profit) / Loss on sale of Quota	0	(2,567)	(2,492)
Other	1,377	491	1,200
<b>Sub total</b>	<b>1,377</b>	<b>(2,076)</b>	<b>(1,292)</b>
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>11,624</b>	<b>8,197</b>	<b>12,616</b>

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## APPENDIX III

*TREATY OF WAITANGI FISHERIES COMMISSION*

### **CONSOLIDATED INTERIM STATEMENT OF MOVEMENTS IN EQUITY**

*FOR THE SIX MONTHS ENDED 31 MARCH 2004*

	<b>INTERIM 2004 AT 31 MAR 2004  (\$000s)</b>	<b>FINAL  AT 30 SEP 2003  (\$000s)</b>	<b>INTERIM 2003 AT 31 MAR 2003  (\$000s)</b>
<b>NET SURPLUS AFTER TAX</b>	<b>12,722</b>	<b>9,908</b>	<b>16,807</b>
Currency Translation Reserve	<b>0</b>	8	(1)
Increase / ( decrease) in Revaluation Reserves	<b>0</b>	0	0
<b>TOTAL RECOGNISED REVENUES &amp; EXPENSES</b>	<b>12,722</b>	9,916	16,806
Purchase of Minority Interest	<b>0</b>	(7,287)	0
Distribution to TOKM Charitable trust	<b>0</b>	(1,085)	0
<b>NET MOVEMENT IN EQUITY FOR PERIOD</b>	<b>12,722</b>	1,544	16,806
Equity at Beginning of Period	<b>477,473</b>	475,929	475,929
<b>EQUITY AT END OF PERIOD</b>	<b>490,195</b>	<b>477,473</b>	<b>492,735</b>

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## APPENDIX III

*TREATY OF WAITANGI FISHERIES COMMISSION*

### **CONSOLIDATED INTERIM INVESTMENT IN ASSOCIATES**

*FOR THE SIX MONTHS ENDED 31 MARCH 2004*

	<b>INTERIM 2004 AT 31 MAR 2004 (\$000s)</b>	<b>FINAL AT 30 SEP 2003 (\$000s)</b>	<b>INTERIM 2003 AT 31 MAR 2003 (\$000s)</b>
<b>Carrying Amount of Investment at beginning of period</b>	166,064	174,102	174,102
Share of Associates Tax paid surplus for period	7,600	2,906	8,350
less Dividend Received and Receivable for period	0	(8,378)	(2,881)
less Group Share of Profit on sale of Quota shares	0	(2,566)	(2,177)
<b>Carrying Amount of Investment at end of period</b>	<b>173,664</b>	<b>166,064</b>	<b>177,394</b>

#### **Details of Significant Associates**

##### **Sealord Group Limited**

The investment in the Sealord Group Limited is held through a 50 % shareholding in Kura Limited. It is shown as an Investment in Associates in the Statement of Financial Position.

#### **Interest held by Group**

**50%**