

Financial Statements of the Government of New Zealand

For the Eleven Months Ended
31 May 2008



Prepared by The Treasury
4 July 2008

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New Zealand Government



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All actual, forecast and comparative figures presented in the following statements have been produced under NZ IFRS and are unaudited. The comparative June 2006/07 figures will be audited and published with the audited actual June 2007/08 figures. All forecast figures are based on the 2007/08 annual forecast released in the *2008 Budget Economic and Fiscal Update*.

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COMMENTARY

SUMMARY

Results for the eleven months ended 31 May 2008

- The total Crown operating balance, including gains and losses, was \$2.6 billion higher than forecast. The three main contributors to this higher than expected outturn were:
 - \$0.8 billion related to higher than expected gains on the investment portfolios of Crown financial institutions in April and May. However, early indications are that the performance of these portfolios has ebbed again during June;
 - \$0.7 billion related to a change in the discount rate used for valuing ACC's outstanding claims liability; and
 - \$0.8 billion related to tax revenue.
- The three main contributors to the higher than expected tax revenue were:
 - Corporate tax revenue was \$0.7 billion higher than forecast. This mainly relates to income tax assessments lodged by a particular group of companies, for the 2007 and 2008 tax years, which were higher than expected;
 - Source deductions revenue was \$0.3 billion higher than forecast. This was partly due to recent wage growth which was higher than expected; and
 - These were partially offset by GST revenue which was \$0.3 billion lower than forecast. This was mainly due to a forecast assumption that revenue would exceed receipts. This trend was evident in returns up to March, but has subsequently unwound.
- Tax receipts were on forecast and we expect these to remain close to forecast as at 30 June. Tax revenue is expected to be around \$0.5 billion higher than forecast at 30 June.
- OBEGAL was \$1.6 billion higher than forecast. The variance was mainly due to:
 - Actuarial losses of \$0.8 billion, which were incorrectly classified in ACC's forecast as insurance expenses rather than gains and losses. This was indicated in the financial statements last month. This reclassification has no impact on the operating balance; and
 - The tax revenue variances of \$0.8 billion noted above.
- Core Crown residual cash and gross debt were broadly in line with forecast.

Table 1 – Key indicators for the eleven months to 31 May 2008

| | Year to date | | | | Full Year |
|--|---------------------|-----------------------|----------|----------|-----------------------|
| | May | May | Variance | Variance | BEFU |
| | 2008 | 2008 | | | June 2008 |
| | Actual ² | Forecast ² | \$m | % | Forecast ³ |
| \$ million | | | | | |
| Core Crown | | | | | |
| Core Crown revenue (excl. NZS Fund) ¹ | 57,002 | 56,283 | 719 | 1.3 | 61,814 |
| Core Crown expenses | 51,153 | 51,406 | 253 | 0.5 | 57,364 |
| NZS Fund operating balance | (428) | (690) | 262 | (38.0) | (615) |
| Core Crown residual cash | 1,864 | 2,030 | (166) | (8.2) | 908 |
| GSID (excl. settlement cash) | 31,622 | 31,727 | 105 | 0.3 | 31,763 |
| <i>as a percentage of GDP</i> | 17.8% | 17.9% | | | 17.6% |
| Net Core Crown debt | 400 | 553 | 153 | 27.7 | 1,846 |
| <i>as a percentage of GDP</i> | 0.2% | 0.3% | | | 1.0% |
| Net Core Crown debt (incl. NZS Fund) | (12,980) | (12,308) | 672 | (5.5) | (11,254) |
| <i>as a percentage of GDP</i> | (7.3)% | (6.9)% | | | (6.2)% |
| Total Crown | | | | | |
| OBEGAL | 7,269 | 5,633 | 1,636 | 29.0 | 5,227 |
| Net gains/(losses) and other items | (1,906) | (2,837) | 931 | | (2,668) |
| Operating Balance | 5,363 | 2,796 | 2,567 | 91.8 | 2,559 |

1 For the purposes of this indicator, the NZS Fund is treated as a third party (i.e. its revenue is not included but the tax it pays is)

2 Using GDP for the year ended 31 March 2008 of \$177,613 million (Source: Statistics New Zealand).

3 Using forecast GDP for the year ended 30 June 2008 of \$180,137 million (Source: Treasury)

Core Crown includes Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank of New Zealand but excludes State-owned enterprises and Crown entities.

Table 2 – Key indicator variances for the eleven months to 31 May 2008

| Item/indicator | Variance | Key drivers |
|---|--------------------------------------|---|
| Core Crown | | |
| Core Crown revenue (excl. NZS Fund revenue) | \$0.7 billion (higher than forecast) | <ul style="list-style-type: none"> • Core Crown tax revenue was \$0.6 billion (1.2%) higher than forecast. This was comprised of: <ul style="list-style-type: none"> ○ Corporate tax revenue was \$0.7 billion (7.6%) higher than forecast. The variance was due to income tax assessments for the 2007 and 2008 tax years, lodged by a particular group of companies, being higher than expected. The companies concerned participate in tax pooling which means there is a considerable delay in recognising the tax revenue generated, which is only known when returns are finally filed. It appears that 2008 revenue is more reflective of profits in 2007 than currently expected profits based on current economic conditions, creating a risk of future downward revisions to revenue. The revenue variance is not expected to affect tax receipts as the tax payments in respect of the 2007 tax assessments have already largely been paid and incorporated into the tax receipts forecast. ○ GST revenue was \$0.3 billion (3.2%) lower than forecast. The variance was due to a forecasting assumption that revenue would exceed receipts – a trend evident in outturns at the time the current forecast was compiled. However, this trend has now unwound. ○ Source deductions were \$0.3 billion (1.2%) higher than forecast. The variance was partly due to recent wage growth being higher than expected, and is also partly related to timing which is expected to reverse in June. • Tax revenue from the NZS Fund was \$0.1 billion higher than forecast due to the Fund's higher than expected returns on investments during May. • Interest revenue and dividends was \$0.1 billion lower than forecast primarily due to lower than forecast interest rates and investment levels. |
| Core Crown expenses | \$0.3 billion (lower than forecast) | <ul style="list-style-type: none"> • Interest expense was \$0.2 billion lower than forecast. This was due to fluctuations in settlement cash balances and interest expenses classified as losses for forecasting purposes. • Core Crown other operating expenses were \$0.1 billion lower than forecast. This was mainly due to: <ul style="list-style-type: none"> ○ impairment of sovereign receivables was \$0.1 billion lower than forecast. This is expected to be a timing difference. An impairment estimate was included in the May forecast, but the actual expense will not be finalised until June, and ○ a number of departments had small, lower than forecast expenditure variances. |
| NZS Fund operating balance | \$0.3 billion (higher than forecast) | <ul style="list-style-type: none"> • The NZS Fund's operating balance was a deficit of \$0.4 billion compared to a forecast deficit of \$0.7 billion. The Fund returned 1.65% for the month of May 2008. This brings the Fund's annualised return since inception (September 2003) to 11.49%, compared to 6.71% for the risk-free of return (Treasury bills). In aggregate over May, returns in equities, fixed interest and commodities contributed positively to Fund performance. In aggregate over May, returns in equities, fixed interest and commodities contributed positively to Fund performance, whereas property returns contributed negatively but were in line with returns in world markets. |
| Item/indicator | Variance | Key drivers |

| | | |
|----------------------------------|--|--|
| Core Crown residual cash | - \$0.2 billion (lower than forecast) | <ul style="list-style-type: none"> • Core Crown tax receipts were on forecast. • Subsidies and transfer payments were \$0.2 billion higher than forecast. This was mainly due to: <ul style="list-style-type: none"> ○ KiwiSaver payments were \$0.1 billion higher than forecast due to differences between forecast membership and actual membership numbers, and ○ Social Assistance benefit payments were \$0.1 billion higher than forecast. • Purchases of physical assets and advances were \$0.1 billion lower than forecast, spread across a number of Departments. |
| GSID (excluding settlement cash) | \$0.1 billion (lower than forecast) | <ul style="list-style-type: none"> • GSID (excluding settlement cash) is in line with forecast. |
| Net core Crown debt | \$0.2 billion (lower than forecast) | <ul style="list-style-type: none"> • Net core Crown debt is in line with forecast. |
| Net core Crown debt (incl. NZSF) | \$0.7 billion (lower than forecast) | <ul style="list-style-type: none"> • NZS Fund financial assets were \$0.5 billion higher than forecast due to the positive Fund performance in April and May. The remainder is due to \$0.2 billion lower than forecast net core Crown debt (as noted above). |

| Total Crown | | |
|-------------------|---|---|
| OBEGAL | \$1.6 billion (higher than forecast) | <ul style="list-style-type: none"> • The main contributors to the higher than forecast OBEGAL were: <ul style="list-style-type: none"> ○ Insurance expenses were \$0.8 billion lower than forecast. The variance was mainly due to actuarial losses on ACC's outstanding claims liability being incorrectly classified in the forecast. They were classified as insurance expenses rather than gains and losses. The reclassification of the losses has no net impact on the operating balance, but is expected to be a permanent difference on OBEGAL as at 30 June. ○ Core Crown tax revenue was \$0.6 billion higher than forecast (refer above). • Core Crown other operating expenses were \$0.1 billion lower than forecast, mainly due to the timing difference on impairment of sovereign receivables (refer above). |
| Operating balance | \$2.6 billion (higher than forecast) | <ul style="list-style-type: none"> • OBEGAL was \$1.6 billion higher than forecast (as noted above). • Net losses were \$1.0 billion lower than forecast. The main contributors were: <ul style="list-style-type: none"> ○ NZS Fund's net losses were \$0.4 billion lower than forecast (refer above). ○ RBNZ's net gains were \$0.2 billion higher than forecast. This was mainly due to changes in FX and interest rates, which are held constant for forecasting purposes. ○ ACC's net losses were \$0.1 billion lower than forecast. There were 3 main components: <ul style="list-style-type: none"> ○ \$0.7 billion variance arising from a change to the discount rate used for valuing the outstanding claims liability. ○ \$0.3 billion variance from higher than expected returns on investments caused by the recovery of financial markets during April and May. ○ -\$0.8 billion variance due to a reclassification between insurance expenses and actuarial losses. |

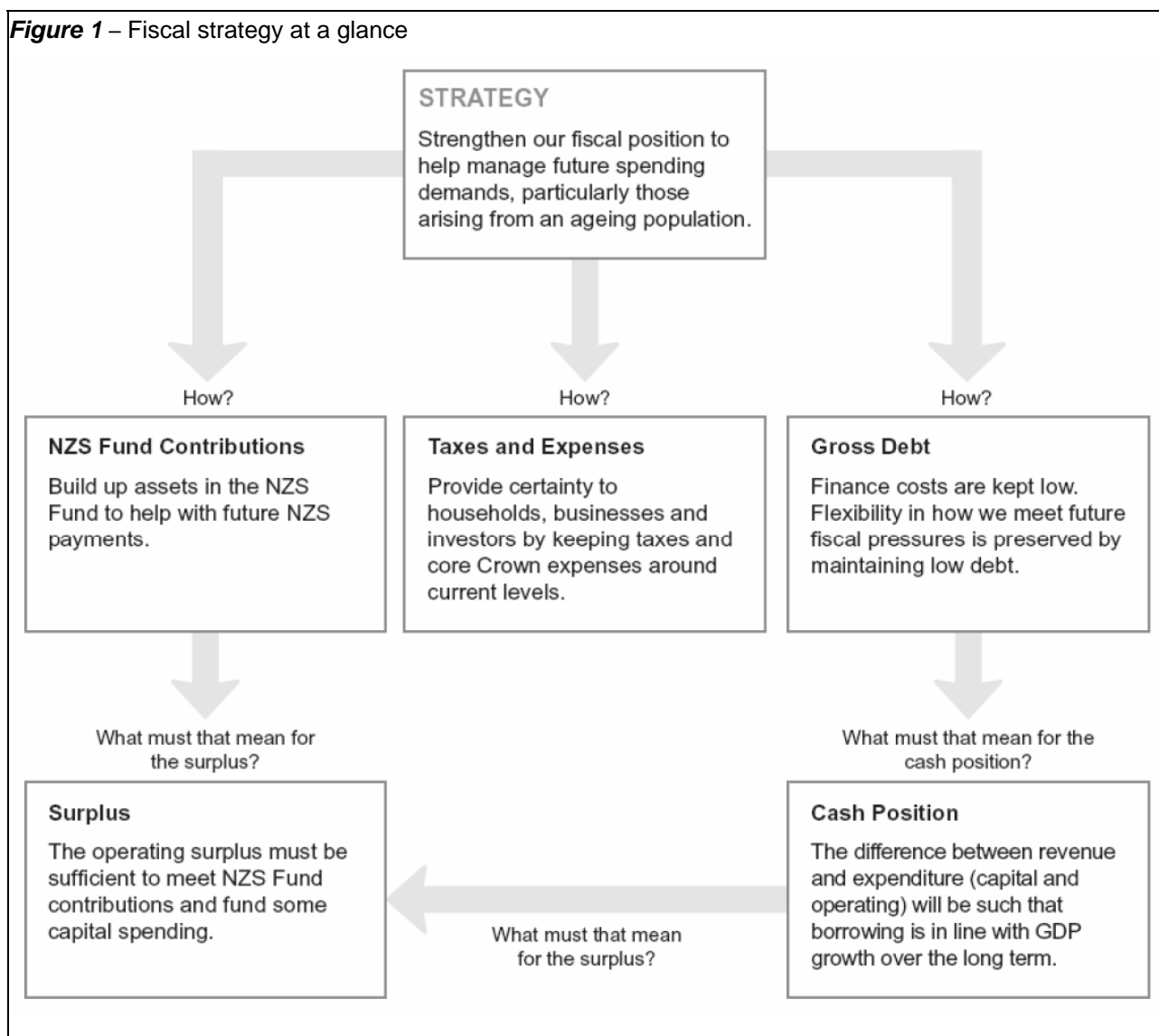
FISCAL STRATEGY PERSPECTIVE

The Government's fiscal strategy (outlined in more detail in the *2008 Fiscal Strategy Report*) is to strengthen its fiscal position so that it is well placed to respond to future challenges such as those associated with population ageing. The strategy is summarised in Figure 1.

