Te Kupenga o Maniapoto Limited

ANNUAL REPORT

For the Year Ended 30 September 2014

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1. Introduction

E te Tiamana koutou ko nga mema o te Poari o Maniapoto, tena ano hoki koutou katoa e anga atu nei ki nga take huhua o te tau.

The Board of Directors take pleasure in presenting the Annual Report for your company - Te Kupenga o Maniapoto Limited (Te Kupenga) for the financial year ended 30 September 2014.

Te Kupenga was established in March 2007. It is a key commercial business owned by Maniapoto Iwi. The primary purpose of Te Kupenga is to utilise fisheries settlement and other acquired assets in a prudent, commercial and profitable manner for the benefit of Maniapoto Fisheries Trust (MFT), while growing and diversifying the business.

The company has been operating for over seven years generating financial surpluses each year since inception. The total dividends paid by Te Kupenga to MFT over the period stands at $4.6 million.

Financial Performance for the Year Ended 30 September 2014

A summarised statement of the financial performance of Te Kupenga is set out in Section 4 of the Annual Report.

The prospects for the past year looked daunting, at its commencement, at the time budgets were prepared. Annual Catch Entitlement (ACE) sales prices were continuing to decline, and we were advised that Aotearoa Fisheries Limited (AFL) was unlikely to pay a dividend on the income shares we hold in it. Notwithstanding the challenges, Te Kupenga was able to generate higher income due to the initiatives taken previously and in the year under review.

Te Kupenga achieved a net surplus of $714,806 for the year against a budget of $362,773 and previous year’s surplus of $606,789 before AFL’s special dividend. The total revenues for the year were $1,121,763 (2013: $974,678 before the special dividend) compared to budgeted revenues of $629,873.

The operating surplus derived through the utilisation of “settlement” and “normal” quota (i.e. excluding agreed ACE) for the year of $642,843 results in a return on the quota asset of 15.4%. This exceptional return was due to the abnormally high ACE sales profit shares accounted for in 2014.

The return on assets for the year, effectively on quota and AFL income shares, was 8.3% compared to a budget of 3.7% and 6.8% achieved in 2013.

Shareholders' equity decreased from $9.571 million at the beginning of the year to $9.477 million as at 30 September 2014. The decrease was owing to the high level of dividend compared to the profit generated and impairments in the value of quota and AFL income shares.

Business Focus

The company's main focus during the year was in respect of three areas:

- Finalise the ACE sales agreement with Sealord for Te Kupenga's deep-sea ACE, enabling it to derive higher returns from the quota at minimal downside risk;

- Purchase a package of quota available for sale thereby expanding the company's core business operations; and

- Establish a managed investment portfolio in accordance with a Statement of Investment Parameters and Objectives (SIPO) developed for Te Kupenga.

2. Company Overview

Te Kupenga is the Asset Holding Company (AHC) of Maniapoto Iwi under the Maori Fisheries Act 2004 (MFA). It holds and manages primarily Maniapoto Iwi's "settlement" fish quota and AFL income shares transferred to it in March 2007.

2.1 Key Assets

The key assets of the company currently are:

Asset	Quantity	Value as at 30 Sep 2014 $
"Settlement" quota shares	203,816,322	4,137,000
"Normal" quota shares	20,297,912	570,825
AFL income shares	9,086	3,580,000
Investment Portfolio		1,000,000
Total		**$9,287,825**

2.1.1 Quota

Te Kupenga's "settlement" quota is the fish quota received to date under the Maori commercial fisheries settlement.

Te Kupenga purchased its initial $24,500 of "normal" quota from Maniapoto Maori Trust Board (MMTB) in 2010 and thereafter, a quota package containing mainly (by value) orange roughy quota for $555,556 from Te Ohu Kaimoana in September 2014.

