

# Financial Statements of the Government of New Zealand

For the Eight Months Ended  
28 February 2009



Prepared by The Treasury

3 April 2009

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New Zealand Government



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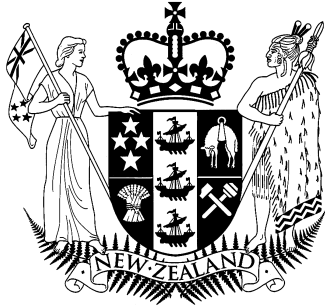
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## COMMENTARY

## SUMMARY

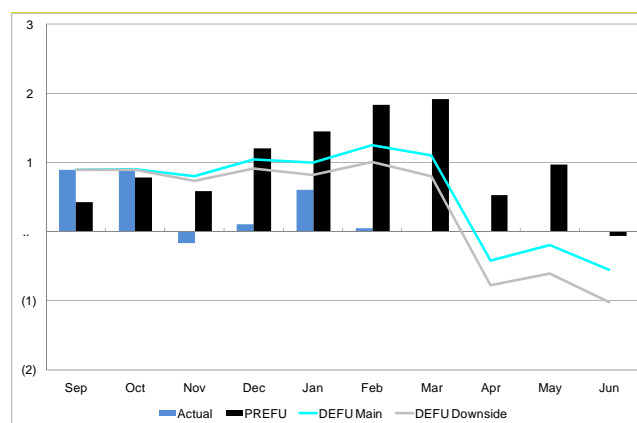
The Financial Statements of the Government provide a record of the Government's financial performance over the eight months ended 28 February 2009 and its financial position as at 28 February 2009.

We are required under the Public Finance Act 1989 (PFA) to report the monthly financial statements against the latest full economic and fiscal update. For the purposes of reporting monthly results, the 2008 *Pre-Election Economic and Fiscal Update (PREFU)*, which was released on 6 October 2008 continues to be the latest full economic and fiscal update. However, in the following commentary we translate at a high level how the year to date actual results compare to the year end results forecast in the *December Update* that was published on 18 December 2008.

### Results for the eight months ended 28 February 2009:

- Tax revenue and receipts were approximately \$1.8 billion lower than forecast in the *Pre-Election Update*. This variance had increased since last month, mainly due to a temporary timing difference that is expected to reverse next month. Once this timing difference reverses, we expect tax revenue and receipts to continue tracking more in line with the forecast in the *December Update*, as the continued deterioration in the world economic situation flows through to the New Zealand economy.

Figure 1 – OBEGAL (\$ billions)

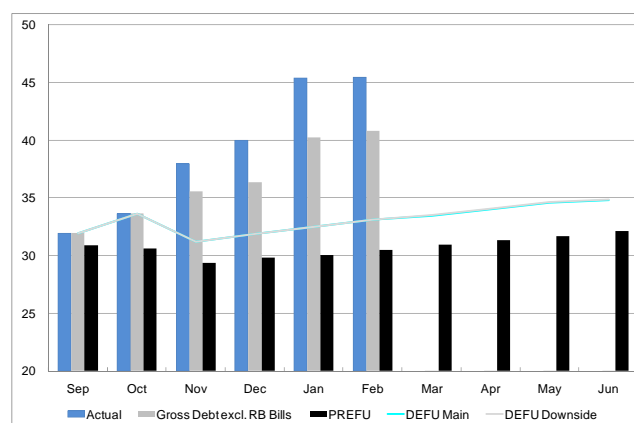


Source: The Treasury

- The operating balance before gains and losses (*OBEGAL*) was \$0.1 billion. This was \$1.8 billion lower than forecast in the *Pre-Election Update* and \$1.2 billion lower than forecast in the *December Update* mainly due to the lower-than-expected tax revenue result.
- The positions of the NZS Fund, ACC and EQC all worsened during the month and were only partially offset by gains recognised by other Crown financial institutions in February. As a result, losses on financial instruments for the year-to-date were \$3.5 billion compared to the \$2.2 billion reported in the January results. This was \$4.5 billion lower than the forecast in the *Pre-Election Update*.
- Losses on non-financial instruments were \$5.2 billion. This consisted of the ACC actuarial loss of \$2.9 billion and the GSF actuarial loss of \$2.4 billion. The ACC actuarial loss of \$2.9 billion compares to \$3.1 billion last month and is based on the latest valuation performed in December 2008. The GSF actuarial loss of \$2.4 billion compares to \$0.9 billion last month and is based on the latest (4-monthly) valuation performed in February 2009.
- Overall this has led to an operating deficit of \$8.4 billion. This compares to the \$3.2 billion surplus forecast in the *Pre-Election Update* (a variance of \$11.6 billion) and a \$3.2 billion deficit forecast in the *December Update* (a variance of \$5.2 billion).

- Gross debt<sup>1</sup> was significantly higher than forecast at \$45.4 billion (25.2% of GDP) with higher-than-forecast issues of Reserve Bank bills, Treasury bills and derivative liabilities. Although gross debt has increased, financial assets have also increased as a result, minimising the impact on net debt.
- Settlement cash is excluded from Gross Debt on the basis that there are corresponding, offsetting assets and the borrowing was incurred for liquidity management purposes, rather than reflecting the government's underlying borrowing needs.
- Excluding Reserve Bank bills that (like settlement cash) have corresponding, offsetting assets and that were incurred for liquidity management purposes, Gross Debt would have been \$40.7 billion (22.6% of GDP).
- Net debt was lower than expected at \$3.3b (1.8% of GDP) against a forecast of \$4.2 billion in the *Pre-Election Update*. Net debt has been reduced by positive valuation movements in financial assets and financial liabilities driven by movements in exchange rates and interest rates. In particular, the Reserve Bank and the New Zealand Debt Management Office have reported year-to-date net gains on financial instruments of \$1.5 billion and \$0.5 billion respectively. This has been partially offset by a higher-than-expected residual cash deficit, driven primarily by the \$1.8 billion lower-than-expected tax revenue result.

**Figure 2 – Gross Debt (\$ billions)**



Source: The Treasury

### Valuation of Crown Assets and Liabilities

The Government has significant holdings of assets and liabilities, the values of which are likely to have been affected by the financial and economic crisis. While the consequential impact of this decline has been reflected in the value of financial instruments such as share investments, a number of non-financial assets and liabilities such as property, plant and equipment are valued on a periodic basis. As a result, some assets and liabilities may not have been revalued since the 2008 annual financial statements were published in October 2008.

For example, the Government has holdings of \$105 billion of property, plant and equipment, \$99 billion of which are subject to valuation. As a result of previous valuation increases, a property, plant and equipment reserve of \$59 billion is reported in these financial statements. Given the amount of these reserves, it is unlikely that a decline in the value of these assets will impact the operating balance.

A number of revaluation exercises are currently underway and are planned to be completed in time for either the Budget (published in late May) or the 2009 annual financial statements (published in early October). The results of these valuations are, therefore, not reported in these interim financial statements.

<sup>1</sup> Gross sovereign-issued debt (excluding settlement cash).

