



AOTEAROA  
*fisheries limited*



# Interim Report

Six Months to 31 March 2007

07



# Contents

Directors' Report .....	4
Sealord Group .....	6
Key Business Issues and Risks .....	8
Group Overview and Key Activities .....	10
Key AFL Markets .....	13
Species Report .....	14
Consolidated Statement of Financial Performance .....	15
Consolidated Statement of Movements in Equity .....	16
Consolidated Statement of Financial Position .....	17
Consolidated Statement of Cash Flows .....	18
Consolidated Reconciliation of Net Surplus for the Period with Net Cash Flows from Operating Activities .....	20
Statement of Accounting Policies .....	21
Directory .....	25

## Directors' Report

The Directors of Aotearoa Fisheries Limited (AFL) are pleased to present the Interim Report for the Company to our Shareholders. This report covers the six months to 31 March 2007.

For the six months ended 31 March 2007 the unaudited net surplus for the Group was \$18.4m compared to \$15.0m for the same period last year, an improvement year on year of \$3.4m. Compared to our business plan the interim result is an improvement of \$1.3m. This is a very encouraging start to the year in the face of some very significant challenges both economic and political.

The above result includes profit on asset sales of \$3.0m (2006: \$1.6m) and a net surplus of \$10.0m (2006: \$10.8m) from our 50% share of Sealord Group Limited (Sealord), the lower performance from Sealord is primarily due to the strong New Zealand dollar (NZD).

In our last Annual Report we advised Shareholders that our planned net surplus for the 2006/07 financial year was \$23.6m. After the first six months of the financial year we are well advanced towards achieving this target. However the economic conditions for the second half of the year, in particular the volatile and over valued NZD and high interest rates, will make this task extremely challenging.

The impact of the over valued NZD is significant and is a product of the current monetary policy being operated by the Reserve Bank to manage inflationary pressures in the domestic economy. The Reserve Bank is using high interest rates in an attempt to reduce consumer spending, moderate growth in the housing sector and counter the inflationary impacts of increased Government spending.

Unfortunately for the export sector of the New Zealand economy the high interest rates are supporting the NZD at levels that are unsustainable for most exporters. From 31 March 2006 to 31 March 2007 the value of the NZD versus the USD has increased by 17%. The Reserve Bank in attempting to control domestic inflation is creating significant imbalances in the economy and causing damage to the manufacturing and export sectors that will take years to overcome and in many cases hard won export markets will have been lost in the process.

The interim result is notable for the strong performances from the Inshore and Abalone businesses; however the returns from the Aquaculture business have been disappointing to date.

The Inshore business continues to build on the significant management and structural changes that have been implemented since this business came under the AFL umbrella. The last eighteen months has seen a major focus on changing organisational culture, significant improvements in operational efficiencies, and rationalisation of processing plant and fleets. These changes have been reflected in a continuing positive trend in performance of the Inshore division. The net surplus for the six months has increased to \$2.8m (2006: \$0.9m) which is better than planned. In addition to the benefits from tighter management, landings and markets for key species have been good in the first half of the year and the full impact of the high NZD has been mitigated to a degree by hedging.

The Abalone business has delivered another strong first half performance despite being heavily exposed to the NZD:USD exchange rate which has been the most unfavourable and volatile combination. Sales into the Hong Kong and Singapore markets for the Chinese New Year period were strong and the net surplus from this business is ahead of plan for the first half of the year.

The financial returns from the investment in increasing the capacity of the factory in Palmerston North are being realised and the business is benefiting strongly from the diversification of earnings through increased sales under the British Ministry of Defence contract.

The Aquaculture business performance has been disappointing, particularly coming off the back of such a good year last year. Demand for pacific oysters has been softer and we have not been able to achieve increases in prices to offset the adverse currency impacts.

Our balance sheet remains very strong with total assets of \$405.7m (2006: \$378.8m) and net bank debt of \$25.8m (2006: \$29.7m). We continue to seek opportunities to invest further in the business where we believe we can achieve good returns and enhance the business of AFL. We are pleased to be able to outline two significant acquisitions that we have recently completed that will further strengthen AFL's position in the North Island inshore fishery and pacific oysters.

## OPC Fish and Lobster Limited

During March 2007 we purchased the business of OPC Fish and Lobster (OPC) and its associated quota. OPC is based in Whitianga and operates a very successful business focusing on inshore wetfish, lobster and scallops. This business is very complementary to our existing AFL operations and strengthens our overall position in these fisheries. We are pleased to have retained the services of Elisha Yahel as General Manager of OPC. To further strengthen the OPC position in the CRA2 area and to expand this business we also completed the purchase of South Pacific Tauranga Limited who maintained a strong position in the CRA2 fishery providing an excellent service to their harvesters. These acquisitions will enable us to provide a superior service to our local harvestors and to further develop our market relationships on the back of increased volume and quality products.

## Kia Ora Seafoods Limited

During February 2007 we completed the purchase of the business of Kia Ora Seafoods (KOS). KOS specialises in the processing and marketing of pacific oysters and operates out of a modern oyster processing factory in Manukau, South Auckland.

The purchase of the KOS business when combined with our existing pacific oyster business provides us with a 50% increase in volumes up to 1.2m dozen pacific oysters processed and sold per annum. The Kia Ora brand is a premium brand with a strong reputation in the market for the high quality of their products. We will continue to use the Kia Ora brand as a premium product within our overall product offerings. The KOS modern processing factory will provide us with opportunities to increase the efficiency of our oyster processing activities.