The Government is implementing this strategy primarily by building up financial assets in the New Zealand Superannuation (NZS) Fund and maintaining gross sovereign-issued debt at around 20% of GDP. In order to keep debt at around 20% of GDP, the Government has said it intends to run its cash flow position so that borrowing tracks in line with GDP over time. In practice, this means running operating surpluses sufficient to cover the contributions to the NZS Fund and some capital spending needs.

The Financial Statements of the Government provide a record of the Government's financial performance over the 2007/08 financial year and its financial position as at 31 May 2008. They provide a comparison with the fiscal forecasts in the *2008 Budget Economic and Fiscal Update*. They also provide the public with a snapshot of the progress the Government has made in implementing its fiscal strategy as set out in its *Short Term Fiscal Intentions* and *Long Term Fiscal Objectives*.

Figure 1 – Fiscal strategy at a glance



Fiscal Strategy Perspective on the financial results to May

The following table shows how the fiscal strategy is represented in the financial results.

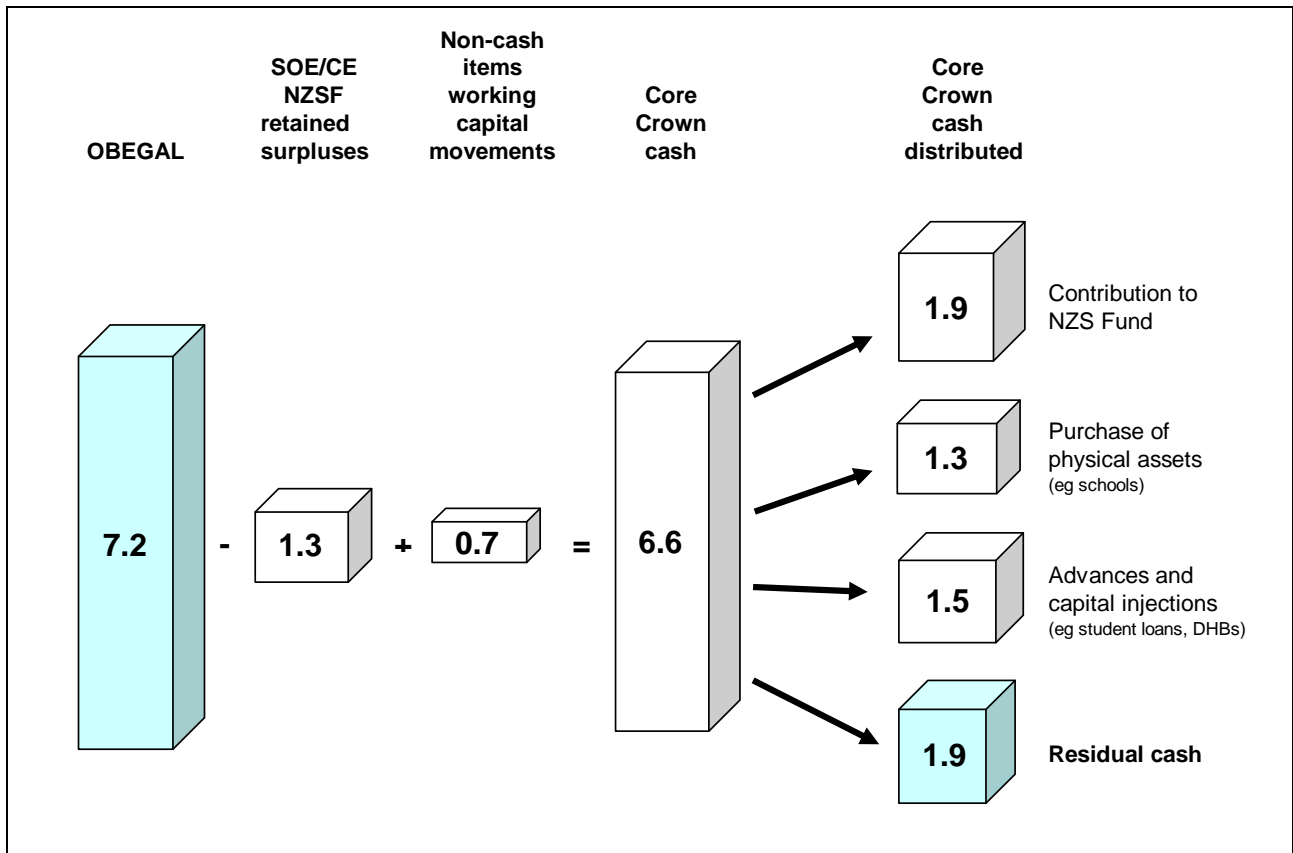
Table 3 – Reconciliation of residual cash

| Amounts in \$ millions | Fiscal Indicators/Financial Statements | Year to date | | | | Full Year |
|--|---|--------------|--------------|--------------|--------------|--------------|
| | | May | May | Variance | Variance | BEFU |
| | | 2008 | 2008 | | | June 2008 |
| Fiscal Strategy | | Actual | Forecast | \$m | % | Forecast |
| | Taxation as a percentage of GDP ¹ | 31.9% | 31.5% | | | 31.2% |
| Taxes, kept stable and maintained at current levels ... | Taxation | 51,890 | 51,242 | 648 | 1.3 | 56,186 |
| ... combined with other revenue ... | Core Crown other revenue, gains and losses | 4,716 | 4,195 | 521 | 12.4 | 4,907 |
| ... fund core crown expenses ... | Core Crown expenses | (51,153) | (51,406) | 253 | (0.5) | (57,364) |
| ... and with the results of entities outside the budget process ... | Net surpluses/(deficits) of SOEs and Crown entities | (90) | (1,235) | 1,145 | (92.7) | (1,170) |
| ... results in a net operating balance (surplus or deficit)... | Operating balance | 5,363 | 2,796 | 2,567 | 91.8 | 2,559 |
| ... part of which is due to gains or losses set aside for fiscal purposes... | Other (gains)/losses | 1,906 | 2,837 | (931) | (32.8) | 2,668 |
| ... and so we have developed an operating indicator excluding these items. | OBEGAL | 7,269 | 5,633 | 1,636 | 29.0 | 5,227 |
| Some of this is income retained that is not available for fiscal purposes | Net return on NZS Fund (excl. gains and losses) | 127 | (10) | 137 | (1,370.0) | (8) |
| " " " " | Net retained surpluses of SOEs and Crown entities | (1,464) | (645) | (819) | 127.0 | (655) |
| and some is income and expenses not impacting cash | Non-cash items and working capital movements | 683 | 1,880 | (1,197) | (63.7) | 2,454 |
| The operating cash flow that results, needs to provide sufficient funds for | Core Crown Cash flow from Operations | 6,615 | 6,858 | (243) | (3.5) | 7,018 |
| - building up assets in NZ Superannuation | Contribution to NZS Fund | (1,940) | (1,939) | (1) | 0.1 | (2,103) |
| - meeting the capital expenditure budget, and | Purchase of physical assets | (1,256) | (1,311) | 55 | (4.2) | (2,234) |
| - making advances (e.g. to students and DHBs) | Advances and Capital injections | (1,555) | (1,578) | 23 | (1.5) | (1,773) |
| with a residual impact on debt that allows it to remain at prudent levels | Residual Cash | 1,864 | 2,030 | (166) | (8.2) | 908 |
| | ... and as a percentage of GDP | 1.0% | 1.1% | | | 0.5% |

¹ GDP for the eleven months ended 31 May (actual and forecast) is the actual data for the year ended 31 March 2008 (Source: Statistics New Zealand) extrapolated for eleven months. GDP for the 2008 full year forecast has been extracted from the 2008 Budget Economic and Fiscal Update.

Figure 2 – Application of core Crown cash flows (\$billions)

This diagram shows how the OBEGAL translates into cash available to the core Crown and how this cash was spent.



YEAR-ON-YEAR PERSPECTIVE

Table 4 – Comparison with previous year

| | May 2008 Actual \$m | May 2007 Actual \$m | Change ¹ \$m | Change % |
|--|------------------------------|------------------------------|----------------------------|---------------|
| Statement of Financial Performance | | | | |
| Core Crown revenue | | | | |
| Taxation revenue | 52,264 | 47,717 | 4,547 | 9.5 |
| Other revenue | 4,693 | 4,235 | 458 | 10.8 |
| Total Core Crown Revenue | 56,957 | 51,952 | 5,005 | 9.6 |
| Core Crown expenses | | | | |
| Social security and welfare | 16,138 | 15,389 | 749 | 4.9 |
| GSF pension expenses | 653 | 609 | 44 | 7.2 |
| Health | 10,320 | 9,441 | 879 | 9.3 |
| Education | 8,938 | 8,620 | 318 | 3.7 |
| Core government services | 2,728 | 3,171 | (443) | (14.0) |
| Law and order | 2,616 | 2,328 | 288 | 12.4 |
| Defence | 1,383 | 1,367 | 16 | 1.2 |
| Transport and communications | 1,939 | 1,967 | (28) | (1.4) |
| Economic and industrial services | 2,558 | 1,438 | 1,120 | 77.9 |
| Primary services | 403 | 396 | 7 | 1.8 |
| Heritage, culture and recreation | 999 | 706 | 293 | 41.5 |
| Housing and community development | 224 | 214 | 10 | 4.7 |
| Other | 53 | 65 | (12) | (18.5) |
| Finance costs | 2,201 | 2,134 | 67 | 3.1 |
| Total Core Crown Expenses | 51,153 | 47,845 | 3,308 | 6.9 |
| Net surplus of SOE/CE's | 1,465 | 9 | 1,456 | - |
| OBEGAL | 7,269 | 4,116 | 3,153 | 76.6 |
| Total gains/(losses) | (2,047) | 2,255 | (4,302) | (190.8) |
| Other operating items | 141 | 94 | 47 | 50.0 |
| Operating Balance | 5,363 | 6,465 | (1,102) | (17.0) |
| Core Crown residual cash | 1,864 | 2,254 | (390) | (17.3) |
| Debt indicators | | | | |
| Gross sovereign-issued debt (excluding settlement cash) | 31,622 | 30,436 | 1,186 | 3.9 |
| Net Core Crown debt | 400 | 4,736 | (4,336) | (91.6) |

¹ Due to the seasonal nature of some expenditure it is not appropriate to annualise these changes.

Revenue and Expenses

Total taxation revenue for the eleven months ended 31 May 2008 has increased by 9.5% on the same period last year. The increase was primarily in PAYE, Corporate tax and Other individuals tax. Driving this increase is high wage growth and employment growth, and growth in profits of corporate taxpayers and dairy industry incomes.