**Table 1** – Key indicators for the eight months ended 28 February 2009 compared to PREFU

|  | Year to date        |  |                             |                           | Full Year                                   |  |
|--|---------------------|--|-----------------------------|---------------------------|---|--|
|  | February<br>2009    | February<br>2009<br>PREFU<br>Forecast <sup>2</sup> | Variance<br>to PREFU<br>\$m | Variance<br>to PREFU<br>% | June 2009<br>PREFU<br>Forecast <sup>3</sup> | June 2009<br>DEFU<br>Forecast <sup>4</sup> |
|  | Actual <sup>2</sup> |  |                             |                           |   |  |
| <b>\$ million</b>                                |                     |  |                             |                           |   |  |
| <b>Core Crown</b>                                |                     |  |                             |                           |   |  |
| Core Crown revenue (excl. NZS Fund) <sup>1</sup> | 39,050              | 40,895   | (1,845)                     | (4.5)                     | 61,102                                      | 60,406                                     |
| Core Crown expenses                              | 39,749              | 39,704   | (45)                        | (0.1)                     | 62,359                                      | 62,741                                     |
| NZS Fund operating balance                       | (3,566)             | 634  | (4,200)                     | (662.5)                   | 986   | (2,119)                                    |
| Core Crown residual cash                         | (6,612)             | (4,903)  | (1,709)                     | (34.9)                    | (5,909)                                     | (6,633)                                    |
| GSID (excl. settlement cash)                     | 45,424              | 30,471   | (14,953)                    | (49.1)                    | 32,087                                      | 34,786                                     |
| <i>as a percentage of GDP</i>                    | 25.2%               | 16.9%  |                             |                           | 17.4%                                       | 19.2%                                      |
| Net Core Crown debt                              | 3,251               | 4,164  | 913                         | 21.9                      | 5,207                                       | 5,631                                      |
| <i>as a percentage of GDP</i>                    | 1.8%                | 2.3%   |                             |                           | 2.8%  | 3.1%                                       |
| Net Core Crown debt (incl. NZS Fund)             | (7,731)             | (10,421)   | (2,690)                     | (25.8)                    | (10,430)                                    | (7,244)                                    |
| <i>as a percentage of GDP</i>                    | (4.3)%              | (5.8)%   |                             |                           | (5.7)%                                      | (4.0)%                                     |
| <b>Total Crown</b>                               |                     |  |                             |                           |   |  |
| OBEGAL   | 49                  | 1,826  | (1,777)                     | (97.3)                    | (64)  | (550)                                      |
| Net gains/(losses) and other items               | (8,495)             | 1,353  | (9,848)                     |                           | 1,973                                       | (3,779)                                    |
| Operating Balance                                | (8,446)             | 3,179  | (11,625)                    | (365.7)                   | 1,909                                       | (4,329)                                    |

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 December 2008 of \$180,444 million (Source: Statistics New Zealand).

3 Using forecast GDP for the year ended 30 June 2009 of \$184,390 million (Source: Treasury)

4 Using forecast GDP for the year ended 30 June 2009 of \$181,139 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 eight months ended 28 February 2009 compared to PREFU

| Key Indicator                               | Variance                                  | Key Drivers   |
|---|---|---|
| <b>Core Crown</b>                           |   |   |
| Core Crown revenue (excl. NZS Fund revenue) | -\$1,845 million<br>(lower than forecast) | <ul style="list-style-type: none"> <li>• Core Crown tax revenue was \$1,463m (3.9%) lower than PREFU, however it was broadly consistent with the <i>December Update</i> (main scenario) when the timing differences (noted below) are considered. The variance against the <i>PREFU</i> comprised of: <ul style="list-style-type: none"> <li>- Corporate tax revenue was \$717m (11.5%) lower than forecast due to three factors: <ul style="list-style-type: none"> <li>○ Terminal tax assessments were approximately \$350m lower than forecast due to lower-than-expected final profits generated in previous years.</li> <li>○ Provisional tax assessments were approximately \$250m lower than forecast reflecting weaker-than-expected 2009 tax year profitability.</li> <li>○ As the last day of February fell on a weekend, the February tax due date was moved to 2 March. This resulted in a timing difference of approximately \$100m that is expected to reverse in March.</li> </ul> <p>We expect that the corporate tax shortfall will persist through to the end of the 2008/09 fiscal year and through to the 2009/10 fiscal year, as the effects of the recent worldwide economic downturn flow through to New Zealand firms' profitability.</p> </li> <li>- GST revenue was \$394m (5.0%) lower than forecast. This was mainly due to timing differences arising from the movement of the February tax due date (noted above).</li> <li>- Other individuals tax revenue was \$223m (8.0%) lower than forecast due to lower-than-expected final profits generated in previous tax years.</li> </ul> </li> <li>• Tax revenue from the NZS Fund was \$241m lower than forecast.</li> <li>• Interest revenue was \$437m lower than forecast, primarily due to the recent decline in interest rates.</li> <li>• Other revenue was \$229m higher than forecast, due mainly to higher than expected petroleum mining royalties, triggered by high oil prices last year.</li> </ul> |
| Core Crown expenses                         | -\$45 million<br>(higher than forecast)   | <ul style="list-style-type: none"> <li>• Core Crown expenses were broadly in line with forecast. No significant variances were noted.</li> </ul>  |
| NZS Fund operating balance                  | -\$4,200 million<br>(lower than forecast) | <ul style="list-style-type: none"> <li>• The Fund's investment return for the month of February was -6.67%. The Fund's annualised return since inception (September 2003) is now 1.91%, compared to 6.84% for the risk-free rate of return (Treasury bills).</li> <li>• Although a significant portion of the year-to-date losses were captured in the <i>December Update</i>, the NZS Fund operating balance is \$1,095m lower than forecast in that update.</li> </ul>  |

| Key Indicator   | Variance                                    | Key Drivers   |
|---|---|---|
| <b>Core Crown</b>   |   |   |
| Core Crown residual cash deficit                                  | -\$1,709 million<br>(higher than forecast)  | <ul style="list-style-type: none"> <li>• Core Crown tax receipts were \$1,864m lower than forecast. This variance was due to: <ul style="list-style-type: none"> <li>- GST receipts were \$602m (8.0%) lower than forecast due mainly to the timing differences noted on page 5.</li> <li>- Corporate tax receipts were \$485m (8.9%) lower than forecast. This was largely due to lower-than-forecast provisional tax payments.</li> <li>- NZS Fund tax receipts were \$330m lower than forecast due to lower than expected investment returns (as noted on page 5).</li> <li>- Source deduction receipts (mainly PAYE) were \$243 million (1.5%) lower than forecast due mainly to a recent decline in the total number of hours worked.</li> <li>- Other individuals tax receipts were \$218m (12.0%) lower than forecast, consistent with the variance in other individuals tax revenue.</li> </ul> </li> <li>• Interest receipts were \$218m lower than forecast as interest rates have declined.</li> <li>• Social assistance benefit payments were \$98m higher than expected.</li> <li>• IMF contributions of \$130m were not forecast.</li> <li>• Offsetting these variances were: <ul style="list-style-type: none"> <li>- Petroleum mining royalty receipts were \$270m higher than expected; and</li> <li>- Purchases of physical assets were \$228m lower than expected due mainly to delays in defence projects (Project Protector, P-3 Orion and C-130 Hercules Life Extension).</li> </ul> </li> <li>• Residual cash is \$1,040m less than forecast in the <i>December Update</i>.</li> </ul> |
| GSID (excluding settlement cash)<br>(Gross sovereign-issued debt) | -\$14,953 million<br>(higher than forecast) | <ul style="list-style-type: none"> <li>• GSID (excluding settlement cash) was \$45,424m compared to a forecast of \$30,471m. The reasons for the variance were the same as in previous months: <ul style="list-style-type: none"> <li>- Reserve Bank bill tenders of \$4,677m relating to Residential Mortgage Backed Securities were not forecast;</li> <li>- Derivative liabilities were \$3,905m higher than forecast;</li> <li>- Treasury Bills were \$3,750m higher than forecast due to stronger than anticipated demand; and</li> <li>- The issuance of \$700m of Treasury Bills to the NZ Fast Forward Fund was not forecast.</li> </ul> </li> <li>• Most of these factors have a broadly corresponding impact on the Crown's financial asset portfolio, reducing the impact on net core Crown debt.</li> </ul>   |
| Net core Crown debt (excl. NZSF)                                  | \$913 million<br>(lower than forecast)      | <ul style="list-style-type: none"> <li>• Net core Crown debt was \$3,251m compared to a forecast of \$4,164m. This variance was mainly due to:</li> </ul>   |