Long-finned Freshwater Eel ACE

Te Kupenga decided that it would refrain from selling its long-finned freshwater eel ACE in the 2013/14 fishing year, effectively shelving the ACE. This decision was founded on Mokau ki Runga RMC's request due to concerns on the declining and/or at risk nature of long-finned eel populations. Te Kupenga has extended the shelving of this ACE to the 2014/15 fishing year.

Quota Value

As at 30 September 2014, Te Kupenga's "settlement" and "normal" quota were subject to value impairments of $45,000 (1.1%) and $9,231 (1.6%) respectively. Quota values can rise or fall when ACE prices change. This can occur due to an increase or decrease in competition for ACE.

2.1.2 AFL Income Shares

Te Kupenga holds 9,086 AFL income shares, increased from 4,543 shares received under the fisheries settlement (through a one for one bonus share issue of AFL income shares in December 2012). It has received annual dividends on this investment from 2010 to 2012 and in 2014.

The income shares were subject to a value impairment of $55,000 (1.5%) on 30 September 2014.

2.1.3 Investment Portfolio

In September 2014, Te Kupenga transferred $1 million into an investment portfolio managed by ASB Wealth Advisory.

The management of the investment portfolio is undertaken in accordance with an Investment Plan prepared by the Investment Manager (ASB Wealth

Advisory) and a Statement of Investment Parameters and Objectives (SIPO) developed in conjunction with IwiInvestor of Taupo for Te Kupenga.

2.2 Directors and Management

On 30 September 2014, Glen Katu was appointed as a Director of Te Kupenga replacing Piki Knap.

The Directors of Te Kupenga are:

Chris Koroheke – Chairperson of the Board - Chris is an independent director, appointed to the Board in 2007 and assuming the role of Chairperson in March 2011. Chris was also the company's part time General Manager from that date (until 20 January 2015).

Daniel Te Kanawa – Director - Dan is a Trustee of MFT. He is an inaugural director appointed in 2007, and was the previous Chairperson.

Tony Magner – Director - Tony is an inaugural director of Te Kupenga appointed in 2007. He has extensive fishing industry expertise and manages the company's operations including its ACE sales activities on a part time basis. Tony takes on the company's overall management responsibilities from Chris when his resignation from the role of General Manager becomes effective (from 20 January 2015).

William Wetere - Director - William joined the Board as an independent director in July 2011.

Glen Katu – Director - Glen was appointed to the Board on 30 September 2014. Glen is a Trustee of MFT and a previous Director of the company from 2007 to 2009.

Piki Knapp – Director (until 30 September 2014) - Piki is a Trustee of MFT who served the company as a Director from 5 September 2012 to 30 September 2014.

All of the directors are affiliated to Maniapoto Iwi thereby having an inherent interest in the development and economic well-being of Ngati Maniapoto and its people.

Te Kupenga encourages the participation of directors at fishing industry conferences, Te Ohu Kaimoana and AFL annual and other shareholders' meetings, and relevant industry forums. The opportunities availed of have ensured that directors are familiar with current fishing industry issues and developments, and the challenges they pose to the company.

2.3 Governance

Te Kupenga Board is committed to operating the company as a commercially viable business, setting and achieving high standards of performance, oversight, accountability, transparency and reputation. The Directors consider that their role is to maintain the right balance between conformance processes and the motivation of management in their entrepreneurial and other performance driving activities that can deliver the successes of the company.

Board Composition

Te Kupenga's constitution provides for a Board of five directors, all appointed by MFT. Of the five directors, up to two can be members of MFT with the others being independent of it.

Management Organisation Structure

A team of three managed the company's operations and business processes, in the 2013/14 financial year, with each performing part time contracted roles as follows:

- Chris Koroheke - General Manager;
- Tony Magner - ACE sales and other operations management including fishing industry related matters; and
- Aloma Shearer – Accounts Administrator.

Te Kupenga's directors who are independent of management monitor the management team's performance.

The management team is responsible for the day-to-day operations of the company. Decision making, on routine core business matters, has been delegated to the team by the Board. Management retains expertise to ensure due attention is given to key opportunities and issues assisting both Board and management's information and decision-making. This also ensures that rational and businesslike choices are made by avoiding ad-hoc or emotionally influenced decisions. Management makes recommendations on matters requiring Board attention.