Total **core Crown expenses** were \$3.3 billion higher than the comparable period from the previous financial year (growth of 6.9%). The significant movements within core Crown functional expenses were as follows:

| Functional expense | Movement from Previous year | Main drivers of the change |
|----------------------------------|-----------------------------|---|
| Social security and welfare | + \$0.7 billion | <ul style="list-style-type: none"> • Indexation of welfare benefits • Funding provided in the 2007 Budget primarily as an initiative to guarantee NZ Superannuation at 66% of the average wage • Offset by lower unemployment benefits due to an improvement in labour market conditions |
| Health | + \$0.9 billion | <ul style="list-style-type: none"> • Funding provided in the 2007 Budget to maintain and improve existing service levels |
| Education | + \$0.3 billion | <ul style="list-style-type: none"> • Higher demand-driven expenses from roll growth • Funding provided in the 2007 Budget |
| Core government services | - \$0.4 billion | <ul style="list-style-type: none"> • One-off impairment of receivables in 2007 of \$1.1 billion, offset by current year impairments |
| Economic and industrial services | + \$1.1 billion | <ul style="list-style-type: none"> • Primarily due to the introduction of the KiwiSaver Kick Start initiative |
| Other | + \$0.7 billion | <ul style="list-style-type: none"> • Mainly due to policy initiatives from the 2007 Budget |
| Total | + \$3.3 billion | |

Other gains and losses were in a net loss position of \$2.0 billion for the period ended 31 May 2008, compared to a net gain position of \$2.3 billion for the same period the previous year. The \$4.3 billion difference is due to:

- lower than expected investment returns experienced in the 2007/08 financial year primarily resulting from the market downturn earlier in the year, and
- an increase in the ACC unfunded liability since March 2007 due to increases in claim costs driven by economic assumptions (e.g. discount and inflation rates).

Net Core Crown debt has reduced by \$4.3 billion as a result of an increase in financial assets, reflecting the residual cash built up since May 2007 and the valuation movements in financial instruments.



FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

1 Reporting Entity

These Financial Statements are the consolidated financial statements for the Government reporting entity as specified in Part III of the Public Finance Act 1989. This comprises:

- Ministers of the Crown
- Reserve Bank of New Zealand
- Government Superannuation Fund
- Crown entities
- Departments
- State Owned Enterprises (SOEs)
- Air New Zealand Limited
- New Zealand Superannuation Fund

A schedule of the entities that are included in the Government reporting entity was set out on pages 151 and 152 of the *2008 Budget Economic and Fiscal Update* released on 22 May 2008. Since that date there have been no changes.

All actual, forecast and comparative figures presented in these financial statements have been produced under NZ IFRS and are unaudited.

2 General Accounting Policies

These Financial Statements comply with generally accepted accounting practice and with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as applicable for public benefit entities. The measurement base applied is historical cost adjusted for revaluations of property, plant and equipment (where appropriate), commercial forests; and marketable securities, deposits and equity investments held for trading purposes. The accrual basis of accounting has been used unless otherwise stated.

These Financial Statements have been prepared on a going concern basis. All other policies have been applied consistently throughout the period.

3 Specific Accounting Policies

The specific accounting policies of the Crown are detailed on the Treasury's internet site:

<http://www.treasury.govt.nz/publications/guidance/finmgmt-reporting/nzifrs/pdfs/nzifrs-accpolnz-30apr08.pdf>

4 Forecast Results and Assumptions

The forecast results in these financial statements have been derived from the forecasts released in the *Budget Economic and Fiscal Update* (BEFU), on 22 May 2008.

The assumptions underlying the preparation of forecasts are set out in the Statement of Accounting Policies and Forecast Assumptions reproduced in full on the Treasury's internet site:

<http://www.treasury.govt.nz/budget/2008/forecasts/befu2008>

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

5 Comparative Figures

Comparative figures for the previous financial year to 30 June 2007 and the comparative year-to-date period are presented in these financial statements. The comparative June 2006/07 figures will be audited and published with the audited actual June 2007/08 figures.

Percentage variances between the actual and prior year balances exceeding 500% are not shown where the dollar variance is immaterial.

STATEMENT OF FINANCIAL PERFORMANCE

for the eleven months ended 31 May 2008

| Prior Year 11 Months | | Current Year Actual vs Forecast | | | | | Annual Forecast |
|----------------------|----------------|---|----------------|----------------|--------------|-------------|-----------------|
| to 30 June 2007 | to 31 May 2007 | | Actual | Forecast | Variance | % | \$m |
| Actual \$m | Actual \$m | Note | \$m | \$m | \$m | | \$m |
| | | Revenue | | | | | |
| 53,064 | 47,205 | | | | | | |
| | | | | | | | |
| 3,496 | 3,235 | | | | | | |
| | | Total Revenue Levied through the Crown's Sovereign Power | | | | | |
| 56,560 | 50,440 | | 55,440 | 54,749 | 691 | 1.3 | 60,037 |
| 12,613 | 11,242 | | | | | | |
| | | | | | | | |
| 2,995 | 2,587 | | | | | | |
| | | | | | | | |
| 2,421 | 2,331 | | | | | | |
| | | Total revenue earned through the Crown's operations | | | | | |
| 18,029 | 16,160 | | 18,664 | 17,898 | 766 | 4.3 | 19,776 |
| 74,589 | 66,600 | | 74,104 | 72,647 | 1,457 | 2.0 | 79,813 |
| | | Expenses | | | | | |
| 16,346 | 14,926 | | | | | | |
| | | | | | | | |
| 15,284 | 13,833 | | | | | | |
| | | | | | | | |
| 3,397 | 2,945 | | | | | | |
| | | | | | | | |
| 27,579 | 24,356 | | | | | | |
| | | | | | | | |
| 2,885 | 2,611 | | | | | | |
| | | | | | | | |
| 3,238 | 3,813 | | | | | | |
| | | | | | | | |
| - | - | | | | | | |
| | | | | | | | |
| - | - | | | | | | |
| | | | | | | | |
| 68,729 | 62,484 | | 66,835 | 67,014 | 179 | 0.3 | 74,586 |
| | | Operating balance before gains/(losses) | | | | | |
| 5,860 | 4,116 | | 7,269 | 5,633 | 1,636 | 29.0 | 5,227 |
| 1,566 | 2,296 | | | | | | |
| | | | | | | | |
| 486 | (41) | | | | | | |
| | | Total gains/(losses) | | | | | |
| 2,052 | 2,255 | | (2,047) | (2,985) | 938 | 31.4 | (2,831) |
| 191 | 94 | | | | | | |
| | | | | | | | |
| 8,103 | 6,465 | | 5,363 | 2,796 | 2,567 | 91.8 | 2,562 |
| (92) | - | | | | | | |
| | | Operating balance (including minority interest) | | | | | |
| 8,011 | 6,465 | | 5,363 | 2,796 | 2,567 | 91.8 | 2,559 |
| 12 | - | | | | | | |
| | | Operating Balance | | | | | |
| 8,023 | 6,465 | | 5,363 | 2,796 | 2,567 | 91.8 | 2,559 |

The accompanying Notes and Accounting Policies are an integral part of these Statements.

STATEMENT OF FINANCIAL PERFORMANCE (CONTINUED) – FUNCTIONAL EXPENSE ANALYSIS

for the eleven months ended 31 May 2008

| Prior Year to 30 June 2007 Actual \$m | 11 Months to 31 May 2007 Actual \$m | | Current Year Actual vs Forecast | | | | Annual Forecast \$m |
|---|---|--|---------------------------------|-----------------|-----------------|------------|---------------------------|
| | | | Actual \$m | Forecast \$m | Variance \$m | % | |
| Total Crown | | | | | | | |
| Total Crown expenses | | | | | | | |
| By functional classification | | | | | | | |
| 19,829 | 19,282 | Social security and welfare | 19,049 | 19,951 | 902 | 4.5 | 22,274 |
| 645 | 609 | GSF pension expenses | 653 | 653 | - | - | 714 |
| 10,661 | 9,243 | Health | 9,723 | 9,783 | 60 | 0.6 | 10,765 |
| 9,853 | 9,207 | Education | 9,647 | 9,681 | 34 | 0.4 | 10,803 |
| 4,628 | 3,125 | Core government services | 2,680 | 2,843 | 163 | 5.7 | 3,163 |
| 2,822 | 2,519 | Law and order | 2,835 | 2,850 | 15 | 0.5 | 3,192 |
| 1,478 | 1,332 | Defence | 1,351 | 1,335 | (16) | (1.2) | 1,524 |
| 6,990 | 6,005 | Transport and communications | 6,345 | 6,224 | (121) | (1.9) | 7,185 |
| 4,723 | 4,722 | Economic and industrial services | 7,508 | 6,750 | (758) | (11.2) | 7,433 |
| 1,233 | 1,175 | Primary services | 1,216 | 1,200 | (16) | (1.3) | 1,404 |
| 2,043 | 1,797 | Heritage, culture and recreation | 2,125 | 2,127 | 2 | 0.1 | 2,366 |
| 865 | 786 | Housing and community development | 837 | 874 | 37 | 4.2 | 965 |
| 74 | 71 | Other | 58 | 70 | 12 | 17.1 | 84 |
| 2,885 | 2,611 | Finance costs | 2,808 | 2,793 | (15) | (0.5) | 2,954 |
| - | - | Forecast new operating spending | - | - | - | - | - |
| - | - | Top-down expense adjustment | - | (120) | (120) | (100.0) | (240) |
| 68,729 | 62,484 | Total Crown expenses excluding losses | 66,835 | 67,014 | 179 | 0.3 | 74,586 |

Below is an analysis of core Crown expenses by functional classification. Core Crown expenses include expenses incurred by the Crown, Departments and the Reserve Bank, but not Crown entities and SOEs.

| Prior Year to 30 June 2007 Actual \$m | 11 Months to 31 May 2007 Actual \$m | | Current Year Actual vs Forecast | | | | Annual Forecast \$m |
|---|---|---|---------------------------------|-----------------|-----------------|------------|---------------------------|
| | | | Actual \$m | Forecast \$m | Variance \$m | % | |
| Core Crown | | | | | | | |
| Core Crown expenses | | | | | | | |
| By functional classification | | | | | | | |
| 16,768 | 15,389 | Social security and welfare | 16,138 | 16,203 | 65 | 0.4 | 18,071 |
| 645 | 609 | GSF pension expenses | 653 | 653 | - | - | 714 |
| 10,355 | 9,441 | Health | 10,320 | 10,338 | 18 | 0.2 | 11,343 |
| 9,269 | 8,620 | Education | 8,938 | 8,952 | 14 | 0.2 | 10,046 |
| 4,816 | 3,171 | Core government services | 2,728 | 2,838 | 110 | 3.9 | 3,222 |
| 2,699 | 2,328 | Law and order | 2,616 | 2,643 | 27 | 1.0 | 2,943 |
| 1,517 | 1,367 | Defence | 1,383 | 1,369 | (14) | (1.0) | 1,566 |
| 2,405 | 1,967 | Transport and communications | 1,939 | 1,922 | (17) | (0.9) | 2,290 |
| 1,595 | 1,438 | Economic and industrial services | 2,558 | 2,516 | (42) | (1.7) | 2,828 |
| 438 | 396 | Primary services | 403 | 407 | 4 | 1.0 | 565 |
| 844 | 706 | Heritage, culture and recreation | 999 | 1,005 | 6 | 0.6 | 1,123 |
| 255 | 214 | Housing and community development | 224 | 246 | 22 | 8.9 | 282 |
| 68 | 65 | Other | 53 | 64 | 11 | 17.2 | 84 |
| 2,329 | 2,134 | Finance costs | 2,201 | 2,370 | 169 | 7.1 | 2,527 |
| - | - | Forecast new operating spending | - | - | - | - | - |
| - | - | Top-down expense adjustment | - | (120) | (120) | (100.0) | (240) |
| 54,003 | 47,845 | Total core Crown expenses excluding losses | 51,153 | 51,406 | 253 | 0.5 | 57,364 |

The accompanying Notes and Accounting Policies are an integral part of these Statements.