These are bold moves in an economic climate that is not helpful to exporters but we are committed to investing in quality assets and businesses that will add value to AFL on behalf of our Iwi Shareholders.

## Outlook

The AFL strategy to build long-term commercial partnerships with targeted Iwi has resulted in thirteen Iwi groups committing approximately 10,000 tonnes of Annual Catch Entitlement (ACE) to AFL and Sealord, thus providing increased levels of certainty into both Iwi and AFL business planning. Our priority now is to confirm multi-year arrangements for that ACE and to ensure we deliver the agreed services and benefits to our Iwi partners.

It is pleasing that the Government has agreed to the New Zealand industry proposal to close 31% of New Zealand's Exclusive Economic Zone (EEZ) to protect the bio-diversity of the benthic environment. Sealord, Sanfords, Talley Fisheries and AFL were four of the architects of this proposal, which is the largest total closure to bottom trawl fishing within an EEZ ever undertaken in the world. Coupled with the fact that less than 10% of New Zealand's EEZ is bottom trawled, it represents significant and representative protection for the marine environment.

## Sealord Group

Sealord has performed well in the first nine months of the 2006-07 year in a tough business environment. The year began with an average hoki season and sales that fell below plan, but good catches, good prices and growth in the company's global businesses have produced sound results to date. In general, Sealord's marketing businesses are doing well. Market conditions for Sealord's core species remain firm, and there is still strong demand for wild-caught seafood from sustainable fisheries, although there is pressure on orange roughy and block prices.

The strength of the NZD is affecting Sealord as it affects all Kiwi exporters and this, coupled with rising Government-driven operational costs, is predicted to push earnings for 2006-07 below last year's level. Sales revenue for the first nine months of the year is slightly below plan, partly as a result of the high dollar and partly as a result of constraints in the supply of purchased seafood.

Three years of a high NZD, coupled with escalating operational and Government-driven costs, have reinforced the importance of Sealord's strategic focus on expansion overseas, closer to global markets, rather than in New Zealand. The company has downsized its New Zealand fishing and processing operations over the past couple of years and has now concentrated all wetfish and coated product processing at its Nelson site.

In January Sealord Caistor began processing at its new \$10m plant in the UK which was officially opened by the Rt Hon Jonathan Hunt at the end of April. Caistor, which supplies all the white fish to UK retail chain Waitrose is one of the jewels in Sealord's crown and thanks to Caistor's excellent service and quality Waitrose was recently awarded the Seafood Retailer of the Year Award. Caistor's sales have grown from £9m (NZ\$23.7m) in 2000/1 to a projected £35m (NZ\$92m) this financial year and the range includes frozen, chilled and 'fresh breaded' product. The new plant will enable Caistor to expand the range of product supplied to Waitrose and plans for the future include new chilled coated lines and frozen meals.

Sealord has consolidated its Northern European marketing and industrial food business around Danish-based Nordic Seafoods AS. Sealord and Nissui both acquired a shareholding in Nordic last year. Now the joint venture includes Nissui Europe as well as the Sealord operations with sales of US\$270m (NZ\$360m) per annum. Nordic has plans to move into the Italian market and Eastern Europe and to grow its retail business by targeting high-end retail chains. Sealord's Southern European joint venture, Europacifico, is also going from strength to strength. In three years turnover has grown from EUR36m (NZ\$65m) to EUR53m (NZ\$96m) and the company is using its strong position in the Spanish and Portuguese markets to build growing relationships with key clients.

After several challenging years Sealord's Australian retail business is making good progress to build its share of the Australian retail market using its re-launched frozen product range and chilled fresh fish. Frozen retail product has gone ahead in leaps and bounds this year. Supplied by the Nelson

coated products plant, the Australasian marketing team more than doubled Sealord's market share of Australia's frozen seafood meal category in five months and the percentage is steadily growing. Chilled fresh fish sales are also increasing thanks to Sealord's access to more inshore quota through its 50% share in Greymouth-based Westfleet Seafoods Limited. Sealord bought into Westfleet early in the 2006-07 financial year as part of its long-term strategy of developing a chilled fish retail business in Australasia. The purchase of a share in Westfleet builds on the 2005-06 purchase of Pacifica's East Coast South island inshore quota and Tasmanian salmon supply to the Australian market from Sealord's partner Petuna.

Sealord's fishing operations, both in New Zealand and international waters, have performed strongly in the nine months to March. Catch rates have been good and costs well managed. Sealord and AFL have promoted co-operation within the New Zealand fishing industry and co-operative strategies, such as contract catching on the most efficient vessels, pooled results from joint venture operations in Antarctica, long term lease deals on Iwi quota and timely redeployment of vessels in response to opportunities, are creating significant additional earnings.

The major downside in the fishing area is the Government-imposed increase in wages for crews on foreign charter vessels. Sealord and AFL campaigned against this increase which pushed foreign wage rates above the New Zealand minimum wage. The increase is estimated to cost Sealord a minimum of \$4.8m a year and the fishing industry a minimum of \$30m a year.