Board and Other Meetings

In the 2013/14 financial year, the Te Kupenga Board met formally on three occasions. The Board also participated in a planning workshop held in November 2014.

The management team (excluding the accounts administrator) met on more than ten occasions during the year. The majority of these meetings were convened to monitor progress, resolve issues and/or make interim decisions on the negotiation and agreement of provisions included in the sale and purchase of ACE agreement with Sealord. The agreement was approved by the Board and signed in September 2014.

Reporting

The management team is responsible for the preparation of annual Business Plans, Budgets, Statements of Corporate Intent (SCI) and Audited Financial Statements, and quarterly management and financial reports.

Te Kupenga's end of year financial statements are audited by Deloitte of Hamilton.

Shareholder Relations

Te Kupenga has evolved an active relationship with MFT. Te Kupenga directors regularly attend meetings of MFT and its Finance and Risk sub-committee.

Annual SCIs formally document the understanding that exists between Te Kupenga and MFT. The SCI sets out the intentions and specifies the targets that Te Kupenga expects to achieve each financial year. It also reports on and compares the company's financial performance in the previous financial year with the targets agreed for that year. Other matters agreed in the SCI currently include Te Kupenga's:

- Accounting, borrowing, investment, dividend (to be amended), treasury, purchases and disposals, non-core activities and human capital policies; and
- Information reporting requirements.

3. Highlights and Key Issues for 2013/14

3.1 ACE Sales

Te Kupenga competes with other ACE holders to both sell and obtain the best prices for its ACE. The challenge each season is to sell a high proportion of mainly high value and weight ACE fish stocks at market or better prices to customers who can honour their annual or longer-term purchase commitments.

In the 2013/14 financial year, Te Kupenga's inshore, highly migratory species, short-finned eel and some scampi ACE, which are each subject to three-year agreements expiring in 2014/15, were sold to their contracted buyers. New sales arrangements for this ACE with the same or other customers need to be established before the commencement of the next fishing year on 1 October 2015.

Te Kupenga's catchable deep-sea ACE was sold to Sealord under the terms of a long-term agreement, which was finalised during the year.

ACE Sales Revenue

Te Kupenga's ACE sales for 2013/14 were $676,128 against a budget of $579,873 and compared to $609,425 achieved in the previous year.

The total revenue generated from ACE sales during the year, including the ACE sales profit share, was $1,059,044. This figure includes $382,916 of profit share agreed with Sealord for 2012/13 and 2013/14.

ACE Prices

Many factors including market and economic conditions prevailing in fisheries product markets mainly offshore, NZ dollar exchange rates, vessel capacity, fishing and other costs, state of NZ's fisheries, Total Allowable Commercial Catch (TACC) levels, deemed values, and strengths of buyers and sellers bargaining positions affect ACE prices.

Te Kupenga has been fortunate that low ACE prices in recent years have been offset by dividend income from AFL. However, we did not receive a dividend from AFL in the 2013/14 year. The income for the year, on the other hand, included the exceptionally high ACE sales profit share of $382,916 referred to earlier.

Economies of Scale

Te Kupenga has close working relationships, with regard to ACE sales, with the other two Tainui Waka Group (TWG) members – Raukawa Asset Holding Company (Raukawa AHC) and Tainui Group Holdings (TGH). The consolidation of ACE between TWG members benefited them from scale related sales prices and efficiencies normally enjoyed by large ACE parcel holders. Scale related gains relating to deep-sea ACE somewhat diminished with TGH's ACE being managed by Sealord. Te Kupenga has, however, been able to forge an alliance with a number of other Iwi including Ngati Kahungunu and groups of Iwi from Taranaki, Wanganui and top of the South Island led by Ati Awa, regaining bargaining power advantages as before.