STATEMENT OF CASH FLOWS

for the eleven months ended 31 May 2008

| Prior Year 11 Months | | Current Year Actual vs Forecast | | | | Annual | |
|--|-----------------|---|-----------------|-----------------|--------------|---------------|-----------------|
| to 30 June | to 31 May | Actual | Forecast | Variance | | Forecast | |
| 2007 | 2007 | \$m | \$m | \$m | % | \$m | |
| Actual | Actual | | | | | | |
| \$m | \$m | \$m | \$m | \$m | % | \$m | |
| Cash Flows From Operations | | | | | | | |
| Cash was provided from | | | | | | | |
| 52,157 | 47,967 | Taxation receipts | 50,917 | 51,029 | (112) | (0.2) | 55,662 |
| 3,415 | 3,216 | Other sovereign receipts | 3,268 | 3,221 | 47 | 1.5 | 3,496 |
| 12,806 | 11,388 | Sales of goods and services | 12,548 | 12,742 | (194) | (1.5) | 14,001 |
| 2,491 | 2,262 | Interest and dividends | 2,751 | 2,568 | 183 | 7.1 | 2,718 |
| 2,222 | 1,681 | Other operating receipts | 2,339 | 2,303 | 36 | 1.6 | 2,532 |
| 73,091 | 66,514 | Total cash provided from operations | 71,823 | 71,863 | (40) | (0.1) | 78,409 |
| Cash was disbursed to | | | | | | | |
| 16,344 | 14,896 | Social assistance and official development assistance | 16,606 | 16,434 | (172) | (1.0) | 18,242 |
| 41,845 | 38,570 | Personnel and operating payments | 42,171 | 42,275 | 104 | 0.2 | 46,643 |
| 2,441 | 2,319 | Interest payments | 2,746 | 2,623 | (123) | (4.7) | 2,705 |
| - | - | Forecast new operating spending | - | - | - | - | - |
| - | - | Top-down expense adjustment | - | (120) | (120) | (100.0) | (240) |
| 60,630 | 55,785 | Total cash disbursed to operations | 61,523 | 61,212 | (311) | (0.5) | 67,350 |
| 12,461 | 10,729 | Net cash flows from operations | 10,300 | 10,651 | (351) | (3.3) | 11,059 |
| Cash Flows From Investing Activities | | | | | | | |
| Cash was provided from/(disbursed to) | | | | | | | |
| (5,214) | (4,785) | Net purchase of physical assets | (4,379) | (4,695) | 316 | 6.7 | (5,826) |
| (8,132) | (8,485) | Net purchase of shares and other securities | (7,463) | (7,322) | (141) | (1.9) | (4,963) |
| (232) | (152) | Net purchase of intangible assets | (228) | (244) | 16 | 6.6 | (299) |
| (1,153) | (1,785) | Net issue/(repayment) of advances | (307) | (1,111) | 804 | 72.4 | (1,153) |
| (295) | (318) | Net acquisition of investments in associates | (277) | (266) | (11) | (4.1) | (994) |
| - | - | Capital contingency provision | - | - | - | - | (690) |
| - | - | Top-down capital adjustment | - | - | - | - | - |
| (15,026) | (15,525) | Net cash flows from investing activities | (12,654) | (13,638) | 984 | 7.2 | (13,925) |
| (2,565) | (4,796) | Net cash flows from operating and investing activities | (2,354) | (2,987) | 633 | 21.2 | (2,866) |
| Cash Flows From Financing Activities | | | | | | | |
| Cash was provided from/(disbursed to) | | | | | | | |
| 81 | 169 | Issues of circulating currency | 172 | 260 | (88) | (33.8) | 260 |
| (3,757) | (1,093) | Net issue/(repayment) of Government stock ¹ | 1,404 | 1,917 | (513) | (26.8) | 2,357 |
| 1,780 | 629 | Net issue/(repayment) of foreign currency borrowing | 1,192 | 1,430 | (238) | (16.6) | (419) |
| 4,991 | 4,357 | Net issue/(repayment) of other New Zealand dollar borrowing | 351 | 242 | 109 | 45.0 | 1,735 |
| 3,095 | 4,062 | Net cash flows from financing activities | 3,119 | 3,849 | (730) | (19.0) | 3,933 |
| 530 | (734) | Net movement in cash | 765 | 862 | (97) | (11.3) | 1,067 |
| 3,676 | 3,676 | Opening Cash Balance | 4,163 | 4,163 | - | - | 4,163 |
| (43) | (49) | Foreign-exchange gains/(losses) on opening cash | (6) | (11) | 5 | 45.5 | (13) |
| 4,163 | 2,893 | Closing Cash Balance | 4,922 | 5,014 | (92) | (1.8) | 5,217 |

1 Net issues of Government stock include movements within government stock holdings of entities such as NZS Fund, ACC and EQC. The Reconciliation of Core Crown Operating Cash Flows to Residual Core Crown Cash (note 18) outlines proceeds and repayments of domestic bonds.

The accompanying Notes and Accounting Policies are an integral part of these Statements.

STATEMENT OF CASH FLOWS (CONTINUED)

for the eleven months ended 31 May 2008

| Prior Year 11 Months | | Current Year Actual vs Forecast | | | | Annual Forecast | |
|--|----------------|--|----------------|----------------|--------------|-----------------|----------------|
| to 30 June 2007 | to 31 May 2007 | | | | | | |
| Actual | Actual | Actual | Forecast | Variance | % | \$m | |
| \$m | \$m | \$m | \$m | \$m | % | \$m | |
| Reconciliation Between the Net Cash Flows from Operations and the Operating Balance | | | | | | | |
| 12,461 | 10,729 | Net Cash Flows from Operations | 10,300 | 10,651 | (351) | (3.3) | 11,059 |
| <i>Items included in the operating balance but not in net cash flows from operations.</i> | | | | | | | |
| Gains/(losses) | | | | | | | |
| 1,566 | 2,296 | Gains/(losses) on other financial instruments | 109 | (975) | 1,084 | 111.2 | (824) |
| 486 | (41) | Gains/(losses) on other non-financial instruments | (2,156) | (2,010) | (146) | (7.3) | (2,007) |
| 2,052 | 2,255 | Total gains/(losses) | (2,047) | (2,985) | 938 | 31.4 | (2,831) |
| Movements in Working Capital | | | | | | | |
| (1,591) | (611) | Increase/(decrease) in receivables | 1,872 | (1,018) | 2,890 | 283.9 | 267 |
| 83 | 83 | Increase/(decrease) in inventories | 85 | 96 | (11) | (11.5) | 107 |
| (89) | 6 | Increase/(decrease) in prepayments | 55 | 35 | 20 | 57.1 | (49) |
| (73) | (80) | Decrease/(increase) in deferred revenue | (178) | (237) | 59 | 24.9 | (80) |
| 2 | (370) | Decrease/(increase) in payables | (377) | 904 | (1,281) | (141.7) | 82 |
| (1,668) | (972) | Total movements in working capital | 1,457 | (220) | 1,677 | - | 327 |
| Other Non-cash Items in Operating Balance | | | | | | | |
| (3,397) | (2,945) | Depreciation and amortisation | (3,294) | (3,282) | (12) | (0.4) | (3,618) |
| (629) | (480) | Write-down on initial recognition of loans | (569) | (521) | (48) | (9.2) | (628) |
| 37 | (53) | Impairment on financial assets (excl receivables) | 203 | 200 | 3 | 1.5 | 201 |
| 61 | 32 | Net interest revenue | 174 | 171 | 3 | 1.8 | 237 |
| 13 | (8) | Decrease/(increase) in defined benefit retirement plan liabilities | (7) | (8) | 1 | 12.5 | (78) |
| (1,098) | (2,187) | Decrease/(increase) in insurance liabilities | (995) | (1,358) | 363 | 26.7 | (2,276) |
| 191 | 94 | Other | 141 | 148 | (7) | (4.7) | 166 |
| (4,822) | (5,547) | Total other non-cash Items | (4,347) | (4,650) | 303 | 6.5 | (5,996) |
| 8,023 | 6,465 | Operating Balance | 5,363 | 2,796 | 2,567 | 91.8 | 2,559 |

STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the eleven months ended 31 May 2008

| Prior Year 11 Months | | Current Year Actual vs Forecast | | | | Annual | |
|----------------------|--------------|--|--------------|--------------|--------------|----------------|--------------|
| to 30 June | to 31 May | Actual | Forecast | Variance | | Forecast | |
| 2007 | 2007 | | | | % | | |
| Actual | Actual | \$m | \$m | \$m | | \$m | |
| | | | | | | | |
| 5,262 | (7) | Revaluation of physical assets | 1 | - | 1 | - | 43 |
| (331) | (195) | Effective portion of changes in value of cash flow hedges | (91) | 5 | (96) | - | (2) |
| (60) | (131) | Net change in fair value of cash flow hedges transferred to operating profit | 7 | (7) | 14 | 200.0 | (15) |
| (13) | 7 | Net change in fair value of cash flow hedges transferred to the hedged item | (39) | (36) | (3) | (8.3) | (36) |
| (66) | (35) | Foreign currency translation differences for foreign operations | 1 | 1 | - | - | 2 |
| 10 | (7) | Valuation gain/(losses) on investments available for sale taken to reserves | 10 | 7 | 3 | 42.9 | 6 |
| 11 | - | Other movements | - | - | - | - | (1) |
| 4,813 | (368) | Total income/(expense) recognised directly in Net Worth | (111) | (30) | (81) | (270.0) | (3) |
| 8,011 | 6,465 | Operating Balance (including minority interest) | 5,363 | 2,796 | 2,567 | 91.8 | 2,559 |
| 12,824 | 6,097 | Total recognised income and expense | 5,252 | 2,766 | 2,486 | 89.9 | 2,556 |
| | | Attributable to: | | | | | |
| (12) | - | - minority interest in Air NZ | - | - | - | - | - |
| 12,836 | 6,097 | - the Crown | 5,252 | 2,766 | 2,486 | 89.9 | 2,556 |
| 12,824 | 6,097 | Total recognised income and expense | 5,252 | 2,766 | 2,486 | 89.9 | 2,556 |

This statement reports changes in net worth due to the operating balance, items of income or expense that are recognised directly in net worth and the effect of certain accounting changes.

The accompanying Notes and Accounting Policies are an integral part of these Statements.

STATEMENT OF FINANCIAL POSITION

as at 31 May 2008

| As at 30 June 2007 \$m | As at 31 May 2007 \$m | | Note | Current Year Actual vs Forecast | | | Annual Forecast | |
|---------------------------------|--------------------------------|---|------|---------------------------------|-----------------|-----------------|--------------------|----------------|
| | | | | Actual \$m | Forecast \$m | Variance \$m | % | \$m |
| Assets | | | | | | | | |
| 4,163 | 2,893 | Cash and cash equivalents | 11 | 4,922 | 5,014 | (92) | (1.8) | 5,217 |
| 12,058 | 13,039 | Receivables | 11 | 13,931 | 11,040 | 2,891 | 26.2 | 12,326 |
| 32,125 | 31,298 | Marketable securities and derivatives in gain | 11 | 37,651 | 35,680 | 1,971 | 5.5 | 34,473 |
| 13,581 | 14,359 | Share investments | 11 | 13,702 | 12,860 | 842 | 6.5 | 12,790 |
| 11,793 | 13,499 | Advances | 11 | 15,687 | 16,101 | (414) | (2.6) | 15,799 |
| 826 | 827 | Inventory | | 912 | 922 | (10) | (1.1) | 933 |
| 1,527 | 1,348 | Prepayments and other assets | | 1,352 | 1,281 | 71 | 5.5 | 1,171 |
| 95,598 | 90,932 | Property, plant & equipment | 12 | 97,089 | 97,416 | (327) | (0.3) | 98,355 |
| 7,001 | 6,364 | Equity accounted investments ¹ | | 7,295 | 7,324 | (29) | (0.4) | 7,519 |
| 1,677 | 1,627 | Intangible assets and goodwill | | 1,713 | 1,751 | (38) | (2.2) | 1,772 |
| - | - | Forecast for new capital spending | | - | - | - | - | 690 |
| - | - | Top-down capital adjustment | | - | - | - | - | - |
| 180,349 | 176,186 | Total assets | | 194,254 | 189,389 | 4,865 | 2.6 | 191,045 |
| Liabilities | | | | | | | | |
| 3,444 | 3,531 | Issued currency | | 3,619 | 3,707 | 88 | 2.4 | 3,704 |
| 8,075 | 9,235 | Payables | 14 | 9,071 | 7,371 | (1,700) | (23.1) | 8,423 |
| 966 | 973 | Deferred revenue | | 1,144 | 1,203 | 59 | 4.9 | 1,046 |
| 41,898 | 41,801 | Borrowings | | 46,742 | 45,512 | (1,230) | (2.7) | 45,546 |
| 17,418 | 18,026 | Insurance liabilities | 15 | 19,625 | 19,835 | 210 | 1.1 | 20,752 |
| 7,161 | 8,345 | Retirement plan liabilities | | 8,075 | 8,076 | 1 | - | 8,146 |
| 4,560 | 4,209 | Provisions | 16 | 3,900 | 4,096 | 196 | 4.8 | 4,045 |
| 83,522 | 86,120 | Total liabilities | | 92,176 | 89,800 | (2,376) | (2.6) | 91,662 |
| 96,827 | 90,066 | Total assets less total liabilities | | 102,078 | 99,589 | 2,489 | 2.5 | 99,383 |
| Net Worth | | | | | | | | |
| 44,222 | 42,590 | Taxpayer funds | 17 | 49,602 | 47,002 | 2,600 | 5.5 | 46,767 |
| 52,442 | 47,234 | Revaluation reserve | 17 | 52,426 | 52,455 | (29) | (0.1) | 52,498 |
| (133) | (36) | Other reserves | 17 | (246) | (164) | (82) | (50.0) | (178) |
| 96,531 | 89,788 | Total net worth attributable to the Crown | | 101,782 | 99,293 | 2,489 | 2.5 | 99,087 |
| 296 | 278 | Net worth attributable to minority interest in Air NZ | | 296 | 296 | - | - | 296 |
| 96,827 | 90,066 | Total net worth | | 102,078 | 99,589 | 2,489 | 2.5 | 99,383 |

¹ Tertiary education institutions constitute most equity accounted investments.