| Key Indicator   | Variance                                   | Key Drivers  |
|---|--|--|
|   |  | <ul style="list-style-type: none"> <li>- Circulating currency was \$394m higher than forecast resulting in a decrease in net debt; and</li> <li>- Valuation changes to financial assets and liabilities mainly held by NZ DMO and the Reserve Bank (driven by movements in exchange rates and interest rates) resulting in a decrease in net debt of \$2,431m.</li> <li>- These were partially offset by a higher-than-forecast residual cash deficit (as noted on page 6).</li> </ul>   |
| Net core Crown debt (incl. NZSF)                      | -\$2,690 million<br>(lower than forecast)  | <ul style="list-style-type: none"> <li>• Net core Crown debt (including the NZS Fund) was in a net asset position of \$7,731m, lower than the forecast net asset position of \$10,421m. The variance was due to the impact of recent weak performance of global equity markets on NZS Fund's assets.</li> </ul>  |
| <b>Total Crown</b>                                    |  |  |
| OBEGAL<br>(Operating balance before gains and losses) | -\$1,777 million<br>(lower than forecast)  | <ul style="list-style-type: none"> <li>• This was mainly due to lower than forecast tax and interest revenue as discussed on page 5.</li> <li>• Total Crown expenditure was broadly in line with forecast.</li> </ul>  |
| Operating balance                                     | -\$11,625 million<br>(lower than forecast) | <ul style="list-style-type: none"> <li>• Along with the OBEGAL variance above, net losses of \$8,495m were recorded compared to a forecast gain of \$1,353m. The main contributors were: <ul style="list-style-type: none"> <li>- The NZS Fund, ACC and EQC all suffered further losses on their financial instrument portfolios in the month of February. The amounts of the greater-than-forecast, year-to-date losses for these entities were \$5,555m, \$499m and \$406m respectively<sup>2</sup>. The losses were the result of continuing turmoil in global financial markets.</li> <li>- ACC recorded a favourable movement in the valuation of its insurance liability in the month of February. This was due to an increase in the rate used to discount the liability. The year-to-date loss as at 28 February was \$2,911m (compared to \$3,124m as at 31 January), comprised of: <ul style="list-style-type: none"> <li>○ An increase of \$2,017m due to an update of the discount and inflation rates;</li> <li>○ An increase of \$566m based on claims experience and modelling; and</li> <li>○ An increase in the risk margin of \$328m.</li> </ul> </li> <li>- The GSF (Government Superannuation Fund) liability was revalued as at 28 February resulting in a further actuarial loss of \$1,389m being reported. This comprised of: <ul style="list-style-type: none"> <li>○ An increase of \$941m due to a decrease in the rate used to discount the liability, partially offset by a decrease in the inflation rate assumption; and</li> <li>○ A decrease of \$448m in the value of the Fund's asset portfolio.</li> </ul> </li> </ul> </li> </ul> |

<sup>2</sup> These losses do not necessarily represent the overall performance of these entities' asset portfolios as income they have earned from interest and dividends is included as part of the operating balance before gains and losses (OBEGAL).

| Key Indicator | Variance | Key Drivers  |
|---------------|----------|--|
|               |          | The total year-to-date actuarial loss on the GSF liability was \$2,378m.   |
|               |          | <ul style="list-style-type: none"> <li>Other factors contributing to the variance: <ul style="list-style-type: none"> <li>The losses noted above were partly offset by a gain of \$1,454m on the Reserve Bank's financial instrument portfolio.</li> </ul> </li> <li>Around \$5.8 billion of the variance in losses was included in the <i>December Update</i>. The main changes since the Update have been: <ul style="list-style-type: none"> <li>The December actuarial valuation of ACC's insurance liability and the February actuarial valuation of GSF's liability (as mentioned above); and</li> <li>Further losses on financial instrument portfolios for NZS Fund, ACC and EQC.</li> </ul> </li> </ul> |

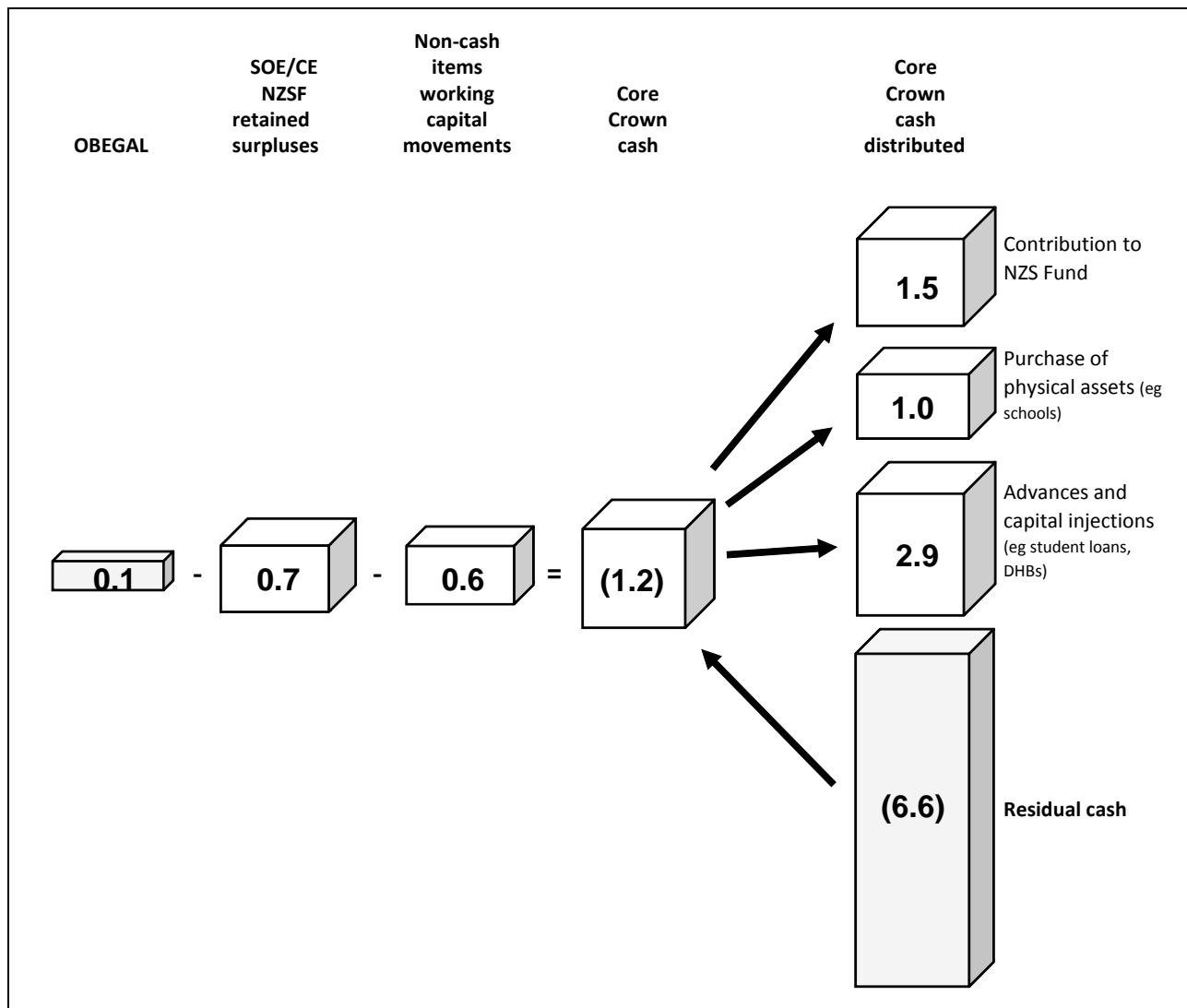
**Table 3** – Reconciliation of Total Crown OBEGAL to core Crown residual cash