It has been a tough year for Sealord's New Zealand wetfish processing plants. Sealord has introduced new technology into its Nelson plant, alongside day-to-day operations, by installing three Baader filleting machines, a Marel portioner, a forming machine and a Scanvaeght grader. Productivity from these machines was not as good as expected during the 2006 hoki season and the company's focus in the coming year is on solving the problems and maximising the gains. In December 2006 Sealord closed its Dunedin processing plant and transferred processing to Nelson. Dunedin had been an integral part of the company's operations for many years and a very good performer, but a combination of currency, escalating property, fuel and utility prices and Government charges, and Sealord's belief that an increase in the hoki TACC is further out than first thought, made it uneconomic to continue operations in Dunedin.

Safety has been a highlight of the nine months to 31 March. Over the past few years Sealord has put a huge amount of effort into improving health and safety in the workplace. Its five-year goal was to reduce its Long Term Injury Frequency Rate (LTIFR) to 8 and this March, at the end of three and a half years, it had reached that level. This compares with an LTIFR of 12 at the end of March 2006 and 33 back in 2003. It augurs very well for targeting an LTIFR of 5 in the next financial year, which would put Sealord into the top grade of all industries.

Since the end of this reporting period Doug McKay has resigned as Sealord Chief Executive to take up a new role in Pacific Equity Partners. During his tenure the Company delivered record results in very difficult business conditions.

Rob McLeod also announced his intention to step down from the Boards of Te Ohu Kaimoana, AFL and Sealord following his appointment as Managing Partner New Zealand of Ernst and Young. In his time Rob has made a huge contribution to Maori fisheries generally and many of the major fisheries transactions made by the Te Ohu Kaimoana Group. The AFL Board wishes to express its appreciation to Rob for his contribution to the Company.

## Key Business Issues and Risks

### ‘Shared Fisheries’

Although high fuel and energy costs, the over valued NZD and high interest rates pose constant risks to AFL; the issue of Shared Fisheries threatens to permanently damage Maori commercial fishing rights. The Shared Fisheries discussion paper produced by the Ministry of Fisheries and guided by the Minister and Cabinet introduces a new – and unwelcome - element of insecurity into Iwi commercial fisheries.

The Shared Fisheries paper alleges that uncertainty surrounds the process for allocating available catch between commercial, customary and recreational fishers. There is no uncertainty because there is no process. Neither should there be. While there are theoretical powers under the Fisheries Act for a Minister to make such re-allocations, those powers are not used because to do so would undermine the Deed of Settlement.

The irony is that recreational catch is not effectively managed now and, even if all of the proposals in Shared Fisheries were implemented, recreational fishing would still not be effectively managed. Any document produced by the Ministry of Fisheries on recreational fishing must recognise and address the relentless growth of recreational catch. That growth is eroding quota holder property rights and the Maori commercial and non-commercial share of the Total Allowable Catch (TAC). As such it comprises an informal transfer of Settlement assets to recreational fishers.

The key integrity issue is that the TACC must remain a constant proportion of the total sustainable catch level (the explicit or implicit TAC) over time. If this proportion declines there must have been an expropriation of catching rights to another sector. Such expropriation undermines the Deed of Settlement.

AFL recognises the difficulties in managing recreational take effectively but is dismayed that little resource, imagination or will has been applied to this task since 1992. Arguably, this slack performance breaches the Crown’s duty of care and fiduciary obligations to its Treaty Partner and in particular, its responsibility to actively protect the Fisheries Settlement.

The Shared Fisheries proposal does not provide a solution. It creates a new and bigger problem. In particular the potential negative commercial impact of reallocating ‘recreational’ species is much greater than the volume of recreational catch seems to suggest. The issue is compounded because a significant portion of AFL investment sits squarely in those fish stocks identified as key species for reallocation to recreational fishers. Although these ‘recreational’ species account for 4% of national catch by volume, they account for 36% of the value of New Zealand’s quota fisheries. Given the fixed cost component of the AFL business the reduction in profitability would be disproportionate.

AFL is sympathetic with the idea that New Zealand needs a process to re-allocate available catch over time to users who value that right most highly. In principle, this can only be done using a method or formula that ensures the Deed of Settlement is not undermined. If the only way this can be achieved is through willing-buyer/willing-seller trades of interchangeable fisheries rights then that must be the way forward. But a necessary pre-condition for such trade is that all fisheries rights would have to be expressed as an explicit share of the TAC and all harvesters would have broadly equivalent responsibilities to report catch and constrain it within their entitlements.

To avoid crystallising a breach of the Fisheries Settlement and introducing a further period of uncertainty for fisheries management in New Zealand, the only sensible and morally sound course of action open to the Government is to withdraw the paper in favour of a model that enhances the Quota Management System (QMS) framework that is an integral part of that Settlement. AFL would be happy to work constructively and co-operatively to develop such a model but we are unable to conceive how this could be done from a Shared Fisheries foundation in which the dice are already loaded against Maori commercial interests. We note that:

- It is not a responsibility of the Government, Minister or Ministry under the Fisheries Act, to 'maximise value' in the way outlined in the paper;
- No robust methodology for assessing relative sectoral values exists;
- The Crown's fiduciary obligations to Maori and its duty to protect the essential strength of the Individual Transferable Quota (ITQ) property right cannot be abandoned in favour of recreational pastimes; and
- The powers of Government should not be used to expropriate fishing rights from one group of holders in order to hand them to an alternative group.