The accompanying Notes and Accounting Policies are an integral part of these Statements.

STATEMENT OF BORROWINGS

as at 31 May 2008

| As at 30 June 2007 \$m | As at 31 May 2007 \$m | | Current Year Actual vs Forecast | | | | Annual Forecast \$m |
|---|--------------------------------|---|---------------------------------|-----------------|-----------------|--------------|---------------------------|
| | | | Actual \$m | Forecast \$m | Variance \$m | % | |
| Borrowings | | | | | | | |
| 15,778 | 15,687 | Government stock ¹ | 18,261 | 18,463 | 202 | 1.1 | 18,683 |
| 2,098 | 1,915 | Treasury bills | 1,383 | 1,283 | (100) | (7.8) | 1,389 |
| 364 | 366 | Government retail stock | 419 | 386 | (33) | (8.5) | 386 |
| 7,507 | 8,196 | Settlement deposits with Reserve Bank | 7,987 | 7,465 | (522) | (7.0) | 7,465 |
| 1,126 | 948 | Derivatives in loss ² | 1,483 | 1,013 | (470) | (46.4) | 780 |
| 954 | 948 | Finance lease liabilities | 954 | 941 | (13) | (1.4) | 1,251 |
| 14,071 | 13,741 | Other borrowings | 16,255 | 15,961 | (294) | (1.8) | 15,592 |
| 41,898 | 41,801 | Total borrowings³ | 46,742 | 45,512 | (1,230) | (2.7) | 45,546 |
| 31,163 | 30,624 | Sovereign-guaranteed debt ⁴ | 33,457 | 32,762 | (695) | (2.1) | 32,912 |
| 10,735 | 11,177 | Non sovereign-guaranteed debt | 13,285 | 12,750 | (535) | (4.2) | 12,634 |
| 41,898 | 41,801 | Total borrowings³ | 46,742 | 45,512 | (1,230) | (2.7) | 45,546 |
| Gross and net debt analysis: | | | | | | | |
| 35,892 | 36,354 | Core Crown borrowings | 37,574 | 37,104 | (470) | (1.3) | 37,035 |
| 913 | 784 | Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings | 570 | 533 | (37) | (6.9) | 638 |
| 36,805 | 37,138 | Gross sovereign-issued debt⁵ | 38,144 | 37,637 | (507) | (1.3) | 37,673 |
| 44,272 | 44,231 | Less core Crown financial assets ⁶ | 51,124 | 49,945 | 1,179 | 2.4 | 48,927 |
| (7,467) | (7,093) | Net core Crown debt (incl NZS Fund)⁷ | (12,980) | (12,308) | 672 | 5.5 | (11,254) |
| 11,576 | 11,829 | Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets | 13,380 | 12,861 | 519 | 4.0 | 13,100 |
| 4,109 | 4,736 | Net core Crown debt (excl NZS Fund)⁸ | 400 | 553 | 153 | 27.7 | 1,846 |
| Gross sovereign-issued debt excluding settlement cash: | | | | | | | |
| 36,805 | 37,138 | Gross sovereign-issued debt ⁵ | 38,144 | 37,637 | (507) | (1.3) | 37,673 |
| (7,758) | (8,302) | Less Reserve Bank settlement cash (incl. Kiwibank) | (8,122) | (7,510) | 612 | 8.1 | (7,510) |
| 1,600 | 1,600 | Add back changes to DMO borrowing due to settlement cash ⁹ | 1,600 | 1,600 | - | - | 1,600 |
| 30,647 | 30,436 | Gross sovereign-issued debt excluding settlement cash | 31,622 | 31,727 | 105 | 0.3 | 31,763 |

Notes on Borrowings

- Government stock includes \$245 million of infrastructure bonds.
- Derivatives are included in either borrowings or marketable securities, deposits and equity investments depending on their balance date value. This treatment leads to fluctuations in individual items within the Statement of Borrowings, primarily due to exchange rate movements.
- Total Borrowings (Gross Debt) is the total borrowings (both sovereign-guaranteed and non sovereign-guaranteed) of the total Crown. This equates to the amount in the total Crown balance sheet and represents the complete picture of whole-of-Crown debt obligations to external parties.
- Total Borrowings (Gross Debt) can be split into sovereign-guaranteed and non sovereign-guaranteed debt. This split reflects the fact that borrowings by SOEs and Crown entities is not explicitly guaranteed by the Crown. No debt of SOEs and Crown entities is currently guaranteed by the Crown.
- Gross sovereign-issued debt is debt issued by the sovereign (i.e. core Crown) and includes Government stock held by the NZS Fund, ACC or EQC for example. In other words, the total sovereign-issued debt does not eliminate any internal cross-holdings held by these entities. The Government's debt objective uses this measure of debt.
- Core Crown financial assets exclude receivables.
- Net core Crown debt is the Government sovereign-issued debt less financial assets. This can provide information about the sustainability of the Government's accounts, and is used by some international agencies when determining the creditworthiness of a country. However, as some financial assets are not easily converted into cash, and some are restricted, it is important to view net debt alongside gross sovereign-issued debt.
- Adding back the NZ Superannuation Fund Assets provides the financial liabilities less financial assets of the Core Crown, excluding those assets set aside to meet part of the future cost of New Zealand superannuation.
- The Reserve Bank has used \$1.6 billion of settlement cash to purchase reserves that were to have been funded by DMO borrowing. Therefore the impact of settlement cash on GSID is adjusted by this amount.

The accompanying Notes and Accounting Policies are an integral part of these Statements.

STATEMENT OF COMMITMENTS

as at 31 May 2008

| | As at 31 May 2008 \$m | As at 30 June 2007 \$m | As at 31 May 2007 \$m |
|--|--------------------------------|---------------------------------|--------------------------------|
| Capital Commitments | | | |
| Specialist military equipment | 832 | 823 | 1,009 |
| Land and buildings | 746 | 605 | 743 |
| Other property, plant and equipment | 2,586 | 2,617 | 2,506 |
| Other capital commitments | 113 | 184 | 356 |
| Tertiary Education Institutions | 90 | 90 | - |
| Total capital commitments | 4,367 | 4,319 | 4,614 |
| Operating Commitments | | | |
| Non-cancellable accommodation leases | 2,257 | 2,296 | 1,899 |
| Other non-cancellable leases | 2,319 | 2,355 | 2,439 |
| Non-cancellable contracts for the supply of goods and services | 1,730 | 1,626 | 1,828 |
| Other operating commitments | 8,995 | 7,278 | 6,286 |
| Tertiary Education Institutions | 303 | 303 | - |
| Total operating commitments | 15,604 | 13,858 | 12,452 |
| Total commitments | 19,971 | 18,177 | 17,066 |
| Total Commitments by Segment | | | |
| Core Crown | 12,636 | 19,944 | 9,519 |
| Crown entities | 9,897 | 9,835 | 8,998 |
| State Owned Enterprises | 3,538 | 3,508 | 3,463 |
| Inter-segment eliminations | (6,100) | (15,110) | (4,914) |
| Total commitments | 19,971 | 18,177 | 17,066 |

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 May 2008

| | As at 31 May 2008 \$m | As at 30 June 2007 \$m | As at 31 May 2007 \$m |
|---|--------------------------------|---------------------------------|--------------------------------|
| Quantifiable Contingent Liabilities | | | |
| Guarantees and indemnities | 168 | 171 | 151 |
| Uncalled capital | 2,093 | 2,076 | 2,446 |
| Legal proceedings and disputes | 359 | 1,170 | 787 |
| Other contingent liabilities | 1,896 | 1,829 | 2,037 |
| Total quantifiable contingent liabilities | 4,516 | 5,246 | 5,421 |
| Total Quantifiable Contingent Liabilities by Segment | | | |
| Core Crown | 4,373 | 5,071 | 5,291 |
| Crown entities | 52 | 45 | 15 |
| State Owned Enterprises | 91 | 150 | 115 |
| Inter-segment eliminations | - | (20) | - |
| Total quantifiable contingent liabilities | 4,516 | 5,246 | 5,421 |
| Quantifiable Contingent Assets | | | |
| Core Crown | 85 | 86 | 111 |
| Crown entities | 5 | - | - |
| Total quantifiable contingent assets | 90 | 86 | 111 |

The accompanying Notes and Accounting Policies are an integral part of these Statements.

NOTES TO THE FINANCIAL STATEMENTS

| Prior Year 11 Months | | Current Year Actual vs Forecast | | | | Annual Forecast | |
|--|----------------|--|---------------|---------------|--------------|-----------------|---------------|
| to 30 June 2007 | to 31 May 2007 | | | | | | |
| Actual | Actual | Actual | Forecast | Variance | | | |
| \$m | \$m | \$m | \$m | \$m | % | \$m | |
| NOTE 1: Revenue Collected Through the Crown's Sovereign Power | | | | | | | |
| Taxation Revenue (accrual) | | | | | | | |
| Individuals | | | | | | | |
| 20,980 | 19,194 | PAYE | 21,068 | 20,813 | 255 | 1.2 | 22,735 |
| 4,440 | 4,131 | Other persons | 4,693 | 4,716 | (23) | (0.5) | 4,986 |
| (1,080) | (1,062) | Refunds | (1,218) | (1,201) | (17) | (1.4) | (1,290) |
| 468 | 430 | Fringe benefit tax | 460 | 480 | (20) | (4.2) | 521 |
| 24,808 | 22,693 | Total individuals | 25,003 | 24,808 | 195 | 0.8 | 26,952 |
| Corporate Tax | | | | | | | |
| 8,849 | 7,175 | Gross companies tax | 8,426 | 7,703 | 723 | 9.4 | 8,403 |
| (296) | (295) | Refunds | (215) | (274) | 59 | 21.5 | (310) |
| 1,189 | 1,010 | Non-resident withholding tax | 1,421 | 1,436 | (15) | (1.0) | 1,653 |
| 149 | 156 | Foreign-source dividend w/holding payments | 80 | 129 | (49) | (38.0) | 122 |
| 9,891 | 8,046 | Total corporate tax | 9,712 | 8,994 | 718 | 8.0 | 9,868 |
| Other Income Tax | | | | | | | |
| 2,227 | 1,974 | Resident w/holding tax on interest income | 2,425 | 2,370 | 55 | 2.3 | 2,596 |
| 89 | 93 | Resident w/holding tax on dividend income | 67 | 61 | 6 | 9.8 | 63 |
| 2 | 2 | Estate and gift duties | 2 | 2 | - | - | 3 |
| 2,318 | 2,069 | Total other income tax | 2,494 | 2,433 | 61 | 2.5 | 2,662 |
| 37,017 | 32,808 | Total income tax | 37,209 | 36,235 | 974 | 2.7 | 39,482 |
| Goods and Services Tax | | | | | | | |
| 19,540 | 17,634 | Gross goods and services tax | 18,788 | 18,619 | 169 | 0.9 | 20,655 |
| (8,325) | (7,648) | Refunds | (8,596) | (8,085) | (511) | (6.3) | (8,841) |
| 11,215 | 9,986 | Total goods and services tax | 10,192 | 10,534 | (342) | (3.2) | 11,814 |
| Other Taxation | | | | | | | |
| 819 | 765 | Petroleum fuels excise | 717 | 732 | (15) | (2.0) | 818 |
| 238 | 218 | Tobacco excise | 151 | 142 | 9 | 6.3 | 144 |
| 1,836 | 1,654 | Customs duty | 1,759 | 1,727 | 32 | 1.9 | 1,880 |
| 786 | 726 | Road user charges | 786 | 789 | (3) | (0.4) | 867 |
| 553 | 508 | Alcohol excise | 539 | 530 | 9 | 1.7 | 573 |
| 230 | 200 | Gaming duties | 219 | 223 | (4) | (1.8) | 245 |
| 222 | 204 | Motor vehicle fees | 207 | 209 | (2) | (1.0) | 227 |
| 54 | 49 | Energy resources levies | 42 | 42 | - | - | 47 |
| 94 | 87 | Approved issuer levy and cheque duty | 69 | 79 | (10) | (12.7) | 89 |
| 4,832 | 4,411 | Total other indirect taxation | 4,489 | 4,473 | 16 | 0.4 | 4,890 |
| 16,047 | 14,397 | Total indirect taxation | 14,681 | 15,007 | (326) | (2.2) | 16,704 |
| 53,064 | 47,205 | Total taxation revenue | 51,890 | 51,242 | 648 | 1.3 | 56,186 |
| Other Sovereign Revenue (accrual) | | | | | | | |
| 2,468 | 2,252 | ACC levies | 2,517 | 2,516 | 1 | - | 2,770 |
| 268 | 241 | Fire Service levies | 257 | 253 | 4 | 1.6 | 285 |
| 84 | 77 | EQC levies | 79 | 79 | - | - | 86 |
| 676 | 665 | Other miscellaneous items | 697 | 659 | 38 | 5.8 | 710 |
| 3,496 | 3,235 | Total other sovereign revenue | 3,550 | 3,507 | 43 | 1.2 | 3,851 |
| 56,560 | 50,440 | Total sovereign revenue | 55,440 | 54,749 | 691 | 1.3 | 60,037 |