ACE Sales to Sealord

During the year, Te Kupenga concluded a five-year agreement to sell its catchable deep-sea ACE to Sealord on an "ACE plus Profit Share" basis. The agreement provides for weights of ACE and their unit prices to be agreed at fair market value annually and a share of the profit derived by Sealord on the product produced from the fish harvested utilising the ACE supplied to be earned. Consequently, in addition to ACE sales, the company earned profit share contributions of $84,736 for 2012/13 and $298,180 for the 2013/14 financial year (Total of $382,916). These profit shares represent premiums on ACE sales of 20.1% for 2012/13 and 62% for 2013/14.

Other ACE

Te Kupenga, along with the other members of the TWG, sold its October 2012 to September 2015 inshore, highly migratory species, eel and some scampi ACE on a cash upfront basis (subject to annual adjustments for ACE quantity changes).

3.2 Quota Purchase

In September 2014, Te Kupenga purchased a quota shares package containing primarily high value orange roughy quota in fish management area 1 (ORH1), which is mainly harvested off the west coast of the North Island. Maniapoto was one of nine Iwi that purchased the quota packages at $555,556 each. This purchase expands the company's operations from the 2014/15 financial year.

The quota contributes to Te Kupenga's profitability through ACE sales as well as a profit share relating to the catchable ACE sold to Sealord.

3.3 Investment Portfolio

The company has established an investment portfolio with ASB Wealth Advisory being the Investment Manager. This new activity was established to take small steps in diversifying the business and thereby mitigating risk. Other than this asset, the company relies solely on earnings derived from the fishing industry. Te Kupenga's business plan identified the need for the company to diversify its interests.

Te Kupenga evaluated and determined that ASB Wealth Advisory was the most suitable investment manager for it to appoint. The company considered the extra skills and advice, and the assistance it required to manage the risks inherent in generating returns on passive investments.

In this respect, Te Kupenga also took independent advice from IwiInvestor, which is a firm of qualified investment advisors. Together with IwiInvestor, the company developed a comprehensive Statement of Investment Parameters and Objectives (SIPO). The SIPO provides all parties involved in the management of the investment portfolio with a document that:

- Identifies the investment objectives, strategy, performance measurement criteria and the constraints to be observed; and
- Clarifies responsibilities and provides guidance, controls and performance benchmarks relating to the investments to be made and in managing those financial assets.

Te Kupenga's business and financial exposures were evaluated by both IwiInvestor and ASB Wealth Advisory to determine the type of investment portfolio (growth) that would be appropriate for the company.

Te Kupenga seeks a target return of 7% on its investment portfolio currently.

3.4 AFL Dividends

Te Kupenga has earned dividends on its investment in AFL income shares from 2010 to 2012, and 2014. We acknowledge that each year's dividend depends on the performance of AFL and Sealord, of which 50% is owned by AFL.

Te Kupenga did not receive a dividend in 2013, as AFL made a net loss of $6 million for the year ended 30 September 2013. AFL Group's failure to make a profit was mainly due to the losses Sealord incurred in exiting its Argentinian subsidiary. AFL resumed paying dividends in 2014.

3.5 Securing Remaining Settlement Quota

Te Kupenga has not yet received the balance of Maniapoto Iwi's entitlement to coastline based quota and all freshwater eel quota.

Coastline based quota

The balance of the coastline based quota (between Waipingau Stream and Mokau River) awaits the agreement of Maniapoto Iwi's coastline boundary with Ngati Tama.

Te Ohu Kaimoana has been working closely with Ngati Tama representatives to assist them establish a Mandated Iwi Organisation (MIO). They consider that it could be easier for Te Kupenga to resolve the coastline issue with Ngati Tama's MIO. Te Ohu Kaimoana expects to appoint a facilitator acceptable to both parties, to resolve this issue, as soon as Ngati Tama establishes a MIO, which is likely to be this calendar year. Te Ohu Kaimoana has advised that it has identified a facilitator who has agreed in principle to undertake the role.