It is a matter of record that Maori accepted ITQ as a major component of the Fisheries Settlement. ITQ was acceptable as a 'currency' of the Settlement because it was portrayed as a secure property right and the QMS was explicitly endorsed as a lawful and appropriate fisheries management regime for ensuring the sustainable management of the commercial fishery in New Zealand. Once the Settlement was agreed the nature of the ITQ property right took on the additional status or character of a Treaty right.

Maori do not accept that ITQ can be expropriated for allocation to other harvesting sectors. Maori are entitled to secure possession of their Settlement assets and rights just as they desired, and were entitled to, secure possession of the fishing rights supposedly protected by the Treaty of Waitangi. That requires the Government to continually and actively protect the 'currency' of the Settlement (ITQ).

We believe that the Minister would not have released Shared Fisheries if he had been properly advised that there were profound implications for the integrity of the Deed of Settlement. The advice that he received that there are no implications for the Settlement and that the proposals in Shared Fisheries would, in fact, be positive for Maori is bad advice. It is wrong and inconsistent with the widely held Maori view.

Shared Fisheries is taking us all in the wrong direction. We need to stop, re-assess the real problems facing us and work imaginatively to address those problems without undermining either the Deed of Settlement or the excellent foundations already provided by the QMS.

## Group Overview and Key Activities

### AFL Inshore

#### Moana Pacific Fisheries (Moana)

A significant and deliberate cultural change within the organisation has resulted in staff now being more engaged in the business. Staff are motivated to succeed, and provide fresh ideas on how their individual performance and efforts impact on their teams and the business.

This positive change towards optimal organisational performance has been assisted by regular internal communication, clear direction from management and continual feedback on performance and results.

### Wetfish

#### Harvesting

Landings to date, planned to optimise the flow and mix of product to maximise market revenues, are slightly ahead of budget. These developments have been supported by our rationalisation strategy towards an economically viable fleet.

Fishers for Moana are now reinvesting in and upgrading their vessels and are positive about their future in the fishing business. The success in this strategy is reflected by the level of interest from other fishers wanting to fish to Moana, and their support of the Moana catch/harvesting plans.

#### Operational Efficiencies

The introduction of bar-coding at the Pukekohe plant has improved inventory management and reduced waste, and has also generated improved yield reporting. This IT innovation has allowed for management information to be electronically transferred to the Navision Enterprise Resource Planning system.

The introduction of Inventory Management within Navision has meant that minimal use of outside storage is now standard operating procedure.

#### Sales and Marketing

The concentration on our market led strategy of chilled and fresh fish has been very successful in the first six months with buoyant demand and prices in both export and domestic markets.

Up to date information on harvest quantities, stock positions and individual product contributions are available for analysis by sales and operational teams greatly increasing marketing and operational efficiencies. This coordination between marketing and harvest has smoothed product flows and consequently negated the supply driven price fluctuations and the need, common in previous years, to freeze excess product. The reduction in frozen snapper has been dramatic with a decline from 40% of total volumes landed to less than 5%.

## Lobster

In the previous fishing season 26% of the TACC for CRA<sub>4</sub> was uncaught. Consequently, in order to rebuild the fishery quota owners agreed to a 44% shelving of CRA<sub>4</sub> ACE. As might be expected this voluntary action has the potential to have a negative impact on the Lobster business unit's performance.

However, although reduced volume through-puts will adversely affect costs, other opportunities to mitigate the cost impact are being pursued.

The Awatoto lobster plant at Napier is under construction with completion date being targeted for July 2007. The facility will function as a multi-use facility, allowing it to process lobster, as well as wetfish, crabs and/or clams to meet future demand.

Bar-coding technology has now been introduced at the Mangere lobster plant to produce the same superior type of management reporting already developed within the Wetfish division.

Moana is positioned as the premium supplier of New Zealand live lobster in the Asian markets. Our premium market position has been significantly enhanced with the recent AFL acquisition of OPC at Whitianga. The increased volume from OPC and other quota purchases in CRA<sub>1</sub> and CRA<sub>2</sub> will assist in offsetting some of the losses from the reduction of the CRA<sub>4</sub> TACC. In fact catch exceeds plan in all CRA areas except CRA<sub>4</sub>.

## Sales and Marketing

Demand and price are strong in the key live markets of China and Japan. Buyers in the improving Japanese market understand that they must obtain price parity with their Chinese counterparts if they are to retain supply. Chinese buyers are expanding their business by supplying the new inland growth areas west of Shanghai and north east of Guangzhou. This strong demand and high pricing has resulted in margins being achieved that are better than plan.

## Eels

Our new Plant Manager at Whenuapai has driven significant improvement in operational effectiveness and business planning. The Whenuapai eel plant will be re-engineered using redundant equipment available within the larger Moana organisation. This will result in improved operational efficiency, lower eel mortality rates and improved holding capacity.

Unfortunately the Northern fisheries area continues to disappoint with catch volumes, in spite of sending experienced fishers to the north to help resident fishers. Recently AFL eels has had successful discussions with Ngapuhi in respect of supplying fishers for the next season to catch the eels and thereby create value for Ngapuhi for ACE that was not being utilised.

## Sales and Marketing

Eel sales show positive trends in foreign markets. Live eel sales into Taiwan and China have increased; live sales into the USA have continued well past the traditional season, and sales into Europe have been very successful with improving demand.