| Amounts in \$ millions  | Fiscal Indicators/Financial Statements              | Year to date   |                |                 |                | Full Year      |
|---|---|----------------|----------------|-----------------|----------------|----------------|
|   |   | February       | February       |                 |                | -              |
|   |   | 2009           | 2009           | Variance        | Variance       | June 2009      |
|   |   | Actual         | Forecast       | \$m             | %              | Forecast       |
|   | Taxation as a percentage of GDP <sup>1</sup>        | 29.8%          | 31.1%          |                 |                | 30.1%          |
| Taxes...  | Taxation  | 35,847         | 37,361         | (1,514)         | (4.1)          | 55,538         |
| ... combined with other revenue ...   | Core Crown other revenue, gains and losses          | (999)          | 4,455          | (5,454)         | (122.4)        | 7,060          |
| ... fund core crown expenses ...  | Core Crown expenses                                 | (39,749)       | (39,704)       | (45)            | 0.1            | (62,359)       |
| ... and with the results of entities outside the budget process ...         | Net surpluses/(deficits) of SOEs and Crown entities | (3,545)        | 1,067          | (4,612)         | (432.2)        | 1,670          |
| ... results in a net operating balance (surplus or deficit)...              | <b>Operating balance</b>                            | <b>(8,446)</b> | <b>3,179</b>   | <b>(11,625)</b> | <b>(365.7)</b> | <b>1,909</b>   |
| ...part of which is due to gains or losses set aside for fiscal purposes... | Other (gains)/losses                                | 8,495          | (1,353)        | 9,848           | (727.9)        | (1,973)        |
| ... and so we have developed an operating indicator excluding these items   | <b>OBEGAL</b>                                       | <b>49</b>      | <b>1,826</b>   | <b>(1,777)</b>  | <b>(97.3)</b>  | <b>(64)</b>    |
| Some of this is income retained that is not available for fiscal purposes   | Net return on NZS Fund (excl. gains and losses)     | (228)          | 54             | (282)           | (522.2)        | 33             |
| "    "    "    "  | Net retained surpluses of SOEs and Crown entities   | (457)          | (607)          | 150             | (24.7)         | (1,088)        |
| and some is income and expenses not impacting cash                          | Non-cash items and working capital movements        | (584)          | (529)          | (55)            | 10.4           | 1,905          |
| The operating cash flow that results, needs to provide sufficient funds for | <b>Core Crown Cash flow from Operations</b>         | <b>(1,220)</b> | <b>744</b>     | <b>(1,964)</b>  | <b>(264.0)</b> | <b>786</b>     |
| - building up assets in NZ Superannuation                                   | Contribution to NZS Fund                            | (1,467)        | (1,468)        | 1               | (0.1)          | (2,242)        |
| - meeting the capital expenditure budget, and                               | Purchase of physical assets                         | (985)          | (1,213)        | 228             | (18.8)         | (1,700)        |
| - making advances (e.g. to students and DHBs)                               | Advances and Capital injections                     | (2,940)        | (2,966)        | 26              | (0.9)          | (2,753)        |
| with a residual impact on debt that allows it to remain at prudent levels   | <b>Residual Cash</b>                                | <b>(6,612)</b> | <b>(4,903)</b> | <b>(1,709)</b>  | <b>34.9</b>    | <b>(5,909)</b> |
|   | <b>... and as a percentage of GDP</b>               | <b>-3.7%</b>   | <b>-2.7%</b>   |                 |                | <b>-3.2%</b>   |

<sup>1</sup> GDP for the eight months ended 28 February (actual and forecast) is the actual data for the year ended 31 December 2008 (Source: Statistics New Zealand) extrapolated for eight months.

**Figure 3** – 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

|  | February<br>2009<br>Actual<br>\$m | February<br>2008<br>Actual<br>\$m | Change <sup>1</sup><br>\$m | Change<br>%   |
|--|-----------------------------------|-----------------------------------|----------------------------|---------------|
| <b>Statement of Financial Performance</b>                      |                                   |                                   |                            |               |
| <b>Core Crown revenue</b>                                      |                                   |                                   |                            |               |
| Taxation revenue   | 36,174                            | 36,331                            | (157)                      | (0.4)         |
| Other revenue  | 3,170                             | 2,932                             | 238                        | 8.1           |
| <b>Total Core Crown Revenue</b>                                | <b>39,344</b>                     | <b>39,263</b>                     | <b>81</b>                  | <b>0.2</b>    |
| <b>Core Crown expenses</b>                                     |                                   |                                   |                            |               |
| Social security and welfare                                    | 12,406                            | 11,669                            | 737                        | 6.3           |
| GSF pension expenses   | 440                               | 451                               | (11)                       | (2.4)         |
| Health   | 8,075                             | 7,423                             | 652                        | 8.8           |
| Education  | 6,894                             | 6,276                             | 618                        | 9.8           |
| Core government services                                       | 2,223                             | 1,957                             | 266                        | 13.6          |
| Law and order  | 1,973                             | 1,876                             | 97                         | 5.2           |
| Defence  | 1,141                             | 973                               | 168                        | 17.3          |
| Transport and communications                                   | 1,551                             | 1,663                             | (112)                      | (6.7)         |
| Economic and industrial services                               | 2,074                             | 1,749                             | 325                        | 18.6          |
| Primary services   | 344                               | 287                               | 57                         | 19.9          |
| Heritage, culture and recreation                               | 673                               | 572                               | 101                        | 17.7          |
| Housing and community development                              | 188                               | 172                               | 16                         | 9.3           |
| Other  | 89                                | 44                                | 45                         | 102.3         |
| Finance costs  | 1,678                             | 1,596                             | 82                         | 5.1           |
| <b>Total Core Crown Expenses</b>                               | <b>39,749</b>                     | <b>36,708</b>                     | <b>3,041</b>               | <b>8.3</b>    |
| Net surplus of SOE/CE's  | 454                               | 1,592                             | (1,138)                    | (71.5)        |
| <b>OBEGAL</b>  | <b>49</b>                         | <b>4,147</b>                      | <b>(4,098)</b>             | <b>(98.8)</b> |
| Total gains/(losses)   | (8,695)                           | (2,817)                           | (5,878)                    | (208.7)       |
| Other operating items  | 200                               | 101                               | 99                         | 98.0          |
| <b>Operating Balance</b>                                       | <b>(8,446)</b>                    | <b>1,431</b>                      | <b>(9,877)</b>             | <b>-</b>      |
| <b>Core Crown residual cash</b>                                | <b>(6,612)</b>                    | <b>1,077</b>                      | <b>(7,689)</b>             | <b>-</b>      |
| <b>Debt indicators</b>   |                                   |                                   |                            |               |
| <b>Gross sovereign-issued debt (excluding settlement cash)</b> | <b>45,424</b>                     | <b>31,805</b>                     | <b>13,619</b>              | <b>42.8</b>   |
| <b>Net Core Crown debt</b>                                     | <b>3,251</b>                      | <b>1,746</b>                      | <b>1,505</b>               | <b>86.2</b>   |

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

## Revenue and Expenses

Total **taxation revenue** for the eight months ended 28 February 2009 has decreased by \$0.2 billion (0.4%) on the same period last year. The decrease was primarily in corporate and other individuals' tax and was partly offset by increases in GST and source deductions. The decline in both corporate and other individuals' tax is due to the 2008 tax cuts, month-end timing effects, one less provisional tax due date during the period, declining profits and falling terminal tax assessments. Falling terminal tax relates to previous tax years' activity. The increase in GST is likely to be related to the change in the GST filing date, which has altered GST seasonal patterns. Growth in source deductions was driven by continued strong wage growth. However, overall growth in source deductions has fallen considerably following the 1 October 2008 personal tax cuts.

Total **core Crown expenses** has increased by \$3.0 billion (8.3%) on the same period last year. 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             | • Indexation of welfare benefits  |
| Health                           | + \$0.7 billion             | • Funding provided in the 2008 Budget to maintain and improve existing service levels     |
| Education                        | + \$0.6 billion             | • Higher demand-driven expenses from roll growth<br>• Funding provided in the 2008 Budget |
| Economic and industrial services | + \$0.3 billion             | • Primarily due to the introduction of the KiwiSaver initiative                           |
| Other                            | + \$0.7 billion             | • Mainly due to policy initiatives from the 2008 Budget                                   |
| <b>Total</b>                     | <b>+ \$3.0 billion</b>      |   |

**Total Gains and losses** were in a net loss position of \$8.7 billion for the period ended 28 February 2009, compared to \$2.8 billion for the same period last year. The \$5.9 billion difference is due to:

- lower than expected investment returns experienced in the 2008/09 financial year primarily resulting from the downturn in financial markets
- an increase in the ACC unfunded liability since February 2008 due to increases in expected claim costs driven primarily by economic assumptions (e.g. discount and inflation rates), and
- an increase in the GSF net pension liability since February 2008 due to a decrease in the discount rate and lower than expected investment performance.

The **core Crown residual cash** deficit increased by \$7.7 billion compared to the same period last year. This is primarily due to:

- a decrease of \$2.1 billion in tax receipts as a result of having one less tax due date in the period and changes to company and personal tax rates
- the purchase of KiwiRail Holdings Limited
- investment in the NZ Fast Forward Fund, and
- the increase in core Crown expenses (as noted above).

**GSID (excl. settlement cash)** has increased due to higher than forecast derivative liabilities, Reserve Bank bill tenders and increased short term deposits, stronger-than-expected demand for Treasury Bills and a fair value adjustment to the value of Government stock.





# FINANCIAL STATEMENTS

# STATEMENT OF ACCOUNTING POLICIES

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## 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 85 and 86 of the *Pre-election Economic and Fiscal Update 2008* released on 6 October 2008.