NOTES TO THE FINANCIAL STATEMENTS

| Prior Year 11 Months | | Current Year Actual vs Forecast | | | | Annual Forecast | |
|---|----------------|--|---------------|---------------|--------------|-----------------|---------------|
| to 30 June 2007 | to 31 May 2007 | Actual | Forecast | Variance | | | |
| Actual | Actual | \$m | \$m | \$m | % | \$m | |
| \$m | \$m | | | | | | |
| NOTE 1 (continued): Receipts Collected Through the Crown's Sovereign Power | | | | | | | |
| Income Tax Receipts (cash) | | | | | | | |
| Individuals | | | | | | | |
| 21,009 | 19,176 | PAYE | 20,894 | 20,757 | 137 | 0.7 | 22,676 |
| 5,121 | 4,801 | Other persons | 5,168 | 5,220 | (52) | (1.0) | 5,669 |
| (1,850) | (1,651) | Refunds | (1,923) | (1,881) | (42) | (2.2) | (2,238) |
| 482 | 463 | Fringe benefit tax | 495 | 423 | 72 | 17.0 | 486 |
| 24,762 | 22,789 | Total individuals | 24,634 | 24,519 | 115 | 0.5 | 26,593 |
| Corporate Tax | | | | | | | |
| 9,120 | 8,375 | Gross companies tax | 8,503 | 8,691 | (188) | (2.2) | 9,327 |
| (1,153) | (1,069) | Refunds | (864) | (899) | 35 | 3.9 | (1,000) |
| 1,135 | 1,070 | Non-resident withholding tax | 1,597 | 1,539 | 58 | 3.8 | 1,615 |
| 141 | 139 | Foreign-source dividend w/holding payments | 72 | 119 | (47) | (39.5) | 122 |
| 9,243 | 8,515 | Total corporate tax | 9,308 | 9,450 | (142) | (1.5) | 10,064 |
| Other Income Tax | | | | | | | |
| 2,192 | 2,027 | Resident w/holding tax on interest income | 2,400 | 2,380 | 20 | 0.8 | 2,567 |
| 90 | 89 | Resident w/holding tax on dividend income | 42 | 61 | (19) | (31.1) | 63 |
| 3 | 3 | Estate and gift duties | 2 | 2 | - | - | 3 |
| 2,285 | 2,119 | Total other income tax | 2,444 | 2,443 | 1 | - | 2,633 |
| 36,290 | 33,423 | Total income tax | 36,386 | 36,412 | (26) | (0.1) | 39,290 |
| Goods and Services Tax | | | | | | | |
| 18,701 | 17,078 | Gross goods and services tax | 18,141 | 18,042 | 99 | 0.5 | 20,038 |
| (7,625) | (7,046) | Refunds | (8,101) | (7,896) | (205) | (2.6) | (8,561) |
| 11,076 | 10,032 | Total goods and services tax | 10,040 | 10,146 | (106) | (1.0) | 11,477 |
| Other Taxation | | | | | | | |
| 835 | 760 | Petroleum fuels excise | 738 | 738 | - | - | 818 |
| 265 | 252 | Tobacco excise | 147 | 137 | 10 | 7.3 | 144 |
| 1,778 | 1,709 | Customs duty | 1,759 | 1,734 | 25 | 1.4 | 1,880 |
| 791 | 731 | Road user charges | 786 | 789 | (3) | (0.4) | 867 |
| 549 | 505 | Alcohol excise | 511 | 522 | (11) | (2.1) | 573 |
| 236 | 216 | Gaming duties | 217 | 223 | (6) | (2.7) | 245 |
| 208 | 199 | Motor vehicle fees | 217 | 209 | 8 | 3.8 | 227 |
| 55 | 51 | Energy resources levies | 38 | 34 | 4 | 11.8 | 52 |
| 74 | 89 | Approved issuer levy and cheque duty | 78 | 85 | (7) | (8.2) | 89 |
| 4,791 | 4,512 | Total other indirect taxation | 4,491 | 4,471 | 20 | 0.4 | 4,895 |
| 15,867 | 14,544 | Total indirect taxation | 14,531 | 14,617 | (86) | (0.6) | 16,372 |
| 52,157 | 47,967 | Total tax receipts collected | 50,917 | 51,029 | (112) | (0.2) | 55,662 |
| Other Sovereign Receipts (cash) | | | | | | | |
| 2,599 | 2,418 | ACC levies | 2,416 | 2,380 | 36 | 1.5 | 2,565 |
| 268 | 244 | Fire Service levies | 257 | 253 | 4 | 1.6 | 285 |
| 84 | 78 | EQC levies | 79 | 79 | - | - | 86 |
| 464 | 476 | Other miscellaneous items | 516 | 509 | 7 | 1.4 | 560 |
| 3,415 | 3,216 | Total other sovereign receipts | 3,268 | 3,221 | 47 | 1.5 | 3,496 |
| 55,572 | 51,183 | Total sovereign receipts | 54,185 | 54,250 | (65) | (0.1) | 59,158 |

NOTES TO THE FINANCIAL STATEMENTS

| Prior Year 11 Months | | Current Year Actual vs Forecast | | | | Annual Forecast | |
|--|----------------|--|---------------|---------------|--------------|-----------------|---------------|
| to 30 June 2007 | to 31 May 2007 | Actual | Forecast | Variance | | | |
| Actual | Actual | \$m | \$m | \$m | % | \$m | |
| \$m | \$m | | | | | | |
| NOTE 2: Interest Revenue and Dividends | | | | | | | |
| <i>By type</i> | | | | | | | |
| 2,555 | 2,229 | Interest revenue | 2,683 | 2,586 | 97 | 3.8 | 2,864 |
| 440 | 358 | Dividends | 303 | 322 | (19) | (5.9) | 339 |
| 2,995 | 2,587 | Total interest revenue and dividends | 2,986 | 2,908 | 78 | 2.7 | 3,203 |
| <i>By source</i> | | | | | | | |
| 2,580 | 2,350 | Core Crown | 2,265 | 2,363 | (98) | (4.1) | 2,562 |
| 756 | 656 | Crown entities | 1,044 | 984 | 60 | 6.1 | 1,085 |
| 484 | 439 | State-owned Enterprises | 682 | 452 | 230 | 50.9 | 509 |
| (825) | (858) | Inter-segment eliminations | (1,005) | (891) | (114) | (12.8) | (953) |
| 2,995 | 2,587 | Total interest revenue and dividends | 2,986 | 2,908 | 78 | 2.7 | 3,203 |
| NOTE 3: Social Assistance and Official Development Assistance | | | | | | | |
| 6,810 | 6,219 | New Zealand superannuation | 6,722 | 6,724 | 2 | - | 7,347 |
| 1,468 | 1,349 | Domestic purposes benefit | 1,354 | 1,352 | (2) | (0.1) | 1,475 |
| 613 | 573 | Unemployment benefit | 422 | 422 | - | - | 455 |
| 1,132 | 1,037 | Invalids benefit | 1,109 | 1,109 | - | - | 1,214 |
| 1,699 | 1,559 | Family tax credit | 1,705 | 1,757 | 52 | 3.0 | 2,081 |
| 877 | 806 | Accommodation supplement | 817 | 815 | (2) | (0.2) | 888 |
| 573 | 524 | Sickness benefit | 534 | 533 | (1) | (0.2) | 580 |
| 382 | 342 | Student allowances | 345 | 343 | (2) | (0.6) | 384 |
| 270 | 248 | Disability allowances | 255 | 255 | - | - | 278 |
| - | - | KiwiSaver | 969 | 927 | (42) | (4.5) | 1,030 |
| 2,192 | 1,963 | Other social assistance benefits | 2,109 | 2,119 | 10 | 0.5 | 2,390 |
| 16,016 | 14,620 | Total social assistance | 16,341 | 16,356 | 15 | 0.1 | 18,122 |
| 330 | 306 | Official development assistance | 321 | 368 | 47 | 12.8 | 398 |
| 16,346 | 14,926 | Total social assistance and official development assistance | 16,662 | 16,724 | 62 | 0.4 | 18,520 |
| NOTE 4: Personnel Expenses | | | | | | | |
| 5,092 | 4,774 | Core Crown | 5,126 | 5,151 | 25 | 0.5 | 5,621 |
| 8,183 | 7,260 | Crown entities | 7,926 | 7,901 | (25) | (0.3) | 8,624 |
| 2,018 | 1,801 | State-owned Enterprises | 1,983 | 1,990 | 7 | 0.4 | 2,186 |
| (9) | (2) | Inter-segment eliminations | (8) | (8) | - | - | (9) |
| 15,284 | 13,833 | Total personnel expenses | 15,027 | 15,034 | 7 | - | 16,422 |
| NOTE 5: Operating Expenses | | | | | | | |
| <i>By type</i> | | | | | | | |
| 3,397 | 2,945 | Depreciation and amortisation | 3,294 | 3,282 | (12) | (0.4) | 3,618 |
| 27,579 | 24,356 | Other operating expenses | 26,166 | 25,645 | (521) | (2.0) | 29,217 |
| - | - | Forecast new operating spending | - | - | - | - | - |
| - | - | Top-down expense adjustment | - | (120) | (120) | (100.0) | (240) |
| 30,976 | 27,301 | Total operating expenses | 29,460 | 28,807 | (653) | (2.3) | 32,595 |
| <i>By source</i> | | | | | | | |
| 30,120 | 25,914 | Core Crown | 27,035 | 27,033 | (2) | - | 30,551 |
| 13,485 | 12,637 | Crown entities | 12,957 | 13,000 | 43 | 0.3 | 14,789 |
| 8,294 | 7,483 | State-owned Enterprises | 9,486 | 8,702 | (784) | (9.0) | 9,434 |
| (20,923) | (18,733) | Inter-segment eliminations | (20,018) | (19,928) | 90 | 0.5 | (22,179) |
| 30,976 | 27,301 | Total operating expenses | 29,460 | 28,807 | (653) | (2.3) | 32,595 |