## AFL Abalone

Paua is marketed by Prepared Foods Limited (PFL) at our processing plant located in Palmerston North. As previously reported Dean Moana has taken over as CEO from Jim Pendleton. Jim has been a stalwart servant of Prepared Foods and the Board acknowledge and recognise the huge contribution Jim has made through the years.

The commercial paua arrangements with Ngai Tahu Seafood Products Ltd are in their second season and the relationship continues to provide positive benefits to all parties.

Paua landings were affected early by poor weather but thanks to efforts by our joint venture partners Ocean Ranch, and our staff, volumes fished and processed during December and January meant sales for the all important Chinese New Year were on target.

Strong demand in the lead up to this year's Chinese New Year saw revenue for the period in line with plan. But the subsequent improvement in abalone market prices was largely offset by a volatile NZD which continues to constrain export revenue.

Sales for the period included the completion of the first year of a three-year supply contract for retort pouched meals to the British Ministry of Defence. Sales are expected to be up on the first year's volumes and we are now looking to get European Union plant certification for potential supply of meat-based products to the UK.

The investment in new processing equipment has led to an immediate improvement in processing quality and output of retort meals. The research and development team are now working on a number of new products for future business development opportunities.

## AFL Aquaculture

After a strong start to the oyster season Pacific Marine Farms' performance for the second quarter has been disappointing. This is largely a result of off-season low sales activity and inventory as production from contracted third parties did not meet our expectations.

On 28 February 2007 AFL completed the purchase of Kia Ora Seafoods in Manukau. This purchase provides the extra processing capacity required by the aquaculture division to meet future oyster production and sales requirements.

The conversion of oyster farming areas from intertidal stick culture to BST (nylon bag) farming continues. More areas will be converted to this method of farming due to the improvement in quality and increasing demand for this style of oyster from overseas markets.

A number of organisational changes have been made in the division and to the operational structure since the acquisition. AFL's Inshore sales team will now manage sales for both Pacific Marine Farms and Kia Ora. This will allow the Aquaculture division to focus on farming and processing efficiencies.

The strengthening NZD has had an extremely negative affect on earnings. Export prices in both Japan and Australia markets have been static through the period and therefore recent NZD increases have impacted straight to the bottom line.

## Key AFL Markets

### Domestic

Upheaval in the Auckland wholesale fish sector during the last six months has been beneficial to Moana, as our consistent supply of good quality product has attracted a loyal clientele. Moana is now well placed to take advantage of spot opportunities in the market through the Auckland Bazaar operation.

The recently completed Bazaar upgrade including additional chiller space has enabled the operation to supply whole fish more efficiently to the domestic market. After six months of this year the Bazaar sales are 94% of last year's sales. While this is directly attributable to the strategy to increase sales of whole fresh fish, there has been significant growth in the very important food service sector.

Improved information flow on daily catch volumes has been of great advantage to our sales and marketing program. Initiatives instigated in the first six months will continue to be advanced in both our whole fish and foodservice areas during the remainder of 2007. A review of the supermarket business will be an important factor in determining future strategy paths.

### Australia

Australia continues to be the main destination for AFL's chilled product. Changes in the Australian fishery have created a shortfall in supply that has resulted in better than expected prices for our main species. Initiatives are underway to extend our market penetration within and outside our existing sales areas. We continue to look at developing species previously not sold to Australia.

The pacific oyster market continues to be affected by competitive pricing (weak selling) from other New Zealand suppliers. There has been a shift in demand from smaller to larger grade oysters and it will take sometime to adapt farming methods to meet this change in customer requirements.

### USA

Returns from the US continue to fall short of those achieved from Australia largely due to the strengthening NZD, which has resulted in lower than expected net sale proceeds. While we will continue to support our main US clients through this difficult time we have chosen to increase our sales in better performing markets where we can achieve improved price levels.

### Asia

Frozen product into Japan is experiencing increased demand and pricing due to a worldwide shortfall of wild caught fish. Japan continues to be the strongest market for our high grade tuna catch.

### Europe

Frozen fish sales into Europe have been positive apart from albacore tuna, which has seen a downturn in pricing. New opportunities are being developed to maximise the value of some of our less popular species. Europe continues to be a target for future sales of chilled product.

## Species Report

### Snapper (SNA)

The snapper fisheries in areas 1, 2 and 8 have had strong catch levels for the season to date. SNA8 is a key factor in AFL ensuring that trevally is fully caught, as snapper is the trevally by-catch. This year trevally was later than normal in arriving, therefore initially delaying our entry into the SNA8 area.

### Bluenose (BNS)

BNS1 has been slow in spite of the additional harvesting capacity and efforts that have been put into the fishery.

BNS2 has performed strongly this year and has been used to make-up BNS1 catch shortfalls when market demand has been high.

### Tarakihi (TAR)

The tarakihi fisheries in areas 1 and 2 have been erratic and difficult to catch on occasions, with a consequent irregular supply. Gurnard, which was largely under-caught last year, has been utilised to make up domestic market supply of tarakihi during shortages.

It is expected that supply of tarakihi will be steady throughout the winter.

### Tuna

Tuna species (albacore, bigeye and yellowfin) were late this year due to colder than normal water temperatures, with catches expected in late December not eventuating until mid-February. Although it appears that the numbers of tuna have declined, the quality of landed fish has been good.

Tuna prices were not as strong as expected considering the reduced supply, and national fleet numbers continue to decline due to the inconsistency of this fishery, and the existing market conditions.