All actual, forecast and comparative figures presented in these financial statements 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/accounting/>

## 4 Forecast Results and Assumptions

The forecast results in these financial statements have been derived from the forecasts released in the *Pre-election Economic and Fiscal Update (PREFU)*, on 6 October 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/forecasts/prefu2008>

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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### **5 Comparative Figures**

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures have been restated to ensure consistency with the current period unless it is impracticable to do so.

### **6 Variance Percentages**

Percentage variances between the actual and prior year balances exceeding 500% are not shown.

# STATEMENT OF FINANCIAL PERFORMANCE

for the eight months ended 28 February 2009

| Year to 30 Jun 2008 | 8 Months to 29 Feb 2008 |   | Note | Current Year Actual vs Forecast |               |                 |                |                     |
|---------------------|-------------------------|---|------|---------------------------------|---------------|-----------------|----------------|---------------------|
|                     |                         |   |      | Actual \$m                      | Forecast \$m  | Variance \$m    | %              | Annual Forecast \$m |
|                     |                         | <b>Revenue</b>  |      |                                 |               |                 |                |                     |
| 56,372              | 36,057                  | Taxation revenue  | 1    | 35,847                          | 37,361        | (1,514)         | (4.1)          | 55,538              |
| 3,879               | 2,612                   | Other sovereign revenue   | 1    | 2,699                           | 2,636         | 63              | 2.4            | 3,993               |
| <b>60,251</b>       | <b>38,669</b>           | <b>Total Revenue Levied through the Crown's Sovereign Power</b> |      | <b>38,546</b>                   | <b>39,997</b> | <b>(1,451)</b>  | <b>(3.6)</b>   | <b>59,531</b>       |
| 15,399              | 8,853                   | Sales of goods and services                                     |      | 10,127                          | 10,505        | (378)           | (3.6)          | 16,084              |
| 3,214               | 2,137                   | Interest revenue and dividends                                  | 2    | 2,345                           | 2,632         | (287)           | (10.9)         | 3,828               |
| 2,615               | 1,520                   | Other revenue   |      | 1,999                           | 1,776         | 223             | 12.6           | 2,247               |
| <b>21,228</b>       | <b>12,510</b>           | <b>Total revenue earned through the Crown's operations</b>      |      | <b>14,471</b>                   | <b>14,913</b> | <b>(442)</b>    | <b>(3.0)</b>   | <b>22,159</b>       |
| <b>81,479</b>       | <b>51,179</b>           | <b>Total revenue (excluding gains)</b>                          |      | <b>53,017</b>                   | <b>54,910</b> | <b>(1,893)</b>  | <b>(3.4)</b>   | <b>81,690</b>       |
|                     |                         | <b>Expenses</b>   |      |                                 |               |                 |                |                     |
| 18,374              | 12,071                  | Social assistance and official development assistance           | 3    | 13,099                          | 13,077        | (22)            | (0.2)          | 20,151              |
| 16,478              | 10,899                  | Personnel expenses  | 4    | 11,979                          | 11,917        | (62)            | (0.5)          | 17,800              |
| 3,670               | 2,344                   | Depreciation and amortisation                                   | 5    | 2,790                           | 2,854         | 64              | 2.2            | 3,973               |
| 30,656              | 17,718                  | Other operating expenses  | 5    | 20,411                          | 21,137        | 726             | 3.4            | 33,721              |
| 3,101               | 2,009                   | Interest expenses   | 6    | 2,525                           | 2,423         | (102)           | (4.2)          | 3,311               |
| 3,563               | 1,991                   | Insurance expenses  | 7    | 2,164                           | 2,114         | (50)            | (2.4)          | 4,076               |
| -                   | -                       | Forecast new operating spending                                 | 5    | -                               | -             | -               | -              | 172                 |
| -                   | -                       | Top-down expense adjustment                                     | 5    | -                               | (438)         | (438)           | (100.0)        | (1,450)             |
| <b>75,842</b>       | <b>47,032</b>           | <b>Total expenses (excluding losses)</b>                        |      | <b>52,968</b>                   | <b>53,084</b> | <b>116</b>      | <b>0.2</b>     | <b>81,754</b>       |
| <b>5,637</b>        | <b>4,147</b>            | <b>Operating balance before gains/(losses)</b>                  |      | <b>49</b>                       | <b>1,826</b>  | <b>(1,777)</b>  | <b>(97.3)</b>  | <b>(64)</b>         |
| (617)               | (1,076)                 | Net gains/(losses) on financial instruments                     | 8    | (3,475)                         | 1,053         | (4,528)         | (430.0)        | 1,462               |
| (2,925)             | (1,741)                 | Net gains/(losses) on non-financial instruments                 | 9    | (5,220)                         | 76            | (5,296)         | -              | 178                 |
| <b>(3,542)</b>      | <b>(2,817)</b>          | <b>Total gains/(losses)</b>                                     |      | <b>(8,695)</b>                  | <b>1,129</b>  | <b>(9,824)</b>  | <b>-</b>       | <b>1,640</b>        |
| 334                 | 101                     | Net surplus/(deficit) from associates and joint ventures        |      | 196                             | 224           | (28)            | (12.5)         | 334                 |
| <b>2,429</b>        | <b>1,431</b>            | <b>Operating balance from continuing activities</b>             |      | <b>(8,450)</b>                  | <b>3,179</b>  | <b>(11,629)</b> | <b>(365.8)</b> | <b>1,910</b>        |
| 22                  | -                       | Gain/(loss) from discontinued operations                        |      | 4                               | -             | 4               | -              | (1)                 |
| <b>2,451</b>        | <b>1,431</b>            | <b>Operating balance (including minority interest)</b>          |      | <b>(8,446)</b>                  | <b>3,179</b>  | <b>(11,625)</b> | <b>(365.7)</b> | <b>1,909</b>        |
| (67)                | -                       | Attributable to minority interest in Air New Zealand            |      | -                               | -             | -               | -              | -                   |
| <b>2,384</b>        | <b>1,431</b>            | <b>Operating Balance</b>  | 10   | <b>(8,446)</b>                  | <b>3,179</b>  | <b>(11,625)</b> | <b>(365.7)</b> | <b>1,909</b>        |

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

## ANALYSIS OF EXPENSES BY FUNCTIONAL CLASSIFICATION

*for the eight months ended 28 February 2009*

| Year to 30 Jun 2008 | 8 Months to 29 Feb 2008 |  | Current Year Actual vs Forecast |               |              |            | Annual Forecast |
|---------------------|-------------------------|--|---------------------------------|---------------|--------------|------------|-----------------|
|                     |                         |  | Actual \$m                      | Forecast \$m  | Variance \$m | %          |                 |
|                     |                         | <b>Total Crown expenses</b>                  |                                 |               |              |            |                 |
| 21,509              | 13,706                  | Social security and welfare                  | 14,620                          | 14,652        | 32           | 0.2        | 23,382          |
| 690                 | 451                     | GSF pension expenses                         | 440                             | 436           | (4)          | (0.9)      | 654             |
| 10,809              | 7,024                   | Health                                       | 7,886                           | 7,886         | -            | -          | 11,884          |
| 10,397              | 6,779                   | Education                                    | 7,512                           | 7,629         | 117          | 1.5        | 11,643          |
| 3,274               | 1,927                   | Core government services                     | 2,196                           | 2,246         | 50           | 2.2        | 3,576           |
| 3,082               | 2,017                   | Law and order                                | 2,094                           | 2,159         | 65           | 3.0        | 3,370           |
| 1,525               | 947                     | Defence                                      | 1,110                           | 1,122         | 12           | 1.1        | 1,716           |
| 7,424               | 4,675                   | Transport and communications                 | 5,988                           | 6,118         | 130          | 2.1        | 9,487           |
| 9,038               | 4,664                   | Economic and industrial services             | 5,277                           | 5,509         | 232          | 4.2        | 8,641           |
| 1,459               | 875                     | Primary services                             | 942                             | 903           | (39)         | (4.3)      | 1,450           |
| 2,337               | 1,318                   | Heritage, culture and recreation             | 1,595                           | 1,718         | 123          | 7.2        | 2,808           |
| 938                 | 598                     | Housing and community development            | 700                             | 696           | (4)          | (0.6)      | 1,053           |
| 259                 | 42                      | Other  | 83                              | 25            | (58)         | (232.0)    | 57              |
| 3,101               | 2,009                   | Finance costs                                | 2,525                           | 2,423         | (102)        | (4.2)      | 3,311           |
| -                   | -                       | Forecast new operating spending              | -                               | -             | -            | -          | 172             |
| -                   | -                       | Top-down expense adjustment                  | -                               | (438)         | (438)        | (100.0)    | (1,450)         |
| <b>75,842</b>       | <b>47,032</b>           | <b>Total Crown expenses excluding losses</b> | <b>52,968</b>                   | <b>53,084</b> | <b>116</b>   | <b>0.2</b> | <b>81,754</b>   |