Eel quota

The other quota that is yet to be allocated is in respect of long-finned and short-finned freshwater eel. The eel quota awaits the agreement of Iwi populations, within eel fish stock management areas, with neighbouring Iwi. The allocation arrangements for eel quota have a default mechanism defined in the MFA. Consequently, its allocation can be easier as, in the event of disagreement amongst Iwi, the default mechanism would apply. The default allocation methodology is currently used as the basis for eel ACE access by Iwi.

3.6 Review of Settlement Entities

MFT, in conjunction with Te Kupenga, made a comprehensive submission to the reviewer of the settlement entities' governance and other arrangements. The submission canvassed, amongst others, the following:

- Quota accessed by Sealord and quota owned by AFL to be distributed (over time where required) to iwi in conjunction with the sale of ACE generated on the quota back to them;
- Distribution of AFL income shares (20% of AFL's income shares) currently held by Te Ohu Kaimoana to iwi; and
- Safeguards to protect smaller iwi (including Maniapoto) should the reviewer recommend the transfer of voting rights in AFL from Te Ohu Kaimoana to iwi (whereby 6 iwi or 10% of iwi out of 57 would then

control AFL).

3.7 Pataka Kai

Te Kupenga has taken initiatives aimed at establishing a Pataka Kai arrangement for Maniapoto Iwi. The company's involvement, in this respect, has included working with Sealord, Ministry for Primary Industries, Te Ohu Kaimoana and other Iwi representatives to advance matters. The next stage may require some legislative amendments for product harvested by factory trawler fishing vessels to qualify for Pataka Kai.

Eventually, the system will be handed over to the distribution committee of MMTB/MFT for their implementation of local matters and administration. In the meantime, Te Kupenga is attending to Maniapoto Iwi's Pataka Kai arrangements.

4. Financial Performance

Te Kupenga's audited financial statements for the year ended 30 September 2014 accompany this report. We provide a summary of the company's recent financial performance and 2014/15 budget below.

Summarised Financial Performance Years Ended 30 September	2011 Actual $	2012 Actual $	2013 Actual $	2014 Actual $	2015 Budget $
Revenue					
ACE Sales:					
Settlement quota	533,062	562,880	586,015	654,811	619,518
Normal quota	2,181	2,181	678	838	35,883
Agreed ACE	157,962	156,567	22,732	20,479	25,601
ACE sales profit share				382,916	142,845
Total	693,205	721,628	609,425	1,059,044	823,847
Cost of Sales:					
Levies and charges	93,690	98,888	118,766	130,510	135,960
ACE charges	31,510	29,874	5,276	6,735	6,800
Total	125,200	128,762	124,042	137,245	142,760
Gross Profits:					
Own quota	441,553	466,173	467,927	525,139	519,441
Agreed ACE	126,452	126,693	17,456	13,744	18,801
ACE sales profit share				382,916	142,845
Total	568,005	592,866	485,383	921,799	681,087
Operating Surplus	372,305	456,899	241,536	656,587	418,347
Interest	40,505	46,939	56,994	62,719	3,600
Dividends - AFL	340,761	410,933	308,259		320,000
Other	10,307			-4,500	60,000
	763,878	914,771	606,789	714,806	801,947
Fish quota received		1,184,000			
Special dividend - AFL			1,090,320		
Net Surplus	763,878	2,098,771	1,697,109	714,806	801,947
Margins					
Gross profit	*81.9%*	*82.2%*	*79.6%*	*87.0%*	*82.7%*
Operating surplus	*53.7%*	*63.3%*	*39.6%*	*62.0%*	*50.8%*
Return on Assets					
Return on own/held quota	*7.6%*	*10.8%*	*5.3%*	*15.4%*	*8.5%*
Return on own/held quota and AFL shares	*8.5%*	*10.9%*	*6.8%*	*8.3%*	*8.7%*

Financial Performance for 2013/14

In the 2013/14 financial year, Te Kupenga achieved a net surplus of $714,806 against a budgeted surplus of $362,773. The main reason for the favourable variance was the ACE sales profit shares agreed with Sealord for both 2012/13 and 2013/14.