### Hoki

Catch rates in the hoki fishery this year have been tracking to the 100,000 tonne TAC level.

Demand for hoki has remained reasonably constant from our main markets in Australia, the USA and Europe. Returns have been eroded by the high level of the NZD, but in market levels have been reasonably stable at what are close to five-year high USD prices. We foresee continued high demand for hoki as a market response to the expected minor quota reductions in the main competing fishery (USA pollock) over the next two years.

### Greenshell Mussels

Market demand for greenshell mussels has generally been stable for the last twelve months. Increased demand from Europe and in particular Eastern Europe has seen a swing to those areas from the more traditional USA and Asian markets.

Value remains a challenge for the half shell mussel business, with limited marketing adding pressure to what is basically seen as a cheap commodity. The effect of the high NZD is dramatic for our farming businesses and our independent suppliers. Without a significant lift in overall returns we are unlikely to see any further investment in the mussel business.

### Oysters

Globally oysters are sold as a low priced commodity similar to mussels. Efforts in recent years to move oysters into niche markets with higher returns have largely been undone by the strength of the NZD. We expect margins to be under pressure until there is a correction in the NZD or an improvement in market pricing.

## Consolidated Statement of Financial Performance

For the six months ended 31 March 2007

	6 months ended 31 March 2007	6 months ended 31 March 2006	12 months ended 30 September 2006
	Unaudited \$'000	Unaudited \$'000	Audited \$'000
Sales revenue	47,553	47,346	95,313
Gain on disposal of assets	3,014	572	890
Gain on disposal of quota	-	994	994
Foreign currency exchange gains (losses)	259	558	(578)
Other revenue	5,462	5,099	8,282
<b>Total operating revenue</b>	<b>56,288</b>	<b>54,569</b>	<b>104,901</b>
<b>EBITDA</b>	<b>10,906</b>	<b>6,792</b>	<b>8,695</b>
Depreciation	(1,281)	(1,271)	(2,441)
Interest expense	(1,241)	(1,345)	(2,660)
<b>Operating surplus before taxation</b>	<b>8,384</b>	<b>4,176</b>	<b>3,594</b>
Income tax	-	-	-
<b>Net surplus after taxation</b>	<b>8,384</b>	<b>4,176</b>	<b>3,594</b>
Share of associate companies surplus	9,974	10,847	12,927
<b>Net surplus for the period</b>	<b>18,358</b>	<b>15,023</b>	<b>16,521</b>

## Consolidated Statement of Movements in Equity

For the six months ended 31 March 2007

	6 months ended 31 March 2007	6 months ended 31 March 2006	12 months ended 30 September 2006
	Unaudited \$'000	Unaudited \$'000	Audited \$'000
<b>Net surplus for the period</b>	18,358	15,023	16,521
<b>Contributions by owners during the period</b>			
Original capital contributed	-	-	-
Redeemable preference shares issued	-	-	-
	-	-	-
Movements in equity for the period	18,358	15,023	16,521
Equity at beginning of the period	337,010	320,489	320,489
<b>Total equity at end of the period</b>	<b>355,368</b>	<b>335,512</b>	<b>337,010</b>

## Consolidated Statement of Financial Position

As at 31 March 2007

	6 months ended 31 March 2007	6 months ended 31 March 2006	12 months ended 30 September 2006
	Unaudited \$'000	Unaudited \$'000	Audited \$'000
<b>Shareholders' equity</b>			
Total equity on incorporation	-	-	-
Capital contributed	286,979	286,979	286,979
Redeemable preference shares	20,000	20,000	20,000
Accumulated surplus	48,389	28,533	30,031
<b>Total shareholders' equity</b>	<b>355,368</b>	<b>335,512</b>	<b>337,010</b>
<b>Current assets</b>			
Cash and bank balances	236	3,849	4,534
Receivables and prepayments	12,174	8,576	18,116
Inventories	5,734	7,521	5,987
<b>Total current assets</b>	<b>18,144</b>	<b>19,946</b>	<b>28,637</b>
<b>Non-current assets</b>			
Property, plant and equipment	17,396	16,417	16,287
Investments in associates	198,598	194,475	188,542
Long term assets - quota shares	157,289	137,351	143,465
Long term assets - intangibles	3,932	-	-
Long term assets - other	10,368	10,615	10,409
<b>Total non-current assets</b>	<b>387,583</b>	<b>358,858</b>	<b>358,703</b>
<b>Total assets</b>	<b>405,727</b>	<b>378,804</b>	<b>387,340</b>
<b>Current liabilities</b>			
Payables	22,369	7,441	10,019
Employee entitlements	1,175	1,527	1,495
<b>Total current liabilities</b>	<b>23,544</b>	<b>8,968</b>	<b>11,514</b>
<b>Non-current liabilities</b>			
Borrowings	26,000	33,500	38,000
Provision for taxation	815	824	816
<b>Total non-current liabilities</b>	<b>26,815</b>	<b>34,324</b>	<b>38,816</b>
<b>Total liabilities</b>	<b>50,359</b>	<b>43,292</b>	<b>50,330</b>
<b>Net assets</b>	<b>355,368</b>	<b>335,512</b>	<b>337,010</b>