*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.*

| Year to 30 Jun 2008 | 8 Months to 29 Feb 2008 |   | Current Year Actual vs Forecast |               |              |              | Annual Forecast |
|---------------------|-------------------------|---|---------------------------------|---------------|--------------|--------------|-----------------|
|                     |                         |   | Actual \$m                      | Forecast \$m  | Variance \$m | %            |                 |
|                     |                         | <b>Core Crown</b>                                 |                                 |               |              |              |                 |
|                     |                         | <b>Core Crown expenses</b>                        |                                 |               |              |              |                 |
| 17,877              | 11,669                  | Social security and welfare                       | 12,406                          | 12,410        | 4            | -            | 19,156          |
| 690                 | 451                     | GSF pension expenses                              | 440                             | 436           | (4)          | (0.9)        | 654             |
| 11,297              | 7,423                   | Health  | 8,075                           | 8,183         | 108          | 1.3          | 12,377          |
| 9,551               | 6,276                   | Education   | 6,894                           | 6,897         | 3            | -            | 10,739          |
| 3,371               | 1,957                   | Core government services                          | 2,223                           | 2,220         | (3)          | (0.1)        | 3,649           |
| 2,894               | 1,876                   | Law and order                                     | 1,973                           | 2,031         | 58           | 2.9          | 3,139           |
| 1,562               | 973                     | Defence   | 1,141                           | 1,150         | 9            | 0.8          | 1,756           |
| 2,244               | 1,663                   | Transport and communications                      | 1,551                           | 1,565         | 14           | 0.9          | 3,566           |
| 2,889               | 1,749                   | Economic and industrial services                  | 2,074                           | 2,106         | 32           | 1.5          | 3,549           |
| 541                 | 287                     | Primary services                                  | 344                             | 329           | (15)         | (4.6)        | 545             |
| 1,107               | 572                     | Heritage, culture and recreation                  | 673                             | 825           | 152          | 18.4         | 1,446           |
| 260                 | 172                     | Housing and community development                 | 188                             | 209           | 21           | 10.0         | 347             |
| 254                 | 44                      | Other   | 89                              | 33            | (56)         | (169.7)      | 57              |
| 2,460               | 1,596                   | Finance costs                                     | 1,678                           | 1,748         | 70           | 4.0          | 2,657           |
| -                   | -                       | Forecast new operating spending                   | -                               | -             | -            | -            | 172             |
| -                   | -                       | Top-down expense adjustment                       | -                               | (438)         | (438)        | (100.0)      | (1,450)         |
| <b>56,997</b>       | <b>36,708</b>           | <b>Total core Crown expenses excluding losses</b> | <b>39,749</b>                   | <b>39,704</b> | <b>(45)</b>  | <b>(0.1)</b> | <b>62,359</b>   |

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

# STATEMENT OF CASH FLOWS

for the eight months ended 28 February 2009

| Year<br>to 30 Jun<br>2008<br>Actual<br>\$m | 8 Months<br>to 29 Feb<br>2008<br>Actual<br>\$m |   | Current Year Actual vs Forecast |                 |                 |               | Annual<br>Forecast<br>\$m |
|--|--|---|---------------------------------|-----------------|-----------------|---------------|---------------------------|
|  |  |   | Actual<br>\$m                   | Forecast<br>\$m | Variance<br>\$m | %             |                           |
|  |  | <b>Cash Flows From Operations</b>                             |                                 |                 |                 |               |                           |
|  |  | <b>Cash was provided from</b>                                 |                                 |                 |                 |               |                           |
| 55,168                                     | 35,992   | Taxation receipts   | 33,954                          | 35,541          | (1,587)         | (4.5)         | 54,159                    |
| 3,460                                      | 2,509  | Other sovereign receipts                                      | 2,589                           | 2,644           | (55)            | (2.1)         | 3,737                     |
| 14,635                                     | 8,958  | Sales of goods and services                                   | 11,312                          | 11,458          | (146)           | (1.3)         | 16,599                    |
| 3,111                                      | 2,013  | Interest and dividends  | 2,209                           | 2,319           | (110)           | (4.7)         | 3,292                     |
| 2,211                                      | 1,662  | Other operating receipts                                      | 1,798                           | 1,812           | (14)            | (0.8)         | 2,727                     |
| <b>78,585</b>                              | <b>51,134</b>                                  | <b>Total cash provided from operations</b>                    | <b>51,862</b>                   | <b>53,774</b>   | <b>(1,912)</b>  | <b>(3.6)</b>  | <b>80,514</b>             |
|  |  | <b>Cash was disbursed to</b>                                  |                                 |                 |                 |               |                           |
|  |  | Social assistance and official development assistance         | 12,891                          | 12,793          | (98)            | (0.8)         | 19,675                    |
| 18,026                                     | 11,398   | Personnel and operating payments                              | 34,740                          | 36,011          | 1,271           | 3.5           | 54,076                    |
| 45,972                                     | 30,606   | Interest payments   | 2,136                           | 2,247           | 111             | 4.9           | 2,970                     |
| 2,820                                      | 1,930  | Forecast new operating spending                               | -                               | (1)             | (1)             | (100.0)       | 172                       |
| -  | -  | Top-down expense adjustment                                   | -                               | (438)           | (438)           | (100.0)       | (1,450)                   |
| -  | -  |   |                                 |                 |                 |               |                           |
| <b>66,818</b>                              | <b>43,934</b>                                  | <b>Total cash disbursed to operations</b>                     | <b>49,767</b>                   | <b>50,613</b>   | <b>846</b>      | <b>1.7</b>    | <b>75,443</b>             |
| <b>11,767</b>                              | <b>7,200</b>                                   | <b>Net cash flows from operations</b>                         | <b>2,095</b>                    | <b>3,161</b>    | <b>(1,066)</b>  | <b>(33.7)</b> | <b>5,071</b>              |
|  |  | <b>Cash Flows From Investing Activities</b>                   |                                 |                 |                 |               |                           |
|  |  | <b>Cash was provided from/(disbursed to)</b>                  |                                 |                 |                 |               |                           |
| (4,922)                                    | (3,323)  | Net purchase of physical assets                               | (3,382)                         | (4,114)         | 732             | 17.8          | (6,909)                   |
| (6,080)                                    | (3,599)  | Net purchase of shares and other securities                   | (2,754)                         | 850             | (3,604)         | (424.0)       | 499                       |
| (320)                                      | (164)  | Net purchase of intangible assets                             | (205)                           | (279)           | 74              | 26.5          | (444)                     |
| (2,646)                                    | (353)  | Net issue/(repayment) of advances                             | (312)                           | (66)            | (246)           | (372.7)       | 359                       |
| (363)                                      | (283)  | Net acquisition of investments in associates                  | (282)                           | (257)           | (25)            | (9.7)         | (1,024)                   |
| -  | -  | Capital contingency provision                                 | -                               | -               | -               | -             | (184)                     |
| -  | -  | Top-down capital adjustment                                   | -                               | -               | -               | -             | 485                       |
| <b>(14,331)</b>                            | <b>(7,722)</b>                                 | <b>Net cash flows from investing activities</b>               | <b>(6,935)</b>                  | <b>(3,866)</b>  | <b>(3,069)</b>  | <b>(79.4)</b> | <b>(7,218)</b>            |
| <b>(2,564)</b>                             | <b>(522)</b>                                   | <b>Net cash flows from operating and investing activities</b> | <b>(4,840)</b>                  | <b>(705)</b>    | <b>(4,135)</b>  | <b>-</b>      | <b>(2,147)</b>            |
|  |  | <b>Cash Flows From Financing Activities</b>                   |                                 |                 |                 |               |                           |
|  |  | <b>Cash was provided from/(disbursed to)</b>                  |                                 |                 |                 |               |                           |
| 86   | 201  | Issues of circulating currency                                | 509                             | 115             | 394             | 342.6         | 172                       |
| 1,674                                      | 1,088  | Net issue/(repayment) of Government stock <sup>1</sup>        | (596)                           | 175             | (771)           | (440.6)       | 1,748                     |
|  |  | Net issue/(repayment) of foreign currency borrowing           | (3,147)                         | (536)           | (2,611)         | (487.1)       | (336)                     |
| 1,099                                      | 1,502  | Net issue/(repayment) of other New Zealand dollar borrowing   | 10,882                          | 773             | 10,109          | -             | 637                       |
| (697)                                      | (1,416)  |   |                                 |                 |                 |               |                           |
| <b>2,162</b>                               | <b>1,375</b>                                   | <b>Net cash flows from financing activities</b>               | <b>7,648</b>                    | <b>527</b>      | <b>7,121</b>    | <b>-</b>      | <b>2,221</b>              |
| <b>(402)</b>                               | <b>853</b>                                     | <b>Net movement in cash</b>                                   | <b>2,808</b>                    | <b>(178)</b>    | <b>2,986</b>    | <b>-</b>      | <b>74</b>                 |
| 4,162                                      | 4,208  | <b>Opening Cash Balance</b>                                   | 3,804                           | 3,804           | -               | -             | 3,804                     |
|  |  | Foreign-exchange gains/(losses) on opening cash               | 171                             | (1)             | 172             | -             | (10)                      |
| 44   | (16)   |   |                                 |                 |                 |               |                           |
| <b>3,804</b>                               | <b>5,045</b>                                   | <b>Closing Cash Balance</b>                                   | <b>6,783</b>                    | <b>3,625</b>    | <b>3,158</b>    | <b>87.1</b>   | <b>3,868</b>              |