NOTES TO THE FINANCIAL STATEMENTS

| Prior Year to 30 June 2007 Actual \$m | 11 Months to 31 May 2007 Actual \$m | | Current Year Actual vs Forecast | | | | Annual Forecast \$m |
|--|---|--|---------------------------------|-----------------|-----------------|--------------|---------------------------|
| | | | Actual \$m | Forecast \$m | Variance \$m | % | |
| NOTE 6: Interest Expenses | | | | | | | |
| <i>By type</i> | | | | | | | |
| 2,867 | 2,515 | Interest on financial liabilities | 2,793 | 2,776 | (17) | (0.6) | 2,930 |
| 18 | 96 | Interest unwind on provisions | 15 | 17 | 2 | 11.8 | 24 |
| 2,885 | 2,611 | Total interest expenses | 2,808 | 2,793 | (15) | (0.5) | 2,954 |
| <i>By source</i> | | | | | | | |
| 2,330 | 2,134 | Core Crown | 2,201 | 2,371 | 170 | 7.2 | 2,527 |
| 265 | 231 | Crown entities | 207 | 173 | (34) | (19.7) | 275 |
| 685 | 632 | State-owned Enterprises | 814 | 659 | (155) | (23.5) | 734 |
| (395) | (386) | Inter-segment eliminations | (414) | (410) | 4 | 1.0 | (582) |
| 2,885 | 2,611 | Total interest expenses | 2,808 | 2,793 | (15) | (0.5) | 2,954 |
| NOTE 7: Insurance Expenses | | | | | | | |
| <i>By type</i> | | | | | | | |
| 3,143 | 3,737 | ACC (including ACC payments) | 2,778 | 3,491 | 713 | 20.4 | 4,001 |
| 77 | 69 | EQC | 87 | 78 | (9) | (11.5) | 82 |
| 18 | 7 | Other insurance expenses | 13 | 87 | 74 | 85.1 | 12 |
| 3,238 | 3,813 | Total insurance expenses | 2,878 | 3,656 | 778 | 21.3 | 4,095 |
| NOTE 8: Gains and Losses on Financial Instruments | | | | | | | |
| <i>By source</i> | | | | | | | |
| 1,179 | 1,547 | Core Crown | 694 | 80 | 614 | - | 200 |
| 365 | 664 | Crown entities | (388) | (737) | 349 | 47.4 | (691) |
| 63 | 135 | State-owned Enterprises | (129) | (145) | 16 | 11.0 | (138) |
| (41) | (50) | Inter-segment eliminations | (68) | (173) | 105 | 60.7 | (195) |
| 1,566 | 2,296 | Net gains/(losses) on financial instruments | 109 | (975) | 1,084 | 111.2 | (824) |
| NOTE 9: Gains and Losses on Non-Financial Instruments | | | | | | | |
| <i>By type</i> | | | | | | | |
| 1,133 | (30) | Actuarial gains/(losses) on GSF liability | (906) | (906) | - | - | (906) |
| (481) | - | Actuarial gains/(losses) on ACC outstanding claims | (1,213) | (1,059) | (154) | (14.5) | (1,059) |
| (166) | (11) | Other | (37) | (45) | 8 | 17.8 | (42) |
| 486 | (41) | | (2,156) | (2,010) | (146) | (7.3) | (2,007) |
| <i>By source</i> | | | | | | | |
| 1,163 | (35) | Core Crown | (1,054) | (1,053) | (1) | (0.1) | (1,057) |
| (495) | 5 | Crown entities | (1,219) | (1,074) | (145) | (13.5) | (1,078) |
| (181) | (11) | State-owned Enterprises | 117 | 117 | - | - | 128 |
| (1) | - | Inter-segment eliminations | - | - | - | - | - |
| 486 | (41) | Net gains/(losses) on non-financial instruments | (2,156) | (2,010) | (146) | (7.3) | (2,007) |
| NOTE 10: Operating Balance | | | | | | | |
| <i>By source</i> | | | | | | | |
| 6,510 | 5,630 | Core Crown | 5,453 | 4,031 | 1,422 | 35.3 | 3,729 |
| 1,023 | 369 | Crown entities | (91) | (1,205) | 1,114 | 92.4 | (1,285) |
| 807 | 919 | State-owned Enterprises | 642 | 645 | (3) | (0.5) | 747 |
| (317) | (453) | Inter-segment eliminations | (641) | (675) | 34 | 5.0 | (632) |
| 8,023 | 6,465 | Total operating balance | 5,363 | 2,796 | 2,567 | 91.8 | 2,559 |

NOTES TO THE FINANCIAL STATEMENTS

| As at 30 June 2007 \$m | As at 31 May 2007 \$m | | Current Year Actual vs Forecast | | | | Annual Forecast \$m |
|---|--------------------------------|--|---------------------------------|-----------------|-----------------|--------------|---------------------------|
| | | | Actual \$m | Forecast \$m | Variance \$m | % | |
| NOTE 11: Financial Assets | | | | | | | |
| 4,163 | 2,893 | Cash and cash equivalents | 4,922 | 5,014 | (92) | (1.8) | 5,217 |
| 6,368 | 7,614 | Tax receivables | 7,213 | 5,643 | 1,570 | 27.8 | 6,005 |
| 5,690 | 5,425 | Trade and other receivables | 6,718 | 5,397 | 1,321 | 24.5 | 6,321 |
| 6,011 | 5,827 | Student loans | 6,517 | 6,511 | 6 | 0.1 | 6,278 |
| 3,637 | 3,527 | Kiwbank mortgages | 5,435 | 5,602 | (167) | (3.0) | 5,751 |
| 2,110 | 2,015 | Long-term deposits | 1,927 | 1,951 | (24) | (1.2) | 1,741 |
| 183 | 292 | Reserve position at the IMF | 183 | 151 | 32 | 21.2 | 151 |
| 2,145 | 1,838 | Other loans | 1,625 | 1,886 | (261) | (13.8) | 1,878 |
| 13,581 | 14,359 | Share investments | 13,702 | 12,860 | 842 | 6.5 | 12,790 |
| 2,352 | 1,602 | Derivatives in gain | 1,966 | 1,548 | 418 | 27.0 | 1,167 |
| 27,480 | 29,696 | Other marketable securities | 35,685 | 34,132 | 1,553 | 4.5 | 33,306 |
| 73,720 | 75,088 | Total financial assets | 85,893 | 80,695 | 5,198 | 6.4 | 80,605 |
| Financial assets by portfolio | | | | | | | |
| 22,577 | 20,119 | Reserve Bank and DMO managed funds | 24,243 | 24,696 | (453) | (1.8) | 23,559 |
| 12,576 | 12,817 | NZ Superannuation Fund | 14,145 | 13,764 | 381 | 2.8 | 13,816 |
| 14,403 | 17,857 | Other core Crown | 18,394 | 15,758 | 2,636 | 16.7 | 16,021 |
| (952) | (808) | Intra-segment eliminations | (603) | (775) | 172 | 22.2 | (587) |
| 48,604 | 49,985 | Total core Crown | 56,179 | 53,443 | 2,736 | 5.1 | 52,809 |
| 10,588 | 10,920 | ACC portfolio | 12,298 | 11,354 | 944 | 8.3 | 11,864 |
| 1,920 | 2,026 | EQC portfolio | 1,983 | 1,799 | 184 | 10.2 | 1,814 |
| 4,078 | 3,708 | Other Crown entities | 4,008 | 3,912 | 96 | 2.5 | 3,894 |
| 16,586 | 16,654 | Total Crown entities | 18,289 | 17,065 | 1,224 | 7.2 | 17,572 |
| 8,530 | 8,449 | Total State Owned Enterprises | 11,425 | 10,187 | 1,238 | 12.2 | 10,224 |
| 73,720 | 75,088 | Total financial assets by portfolio | 85,893 | 80,695 | 5,198 | 6.4 | 80,605 |
| NOTE 12: Property, Plant and Equipment | | | | | | | |
| By Class of asset | | | | | | | |
| Net Carrying Value | | | | | | | |
| 21,140 | 18,722 | Land (valuation) | 21,263 | 21,391 | (128) | (0.6) | 21,418 |
| 20,777 | 20,578 | Buildings (valuation) | 21,159 | 21,144 | 15 | 0.1 | 21,368 |
| 1,972 | 1,976 | Electricity distribution network (cost) | 1,852 | 2,035 | (183) | (9.0) | 2,060 |
| 10,402 | 8,934 | Electricity generation assets (valuation) | 10,784 | 10,864 | (80) | (0.7) | 11,059 |
| 2,104 | 2,328 | Aircraft (excl. military) (valuation) | 2,052 | 2,051 | 1 | - | 1,955 |
| 19,400 | 18,542 | State highways (valuation) | 20,024 | 19,980 | 44 | 0.2 | 20,220 |
| 10,568 | 10,605 | Rail network (valuation) | 10,567 | 10,583 | (16) | (0.2) | 10,581 |
| 3,079 | 3,321 | Specialist military equipment (valuation) | 3,135 | 3,149 | (14) | (0.4) | 3,157 |
| 3,227 | 3,803 | Other plant and equipment (cost) | 3,546 | 3,341 | 205 | 6.1 | 3,656 |
| 2,351 | 1,717 | Specified cultural and heritage assets (valuation) | 2,359 | 2,382 | (23) | (1.0) | 2,391 |
| 578 | 406 | Other assets (valuation) | 348 | 496 | (148) | (29.8) | 490 |
| 95,598 | 90,932 | Total net carrying value | 97,089 | 97,416 | (327) | (0.3) | 98,355 |

NOTES TO THE FINANCIAL STATEMENTS

| As at 30 June 2007 \$m | As at 31 May 2007 \$m | | Current Year Actual vs Forecast | | | | Annual Forecast \$m |
|---|--------------------------------|---|---------------------------------|-----------------|-----------------|-------------|---------------------------|
| | | | Actual \$m | Forecast \$m | Variance \$m | % | |
| NOTE 13: NZ Superannuation Fund | | | | | | | |
| 436 | 401 | Revenue | 340 | 347 | (7) | (2.0) | 381 |
| 707 | 631 | Less current tax expense | 385 | 236 | (149) | (63.1) | 259 |
| (52) | 23 | Less other expenses ¹ | 36 | 37 | 1 | 2.7 | 51 |
| 1,313 | 1,396 | Add gains/(losses) | (347) | (764) | 417 | 54.6 | (686) |
| 1,094 | 1,143 | Operating balance | (428) | (690) | 262 | 38.0 | (615) |
| 9,855 | 9,855 | Opening net worth | 12,973 | 12,973 | - | - | 12,973 |
| 2,049 | 1,891 | Gross contribution from the Crown | 1,941 | 1,941 | - | - | 2,103 |
| 1,094 | 1,143 | Operating balance | (428) | (690) | 262 | 38.0 | (615) |
| (25) | (21) | Other movements in reserves | (1) | - | (1) | - | - |
| 12,973 | 12,868 | Closing net worth | 14,485 | 14,224 | 261 | 1.8 | 14,461 |
| <i>comprising:</i> | | | | | | | |
| 12,576 | 12,817 | Financial assets | 14,145 | 13,764 | 381 | 2.8 | 13,816 |
| 397 | 51 | Net other assets | 340 | 460 | (120) | (26.1) | 645 |
| 12,973 | 12,868 | Closing net worth | 14,485 | 14,224 | 261 | 1.8 | 14,461 |
| Core Crown revenue (excl NZS Fund) | | | | | | | |
| 58,210 | 51,952 | Core Crown revenue | 56,957 | 56,394 | 563 | 1.0 | 61,936 |
| 436 | 401 | Less NZS Fund revenue | 340 | 347 | (7) | (2.0) | 381 |
| 707 | 631 | Add back NZS Fund intra-segment revenue | 385 | 236 | 149 | 63.1 | 259 |
| 58,481 | 52,182 | Core Crown revenue (excl NZS Fund) | 57,002 | 56,283 | 719 | 1.3 | 61,814 |
| OBEGAL excluding NZS Fund | | | | | | | |
| 5,860 | 4,116 | Total Crown OBEGAL | 7,269 | 5,633 | 1,636 | 29.0 | 5,227 |
| 436 | 401 | Less NZS Fund revenue | 340 | 347 | (7) | (2.0) | 381 |
| 119 | 107 | Less NZS Fund expenses | 82 | 101 | (19) | (18.8) | 114 |
| 707 | 631 | Add back NZS Fund tax | 385 | 236 | 149 | 63.1 | 259 |
| 6,250 | 4,453 | OBEGAL excluding NZS Fund | 7,396 | 5,623 | 1,773 | 31.5 | 5,219 |