## Consolidated Statement of Cash Flows

For the six months ended 31 March 2007

	6 months ended	6 months ended	12 months ended
	31 March 2007	31 March 2006	30 September 2006
	Unaudited \$'000	Unaudited \$'000	Audited \$'000
<b>Cash flows from operating activities</b>			
<i>Cash was provided from:</i>			
Receipts from customers	47,940	50,354	95,495
Interest received	411	194	289
Dividends received - associates	8,000	8,000	8,000
	<b>56,351</b>	<b>58,548</b>	<b>103,784</b>
<i>Cash was disbursed to:</i>			
Payments to suppliers and employees	41,975	42,904	85,281
Interest paid	1,349	1,513	2,919
Taxation paid	-	1	-
	<b>43,324</b>	<b>44,418</b>	<b>88,200</b>
<b>Net cash flows from operating activities</b>	<b>13,027</b>	<b>14,130</b>	<b>15,584</b>
<b>Cash flows from investing activities</b>			
<i>Cash was provided from:</i>			
Sale of quota	-	3,673	4,730
Sale of property, plant and equipment	3,567	1,403	1,680
Sale of other investments	-	-	188
Other	42	1	-
	<b>3,609</b>	<b>5,077</b>	<b>6,598</b>
<i>Cash was disbursed to:</i>			
Purchase of quota	5,610	-	5,868
Purchase of property, plant and equipment	3,242	3,655	4,700
Purchase of other investments	82	260	267
Other	-	51	-
	<b>8,934</b>	<b>3,966</b>	<b>10,835</b>
<b>Net cash flows from investing activities</b>	<b>(5,325)</b>	<b>1,111</b>	<b>(4,237)</b>

<b>Cash flows from financing activities</b>			
<i>Cash was disbursed to:</i>			
Repayment of borrowings	12,000	8,300	3,800
Advances to associates	-	4,224	4,145
	<b>12,000</b>	<b>12,524</b>	<b>7,945</b>
<b>Net cash flows from financing activities</b>	<b>(12,000)</b>	<b>(12,524)</b>	<b>(7,945)</b>
Net (decrease) increase in cash held	(4,298)	2,717	3,402
Cash at the beginning of the period	4,534	1,132	1,132
<b>Cash at the end of the period</b>	<b>236</b>	<b>3,849</b>	<b>4,534</b>
<i>Comprising:</i>			
<b>Cash and bank balances</b>	<b>236</b>	<b>3,849</b>	<b>4,534</b>

## Consolidated Reconciliation of Net Surplus for the Period with Net Cash Flows from Operating Activities

	6 months ended	6 months ended	12 months ended
	31 March 2007	31 March 2006	30 September 2006
	Unaudited \$'000	Unaudited \$'000	Audited \$'000
Reported net surplus for the period	18,358	15,023	16,521
<b>Add (less) non-cash items and non-operating items:</b>			
Depreciation	1,281	1,271	2,441
Share of retained surplus of associates	(9,974)	(10,847)	(4,927)
Gain on sale of property, plant and equipment	(3,126)	(547)	(750)
Gain on sale of quota	-	(2,941)	(2,941)
Other	-	(29)	2
	<b>(11,819)</b>	<b>(13,093)</b>	<b>(6,175)</b>
<b>Movement in working capital:</b>			
Decrease in receivables and prepayments	6,717	11,910	2,494
(Increase) Decrease in related party receivables	(28)	967	(86)
Decrease in inventory	253	1,301	2,834
Increase (Decrease) in payables	362	(2,259)	(443)
(Decrease) Increase in related party payables	(495)	340	538
Decrease in employee entitlements	(320)	(59)	(91)
Decrease in provision for taxation	(1)	-	(8)
	<b>6,488</b>	<b>12,200</b>	<b>5,238</b>
<b>Net cash flows from operating activities</b>	<b>13,027</b>	<b>14,130</b>	<b>15,584</b>

## Statement of Accounting Policies

### Reporting Entity

Aotearoa Fisheries Limited (AFL) is a Company registered under the Companies Act 1993 and was incorporated on 26 November 2004. The AFL Group of Companies consists of the Company, its subsidiaries and associates.

The financial statements are for the six month period ended 31 March 2007.

On 29 November 2004 the Company was the recipient of assets and liabilities transferred as part of the Maori Fisheries Act 2004 (MFA). The transfer was accounted for as a purchase transaction in accordance with FRS-36 (Accounting for acquisitions resulting in combinations of entities or operations “FRS-36”). The net fair value of the assets received by the Company was treated as capital contributed to the Company by its Shareholders.

### Statutory Base

The Company is registered under the Companies Act 1993 and these financial statements have been prepared in accordance with the FRS-24 (Interim Financial Statements “FRS-24”), the MFA and should be read in conjunction with the previous annual financial report.

### Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis, are followed by AFL, with the exception that certain assets as specified below have been revalued.

### Specific Accounting Policies

The following specific accounting policies, which materially affect the measurement of financial performance and the financial position, have been applied –

#### Consolidated Accounts

The Consolidated Financial Statements include all subsidiaries using the purchase method of consolidation. All significant inter-company transactions are eliminated on consolidation.

#### Associate Companies

The Group’s investments in Associate Companies are equity accounted. The Group’s share of any Net Surplus from Associate Companies is recognised in the Statement of Financial Performance and also in the carrying amount of the investment in associates. Dividends received from associates are credited against the carrying value of the investment in associates.

## Foreign Currencies

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction.