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 eight months ended 28 February 2009

| Year to 30 Jun 2008  | 8 Months to 29 Feb 2008 |  | Current Year Actual vs Forecast |                |                 |                |                     |
|--|-------------------------|--|---------------------------------|----------------|-----------------|----------------|---------------------|
|  |                         |  | Actual \$m                      | Forecast \$m   | Variance \$m    | %              | Annual Forecast \$m |
| <b>Reconciliation Between the Net Cash Flows from Operations and the Operating Balance</b> |                         |  |                                 |                |                 |                |                     |
| 11,767   | 7,200                   | <b>Net Cash Flows from Operations</b>                              | 2,095                           | 3,161          | (1,066)         | (33.7)         | 5,071               |
| <i>Items included in the operating balance but not in net cash flows from operations.</i>  |                         |  |                                 |                |                 |                |                     |
| <b>Gains/(losses)</b>  |                         |  |                                 |                |                 |                |                     |
| (617)  | (1,076)                 | Gains/(losses) on other financial instruments                      | (3,475)                         | 1,053          | (4,528)         | (430.0)        | 1,462               |
| (2,925)  | (1,741)                 | Gains/(losses) on other non-financial instruments                  | (5,220)                         | 76             | (5,296)         | -              | 178                 |
| <b>(3,542)</b>   | <b>(2,817)</b>          | <b>Total gains/(losses)</b>  | <b>(8,695)</b>                  | <b>1,129</b>   | <b>(9,824)</b>  | <b>-</b>       | <b>1,640</b>        |
| <b>Other Non-cash Items in Operating Balance</b>   |                         |  |                                 |                |                 |                |                     |
| (3,670)  | (2,344)                 | Depreciation and amortisation                                      | (2,790)                         | (2,854)        | 64              | 2.2            | (3,973)             |
| (559)  | (369)                   | Write-down on initial recognition of loans                         | (345)                           | (343)          | (2)             | (0.6)          | (611)               |
| 213  | (3)                     | Impairment on financial assets (excluding receivables)             | 13                              | 4              | 9               | 225.0          | 3                   |
| 2  | (26)                    | Decrease/(increase) in defined benefit retirement plan liabilities | (16)                            | (17)           | 1               | 5.9            | (75)                |
| (1,358)  | 763                     | Decrease/(increase) in insurance liabilities                       | 929                             | 939            | (10)            | (1.1)          | (1,498)             |
| 334  | 101                     | Other  | 196                             | 224            | (28)            | (12.5)         | 334                 |
| <b>(5,038)</b>   | <b>(1,878)</b>          | <b>Total other non-cash Items</b>                                  | <b>(2,013)</b>                  | <b>(2,047)</b> | <b>34</b>       | <b>1.7</b>     | <b>(5,820)</b>      |
| <b>Movements in Working Capital</b>  |                         |  |                                 |                |                 |                |                     |
| 2,100  | (1,582)                 | Increase/(decrease) in receivables                                 | (1,739)                         | (433)          | (1,306)         | (301.6)        | 321                 |
| (179)  | 44                      | Increase/(decrease) in accrued interest                            | (254)                           | 137            | (391)           | (285.4)        | 196                 |
| 138  | 69                      | Increase/(decrease) in inventories                                 | 153                             | 54             | 99              | 183.3          | 46                  |
| 77   | 98                      | Increase/(decrease) in prepayments                                 | 70                              | (102)          | 172             | 168.6          | 9                   |
| (326)  | (175)                   | Decrease/(increase) in deferred revenue                            | 1                               | (78)           | 79              | 101.3          | 87                  |
| (2,613)  | 472                     | Decrease/(increase) in payables                                    | 1,936                           | 1,358          | 578             | 42.6           | 359                 |
| <b>(803)</b>   | <b>(1,074)</b>          | <b>Total movements in working capital</b>                          | <b>167</b>                      | <b>936</b>     | <b>(769)</b>    | <b>(82.2)</b>  | <b>1,018</b>        |
| <b>2,384</b>   | <b>1,431</b>            | <b>Operating Balance</b>   | <b>(8,446)</b>                  | <b>3,179</b>   | <b>(11,625)</b> | <b>(365.7)</b> | <b>1,909</b>        |

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

## STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the eight months ended 28 February 2009

| Year<br>to 30 Jun<br>2008<br>Actual<br>\$m | 8 Months<br>to 29 Feb<br>2008<br>Actual<br>\$m |   | Current Year Actual vs Forecast |                 |                 |                | Annual<br>Forecast<br>\$m |
|--|--|---|---------------------------------|-----------------|-----------------|----------------|---------------------------|
|  |  |   | Actual<br>\$m                   | Forecast<br>\$m | Variance<br>\$m | %              |                           |
| 6,214                                      | (2)  | Revaluation of physical assets  | 389                             | 330             | 59              | 17.9           | 292                       |
| 9  | (81)   | Effective portion of changes in value of cash flow hedges                     | 528                             | 4               | 524             | -              | 19                        |
| 22   | (2)  | Net change in fair value of cash flow hedges transferred to operating balance | (1)                             | (5)             | 4               | 80.0           | -                         |
| (60)                                       | (36)   | Net change in fair value of cash flow hedges transferred to the hedged item   | (28)                            | 12              | (40)            | (333.3)        | 34                        |
| 17   | (2)  | Foreign currency translation differences for foreign operations               | 99                              | (3)             | 102             | -              | (1)                       |
| 11   | 7  | Valuation gain/(losses) on investments available for sale taken to reserves   | 66                              | -               | 66              | -              | 1                         |
| -  | -  | Other movements   | -                               | -               | -               | -              | 1                         |
| <b>6,213</b>                               | <b>(116)</b>                                   | <b>Total income/(expense) recognised directly in Net Worth</b>                | <b>1,053</b>                    | <b>338</b>      | <b>715</b>      | <b>211.5</b>   | <b>346</b>                |
| 2,451                                      | 1,431  | <b>Operating Balance (including minority interest)</b>                        | (8,446)                         | 3,179           | (11,625)        | (365.7)        | 1,909                     |
| <b>8,664</b>                               | <b>1,315</b>                                   | <b>Total recognised income and expense</b>                                    | <b>(7,393)</b>                  | <b>3,517</b>    | <b>(10,910)</b> | <b>(310.2)</b> | <b>2,255</b>              |
|  |  | <b>Attributable to:</b>   |                                 |                 |                 |                |                           |
| 83   | -  | - minority interest in Air New Zealand  | -                               | -               | -               | -              | -                         |
| 8,581                                      | 1,315  | - the Crown   | (7,393)                         | 3,517           | (10,910)        | (310.2)        | 2,255                     |
| <b>8,664</b>                               | <b>1,315</b>                                   | <b>Total recognised income and expense</b>                                    | <b>(7,393)</b>                  | <b>3,517</b>    | <b>(10,910)</b> | <b>(310.2)</b> | <b>2,255</b>              |