NOTES TO THE FINANCIAL STATEMENTS

| As at 30 June 2007 \$m | As at 31 May 2007 \$m | | Current Year Actual vs Forecast | | | | Annual Forecast \$m |
|---------------------------------------|--------------------------------|---|---------------------------------|-----------------|-----------------|---------------|---------------------------|
| | | | Actual \$m | Forecast \$m | Variance \$m | % | |
| NOTE 14: Payables | | | | | | | |
| 4,896 | 4,604 | Accounts payable | 4,893 | 4,192 | (701) | (16.7) | 5,244 |
| 3,179 | 4,631 | Taxes repayable | 4,178 | 3,179 | (999) | (31.4) | 3,179 |
| 8,075 | 9,235 | Total payables | 9,071 | 7,371 | (1,700) | (23.1) | 8,423 |
| NOTE 15: Insurance liabilities | | | | | | | |
| 17,328 | 17,938 | ACC liability | 19,550 | 19,744 | 194 | 1.0 | 20,663 |
| 68 | 67 | EQC liability | 63 | 78 | 15 | 19.2 | 79 |
| 22 | 21 | Other insurance liabilities | 12 | 13 | 1 | 7.7 | 10 |
| 17,418 | 18,026 | Total insurance liabilities | 19,625 | 19,835 | 210 | 1.1 | 20,752 |
| NOTE 16: Provisions | | | | | | | |
| 704 | 544 | Provision for Kyoto | 481 | 485 | 4 | 0.8 | 482 |
| 771 | 805 | Provision for National Provident Fund guarantee | 780 | 780 | - | - | 780 |
| 1,828 | 1,780 | Provision for employee entitlements | 1,812 | 1,778 | (34) | (1.9) | 1,738 |
| 1,257 | 1,080 | Other provisions | 827 | 1,053 | 226 | 21.5 | 1,045 |
| 4,560 | 4,209 | Total provisions | 3,900 | 4,096 | 196 | 4.8 | 4,045 |
| NOTE 17: Changes in Net Worth | | | | | | | |
| 36,214 | 36,214 | Opening taxpayers funds | 44,222 | 44,222 | - | - | 44,222 |
| 8,023 | 6,465 | Operating balance excluding minority interest | 5,363 | 2,796 | 2,567 | 91.8 | 2,559 |
| (15) | (89) | Transfers from/(to) other reserves | 17 | (16) | 33 | 206.3 | (14) |
| 44,222 | 42,590 | Closing taxpayers funds | 49,602 | 47,002 | 2,600 | 5.5 | 46,767 |
| 47,153 | 47,153 | Opening revaluation reserve | 52,442 | 52,442 | - | - | 52,442 |
| 5,262 | (7) | Net Revaluations | 1 | - | 1 | - | 43 |
| 27 | 88 | Transfers from/(to) other reserves | (17) | 13 | (30) | (230.8) | 13 |
| 52,442 | 47,234 | Closing revaluation reserve | 52,426 | 52,455 | (29) | (0.1) | 52,498 |
| 326 | 326 | Opening other reserves | (133) | (133) | - | - | (133) |
| (459) | (362) | Net movements | (113) | (31) | (82) | (264.5) | (45) |
| (133) | (36) | Closing other reserves | (246) | (164) | (82) | (50.0) | (178) |

NOTES TO THE FINANCIAL STATEMENTS

| Prior Year 11 Months | | Current Year Actual vs Forecast | | | | Annual | |
|---|----------------|---|----------------|----------------|--------------|---------------|----------------|
| to 30 June | to 31 May | Actual | Forecast | Variance | | Forecast | |
| 2007 | 2007 | \$m | \$m | \$m | % | \$m | |
| | | | | | | | |
| NOTE 18: Reconciliation of core Crown operating cash flows to residual core Crown cash | | | | | | | |
| Core Crown Cash Flows from Operations | | | | | | | |
| 53,278 | 48,733 | Total tax receipts | 51,489 | 51,496 | (7) | - | 56,392 |
| 395 | 425 | Total other sovereign receipts | 453 | 445 | 8 | 1.8 | 494 |
| 1,896 | 1,793 | Interest, profits and dividends | 1,965 | 1,839 | 126 | 6.9 | 1,980 |
| 1,433 | 1,168 | Sale of goods & services and other receipts | 1,307 | 1,422 | (115) | (8.1) | 1,654 |
| (17,234) | (14,993) | Subsidies and transfer payments | (16,733) | (16,560) | (173) | (1.0) | (19,931) |
| (28,962) | (27,356) | Personnel and operating costs | (29,659) | (29,669) | 10 | - | (31,478) |
| (2,220) | (2,070) | Finance costs | (2,207) | (2,235) | 28 | 1.3 | (2,333) |
| - | - | Forecast for future new operating spending | - | - | - | - | - |
| - | - | Top-down expense adjustment | - | 120 | (120) | (100.0) | 240 |
| 8,586 | 7,700 | Net cash flows from core Crown operations | 6,615 | 6,858 | (243) | (3.5) | 7,018 |
| (1,755) | (1,613) | Net purchase of physical assets | (1,256) | (1,311) | 55 | 4.2 | (1,544) |
| (1,125) | (1,166) | Net increase in advances | (1,030) | (1,017) | (13) | (1.3) | (1,254) |
| (281) | (275) | Net purchase of investments | (525) | (561) | 36 | 6.4 | (519) |
| (2,048) | (1,892) | Contribution to NZ Superannuation Fund | (1,940) | (1,939) | (1) | (0.1) | (2,103) |
| (500) | (500) | Purchase of Reserve Bank reserves | - | - | - | - | - |
| - | - | Forecast for future new capital spending | - | - | - | - | (690) |
| - | - | Top-down capital adjustment | - | - | - | - | - |
| 2,877 | 2,254 | Residual cash | 1,864 | 2,030 | (166) | (8.2) | 908 |
| Financed by: | | | | | | | |
| (5,040) | (5,389) | Other net sale/(purchase) of marketable securities and deposits | (3,984) | (4,104) | 120 | 2.9 | (2,863) |
| (2,163) | (3,135) | Total operating and investing activities | (2,120) | (2,074) | (46) | (2.2) | (1,955) |
| Used in: | | | | | | | |
| 1,120 | 2,755 | Net (repayment)/issue of other New Zealand dollar borrowing | (1,016) | (1,296) | 280 | 21.6 | 167 |
| 1,775 | 635 | Net (repayment)/issue of foreign currency borrowing | 1,000 | 1,354 | (354) | (26.1) | (504) |
| 81 | 169 | Issues of circulating currency | 172 | 260 | (88) | (33.8) | 260 |
| (479) | 116 | Increase/(decrease) in cash | 33 | (603) | 636 | 105.5 | (572) |
| 2,497 | 3,675 | | 189 | (285) | 474 | 166.3 | (649) |
| 334 | 540 | Net cash inflow/(outflow) to be offset by domestic bonds | (1,931) | (2,359) | 428 | 18.1 | (2,604) |
| Gross Cash Proceeds from Domestic Bonds | | | | | | | |
| 2,294 | 2,100 | Domestic bonds (market) | 1,561 | 2,129 | (568) | (26.7) | 2,415 |
| 570 | 558 | Domestic bonds (non-market) | 130 | 130 | - | - | 189 |
| 2,864 | 2,658 | Total gross cash proceeds from domestic bonds | 1,691 | 2,259 | (568) | (25.1) | 2,604 |
| (2,777) | (2,777) | Repayment of domestic bonds (market) | 200 | 100 | 100 | 100.0 | - |
| (421) | (421) | Repayment of domestic bonds (non-market) | 40 | - | 40 | - | - |
| (3,198) | (3,198) | | 240 | 100 | 140 | 140.0 | - |
| (334) | (540) | Net (repayments of)/cash proceeds from domestic bonds | 1,931 | 2,359 | (428) | (18.1) | 2,604 |

IMPACT OF THE ADOPTION OF NZ IFRS

The aim of this section is to explain how the transition from old GAAP to NZ IFRS has affected the reported financial position and financial performance of the Government of New Zealand.

The Government is reporting in compliance with NZ IFRS for periods beginning on and after 1 July 2007. Previous reporting has been on the basis of approved accounting standards applicable in New Zealand at the time ("old GAAP"). The following pages describe the impact of the adoption of NZ IFRS by providing reconciliations between the old GAAP and the comparative information shown in these financial statements for:

- Net worth as at 1 July 2006, as at 31 May 2007 and as at 30 June 2007
- Operating Balance for the year ended 30 June 2007 and for the eleven months ended 31 May 2007.

In addition to changes in measurement and recognition rules, NZ IFRS has resulted in a number of changes to the format of the financial statements. The major reclassifications are:

- depreciation and amortisation previously classified under operating expenses now separately disclosed
- share investments previously classified under marketable securities now separately disclosed
- some properties held by Land Information New Zealand (LINZ) have been reclassified from assets for sale to property, plant and equipment and as a result have been fair valued
- settlement deposits with the Reserve Bank previously classified under borrowings – sovereign-guaranteed now separately disclosed
- separation of borrowings between sovereign-guaranteed and non sovereign-guaranteed no longer in the statement of financial position (transferred to notes to the financial statements)
- payables and provisions previously classified as one category now split
- reclassifications between interest and dividend income, interest expense and gains/losses on financial instruments
- reclassifications between sales of goods and services and other revenue, and
- reclassifications between official development assistance and operating expenses.

IMPACT OF THE ADOPTION OF NZ IFRS

| | Note | As at 1 July 2006 \$m | As at 30 June 2007 \$m | As at 31 May 2007 \$m |
|--|-------------|-----------------------------|---|---|
| Net worth per old GAAP published accounts | | 71,403 | 95,836 | 88,961 |
| Rail network valuation | a | 10,330 | - | - |
| Amended net worth per old GAAP | | 81,733 | 95,836 | 88,961 |
| Changes as a result of transition to NZ IFRS | | | | |
| Revaluation of GSF | b | 3,133 | 3,137 | 3,167 |
| Inclusion of a risk premium on ACC liability | c | (1,603) | (1,976) | (1,955) |
| Inclusion of derivatives | d | 304 | (355) | (362) |
| Fair value adjustments to receivables | e | (369) | (598) | (573) |
| Revaluation of NPF liability | f | 195 | 182 | 195 |
| Goodwill amortisation | g | - | 98 | 75 |
| Other movements | | 196 | 503 | 558 |
| Net worth per NZ IFRS published accounts | | 83,589 | 96,827 | 90,066 |
| | Note | | Prior Year to 30 June 2007 \$m | 11 months to 31 May 2007 \$m |
| Operating balance per old GAAP published accounts | | | 8,663 | 7,198 |
| Changes as a result of transition to NZ IFRS | | | | |
| Revaluation of GSF | b | | 4 | 34 |
| Inclusion of a risk premium on ACC liability | c | | (373) | (352) |
| Inclusion of derivatives | d | | (250) | (345) |
| Fair value adjustments to receivables | e | | (229) | (204) |
| Revaluation of NPF liability | f | | (13) | - |
| Goodwill amortisation | g | | 98 | 75 |
| Other movements | | | 123 | 58 |
| Operating balance per NZ IFRS published accounts | | | 8,023 | 6,464 |

IMPACT OF THE ADOPTION OF NZ IFRS

Notes to the NZ IFRS Transition

- a) On 1 July 2006 the accounting policy regarding the valuation basis of the rail network changed under old GAAP to depreciated replacement cost. Previously this asset was reported at historical cost.
- b) The reporting of the Government Superannuation Fund (GSF) has changed due to applying a specific standard for employee benefits, including pension schemes, under NZ IFRS. The main changes to the financial statements are:
- a reduction in the net liability of GSF due to valuing the liability on the basis that the Government meets its obligation on a pay-as-needed basis, rather than the amount to be invested today to fully fund future contributions under old GAAP. This latter approach assumes the Fund would invest in assets that would generate revenue on which there would be an additional obligation to pay tax, and
 - a netting of GSF plan assets against the pension liability (nil impact on net worth).
- c) The reporting of the ACC liability has changed due to the new requirements under NZ IFRS. The main changes to the financial statements are:
- the ACC liability has increased due to adding an additional risk premium and liability adequacy test on the unearned levy liability to meet estimated future claims. The actuarially calculated liability under old GAAP represents a mid-point estimate – that is, equal chance of actual payouts being greater than or less than the estimate. To that extent, it represents the most likely outcome. Introducing an additional risk premium and liability adequacy test under NZ IFRS does not change the relative risk of ACC's activities; rather it simply changes how this risk is reported, and
 - changes to the presentation of the unearned levy liability (nil impact on net worth).
- d) Under NZ IFRS all derivative contracts must be recognised in the statement of financial position at fair value.
- e) Receivables from taxes and fines have been written down to reflect time value of money and collection costs.
- f) Like the reduction in the GSF liability above, the reduction in the National Provident Fund (NPF) liability is due to the tax effect of valuing the liability on the basis of present valuing the possible payments to this scheme under the current arrangements, rather than old GAAP which determines what payment would be required today to settle all future obligations.
- g) Under NZ IFRS goodwill is not amortised over a specified period. Instead, an annual impairment test is conducted.