At the end of the reporting period foreign currency assets and liabilities are translated into New Zealand dollars at the closing rate. Revenue and expense items are translated at the spot rate at the transaction date or a rate approximating that rate. Any exchange variations arising from these transactions are recognised in the Statement of Financial Performance.

## Financial Instruments

The Group uses off balance sheet financial instruments to reduce exposure to movements in foreign currency exchange rates and interest rates. Forward exchange contracts and options are arranged to hedge transactions denominated in foreign currencies.

## Quota Shares and Marine Farm Licences

The individually transferable quota (ITQ) shares and marine farm licences are stated at cost. Quota shares and marine farm licences purchased by the group are recorded at cost. Quota shares and marine farm licences are not depreciated, although they are assessed annually for impairment.

## Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Any gains and losses on the disposal of property, plant and equipment are included in the Statement of Financial Performance.

## Depreciation of Property, Plant and Equipment

Depreciation is calculated using a combination of straight line rates and diminishing values to write-off the cost of depreciable assets over their expected useful economic life. Depreciation rates are regularly reviewed and adjusted as and when required.

	Years
Buildings	10 – 50
Leasehold improvements	3 – 30
Furniture, fittings and office equipment	2 – 10
Marine farm structures	14
Motor vehicles	3 – 8
Plant and machinery	2 – 20
Vessels	2 - 14

## Inventory

Inventory is stated at the lower of cost or net realisable value.

Cost is determined on a weighted average basis and includes the expenditure incurred in bringing inventory to its existing condition and location. Costs include an appropriate share of fixed overheads which are allocated on the basis of normal production capacity.

## Receivables

Receivables are stated at the expected net realisable value.

## Investments

Investments are stated at the lower of cost or net realisable value.

## Investments in Subsidiaries

Investments in subsidiaries and any advances to and from subsidiaries are stated at the lower of cost or their recoverable amount.

## Taxation

Income tax is calculated after adjusting for any permanent differences between accounting income and taxable income. The liability method of accounting for deferred tax on a comprehensive basis has been adopted. Deferred income tax benefits arising from timing differences are not recognised unless there is virtual certainty of recovery in future periods.

## Employee Entitlements

Liabilities for annual and long service leave are accrued and recognised in the Statement of Financial Performance.

## Changes in Accounting Policy

There were no changes in accounting policies during the current financial year. All accounting policies have been applied consistently since the Company was incorporated on 26 November 2004.

## International Financial Reporting Standards

All NZ companies are required to prepare financial statements under NZ equivalents to IFRS no later than the financial year beginning on or after 1 January 2007, including comparative financial information. AFL has begun planning for the transition to NZ IFRS and assessing the likely impact. The Board of AFL has decided to adopt NZ IFRS from 1 October 2006, for the purpose of establishing comparatives, to achieve fully NZ IFRS compliant financial reporting for the 31 March 2008 interim reporting period and 30 September 2008 annual accounting period. Our planning work to date has identified the following areas that will require significant changes to our accounting policies:

## Intangible Assets

Under NZ IFRS quota will be classified as an Intangible Asset with an indefinite life and as such will be required to be tested at least annually for impairment. Impairment occurs when the book value of an asset exceeds its recoverable amount. Potential individual fish species will need to be considered for impairment. Where an asset is considered to be impaired the book value of the asset must be written down to the impaired value through the Statement of Financial Performance. This will potentially result in greater volatility in reported earnings.

## Hedge Accounting

AFL utilises off-balance sheet derivative contracts to hedge currency risks associated with revenues derived in foreign currencies. Under current NZ Generally Accepted Accounting Practice (NZ GAAP) these hedge instruments are held off-balance sheet and any gains or losses are deferred and recognised when the transaction occurs.

Under NZ IFRS all derivative contracts are required to be recognized at their fair value in the Statement of Financial Position. Changes in the fair values will be recognized in the Statement of Financial Performance unless specific hedge accounting criteria are met.

AFL is using hedge accounting to manage its currency risk. Where the NZ IFRS hedge accounting criteria is not met this may result in increased reported earnings volatility from movements in fair value.

## Taxation

Under NZ IFRS, deferred tax is required to be calculated using a “balance sheet” approach rather than the “income statement” method currently required under NZ GAAP. The change in approach may give rise to changes in the calculation of deferred tax balances.

## Employee Benefits

Under NZ IFRS long service leave is required to be accrued from the date employees are employed to the extent that it is probable that the long service leave will result in an obligation to the employee. Under NZ GAAP long service leave is only required to be recognized when the employee becomes entitled to the long service leave. This change is likely to result in an additional liability being recognized and have an impact on future reported earnings.

The disclosures in this policy are based on management’s current knowledge of the expected NZ IFRS requirements and are applied to the current facts and circumstances of the company. It should be noted the NZ IFRS standards may change prior to 30 September 2008, and the impact on AFL may be material.

## Directory

### Board of Directors

Robert McLeod, Chairman	Ngati Porou (Resigned effective 31 May 2007)
Craig Ellison	Ngai Tahu
Matanuku Mahuika	Ngati Porou
Craig Norgate	
Keith Sutton	

### Executive Management Team

Robin Hapi	Chief Executive Officer
Tom McClurg	General Manager, Strategy & Planning
Danny McComb	Chief Financial Officer
Dean Moana	General Manager, Aquaculture   Chief Executive Officer, Abalone
Mike Carroll	General Manager, Operations
Russell Pierce	General Manager, Sales and Marketing

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# New Zealand Seafood

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