ACE sales for the year generated a gross profit of $921,799 (2013: $485,383).

2014/15 Budget

Te Kupenga's 2014/15 budget reflects a net surplus of $801,947 compared to $714,806 achieved in 2013/14.

The key contributors to the surplus are:

- ACE earnings, net of selling and general expenses, of $418,347 (2014: $656,587, which includes the accounting of an exceptionally high ACE sales profit share);
- AFL dividend - $320,000 (2014: Nil); and
- Interest and investment income - $63,600 (2014: $58,219).

Profit Share from Sealord

The ACE sales profit share, included in the ACE earnings set out above, has been budgeted on a conservative basis at $142,845 (2014: $382,916 comprised of $84,736 for 2013 and $298,180 for 2014).

5. Other Reporting Items

The directors are specifically required, as set out in the company's constitution, to report on Te Kupenga's performance and activities relating to Settlement Quota, Income Shares in AFL, Subsidiaries and changes to the Constitution.

We report on these as follows:

Investments

Te Kupenga's surplus funds (pending investment in expansion and/or diversification) are invested in a portfolio managed by ASB Wealth Advisory and term deposits with the ASB bank. Some funds are retained on call and others placed on long-term deposits subject to the company's cash flow needs.

Subsidiaries

In December 2012, Te Kupenga established two subsidiary companies - Te Kupenga LP Limited and Te Kupenga GP Limited. The purpose of these companies was to participate in a Limited Partnership venture with Sealord in support of making deep-sea ACE sales to the venture. As the envisaged venture with Sealord did not proceed as originally proposed, the subsidiary companies remained dormant. Both companies were therefore struck off in 2014.

Interests Registered against Settlement Quota

Te Kupenga has not mortgaged nor registered any interest against its Settlement Quota.

Trading of Income Shares

Te Kupenga has not since its inception sold, acquired or exchanged any interests in income shares nor is there any current intention to do so in the future.

Trading in Settlement Quota

Te Kupenga has not sold or exchanged Settlement Quota nor is there any intention to do so in the future.

Constitution

No changes have been made to Te Kupenga's constitution.

6. Looking Forward to 2014/15

Te Kupenga's key intentions going forward, as also set out in the company's purpose statement, are to operate ***"in a prudent, commercial and profitable manner for the sole benefit of Maniapoto Fisheries Trust whilst growing and diversifying the business".***

In terms of the above, Te Kupenga intends to focus over the medium term (3 – 5 years) on building capacity and resources, and achieving stepped growth while positioning for the future. We consider that undertaking development in this manner can provide the inertia for Te Kupenga to remain "ahead of the game" while mitigating sectoral risks.

Budgeted Financial Performance

A summarised budget of the company for the 2014/15 financial year is shown in the Table in Section 4.

Operational Thrust

The key areas of focus for Te Kupenga in the 2014/15 financial year are:

- Ensuring arrangements for the sale of ACE, for fish stocks having sales agreements expiring during the year, are established before 1 October 2015;

- Deriving consistent returns on the company's "settlement" and "normal" fish quota by harnessing its activities, resources, relationships and skills, and in the process continuously improving performance;

- Pursuing growth by finding customers and evaluating business venture prospects to sell hitherto unsold ACE while seeking other expansion and diversification opportunities; and

- Implementing programmes that reduce the company's weaknesses and vulnerabilities by building capacity for the future; and

- Continuing to maintain close relationships and work in collaboration with other iwi having common interests.

7. Conclusion

The directors' commitment to the kaupapa of Ngati Maniapoto is reflected in their performance orientated approach to the business and activities of Te Kupenga.

We take pride in ensuring effective performance and realising returns contributing to the development and improvement of Maniapoto Iwi.

No reira ma te Atua koutou e manaaki

Te Kupenga o Maniapoto Limited

Chris Koroheke
Chairperson