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

# STATEMENT OF FINANCIAL POSITION

as at 28 February 2009

| As at<br>30 June<br>2008<br>Actual<br>\$m | As at<br>29 Feb<br>2008<br>Actual<br>\$m |   | Note | Current Year Actual vs Forecast |                 |                 |               | Annual<br>Forecast<br>\$m |
|---|--|---|------|---------------------------------|-----------------|-----------------|---------------|---------------------------|
|   |  |   |      | Actual<br>\$m                   | Forecast<br>\$m | Variance<br>\$m | %             |                           |
|   |  | <b>Assets</b>   |      |                                 |                 |                 |               |                           |
| 3,804                                     | 5,045                                    | Cash and cash equivalents                               | 11   | 6,783                           | 3,625           | 3,158           | 87.1          | 3,868                     |
| 14,158                                    | 10,477                                   | Receivables   | 11   | 12,420                          | 13,725          | (1,305)         | (9.5)         | 14,479                    |
| 41,189                                    | 36,199                                   | Marketable securities, deposits and derivatives in gain | 11   | 52,784                          | 37,740          | 15,044          | 39.9          | 37,672                    |
| 12,964                                    | 12,522                                   | Share investments                                       | 11   | 10,446                          | 14,357          | (3,911)         | (27.2)        | 14,293                    |
| 12,948                                    | 13,211                                   | Advances  | 11   | 15,090                          | 14,394          | 696             | 4.8           | 17,134                    |
| 964                                       | 895                                      | Inventory   |      | 1,118                           | 1,019           | 99              | 9.7           | 1,010                     |
| 1,663                                     | 1,406                                    | Other assets  |      | 1,573                           | 1,339           | 234             | 17.5          | 1,441                     |
| 103,329                                   | 96,537                                   | Property, plant & equipment                             | 12   | 105,412                         | 106,273         | (861)           | (0.8)         | 107,895                   |
| 8,065                                     | 7,280                                    | Equity accounted investments <sup>1</sup>               |      | 8,510                           | 8,529           | (19)            | (0.2)         | 8,820                     |
| 1,751                                     | 1,664                                    | Intangible assets and goodwill                          |      | 1,848                           | 1,868           | (20)            | (1.1)         | 2,308                     |
| -   | -  | Forecast for new capital spending                       |      | -                               | -               | -               | -             | 184                       |
| -   | -  | Top-down capital adjustment                             |      | -                               | -               | -               | -             | (485)                     |
| <b>200,835</b>                            | <b>185,236</b>                           | <b>Total assets</b>                                     |      | <b>215,984</b>                  | <b>202,869</b>  | <b>13,115</b>   | <b>6.5</b>    | <b>208,619</b>            |
|   |  | <b>Liabilities</b>                                      |      |                                 |                 |                 |               |                           |
| 3,530                                     | 3,645                                    | Issued currency   |      | 4,039                           | 3,648           | (391)           | (10.7)        | 3,702                     |
| 10,895                                    | 8,187                                    | Payables  | 14   | 8,169                           | 9,725           | 1,556           | 16.0          | 11,936                    |
| 1,292                                     | 1,141                                    | Deferred revenue  |      | 1,290                           | 1,369           | 79              | 5.8           | 1,205                     |
| 46,110                                    | 44,465                                   | Borrowings  |      | 66,302                          | 46,792          | (19,510)        | (41.7)        | 48,618                    |
| 20,484                                    | 17,957                                   | Insurance liabilities                                   | 15   | 22,463                          | 19,545          | (2,918)         | (14.9)        | 21,982                    |
| 8,257                                     | 7,481                                    | Retirement plan liabilities                             |      | 10,651                          | 8,274           | (2,377)         | (28.7)        | 8,332                     |
| 4,753                                     | 4,340                                    | Provisions  | 16   | 4,949                           | 4,486           | (463)           | (10.3)        | 5,075                     |
| <b>95,321</b>                             | <b>87,216</b>                            | <b>Total liabilities</b>                                |      | <b>117,863</b>                  | <b>93,839</b>   | <b>(24,024)</b> | <b>(25.6)</b> | <b>100,850</b>            |
| <b>105,514</b>                            | <b>98,020</b>                            | <b>Total assets less total liabilities</b>              |      | <b>98,121</b>                   | <b>109,030</b>  | <b>(10,909)</b> | <b>(10.0)</b> | <b>107,769</b>            |
|   |  | <b>Net Worth</b>  |      |                                 |                 |                 |               |                           |
| 46,700                                    | 45,596                                   | Taxpayer funds  | 17   | 38,314                          | 49,884          | (11,570)        | (23.2)        | 48,675                    |
| 58,566                                    | 52,374                                   | Revaluation reserve                                     | 17   | 58,895                          | 58,890          | 5               | -             | 58,793                    |
| (134)                                     | (246)                                    | Other reserves  | 17   | 530                             | (126)           | 656             | -             | (81)                      |
| <b>105,132</b>                            | <b>97,724</b>                            | <b>Total net worth attributable to the Crown</b>        |      | <b>97,739</b>                   | <b>108,648</b>  | <b>(10,909)</b> | <b>(10.0)</b> | <b>107,387</b>            |
| 382                                       | 296                                      | Net worth attributable to minority in Air New Zealand   |      | 382                             | 382             | -               | -             | 382                       |
| <b>105,514</b>                            | <b>98,020</b>                            | <b>Total net worth</b>                                  |      | <b>98,121</b>                   | <b>109,030</b>  | <b>(10,909)</b> | <b>(10.0)</b> | <b>107,769</b>            |

<sup>1</sup>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 28 February 2009

| As at<br>30 June<br>2008<br>Actual<br>\$m | As at<br>29 Feb<br>2008<br>Actual<br>\$m |   | Current Year Actual vs Forecast |                 |                 |               | Annual<br>Forecast<br>\$m |
|---|--|---|---------------------------------|-----------------|-----------------|---------------|---------------------------|
|   |  |   | Actual<br>\$m                   | Forecast<br>\$m | Variance<br>\$m | %             |                           |
| 18,516                                    | 17,754                                   | Government stock <sup>1</sup>   | 19,055                          | 18,206          | (849)           | (4.7)         | 19,244                    |
| 1,484                                     | 1,535                                    | Treasury bills  | 5,025                           | 1,289           | (3,736)         | (289.8)       | 1,116                     |
| 423                                       | 383                                      | Government retail stock   | 581                             | 417             | (164)           | (39.3)        | 416                       |
| 7,750                                     | 6,465                                    | Settlement deposits with Reserve Bank   | 9,432                           | 7,830           | (1,602)         | (20.5)        | 7,750                     |
| 1,591                                     | 1,289                                    | Derivatives in loss <sup>2</sup>  | 5,693                           | 741             | (4,952)         | -             | 746                       |
| 955                                       | 954                                      | Finance lease liabilities   | 1,126                           | 1,007           | (119)           | (11.8)        | 1,124                     |
| 15,391                                    | 16,085                                   | Other borrowings  | 25,390                          | 17,302          | (8,088)         | (46.7)        | 18,222                    |
| <b>46,110</b>                             | <b>44,465</b>                            | <b>Total borrowings<sup>3</sup></b>   | <b>66,302</b>                   | <b>46,792</b>   | <b>(19,510)</b> | <b>(41.7)</b> | <b>48,618</b>             |
| 33,192                                    | 31,845                                   | Sovereign-guaranteed debt <sup>3</sup>  | 48,119                          | 31,243          | (16,876)        | (54.0)        | 33,378                    |
| 12,918                                    | 12,620                                   | Non sovereign-guaranteed debt   | 18,183                          | 15,549          | (2,634)         | (16.9)        | 15,240                    |
| <b>46,110</b>                             | <b>44,465</b>                            | <b>Total borrowings<sup>3</sup></b>   | <b>66,302</b>                   | <b>46,792</b>   | <b>(19,510)</b> | <b>(41.7)</b> | <b>48,618</b>             |
|   |  | <b>Gross and net debt analysis:</b>   |                                 |                 |                 |               |                           |
| 37,336                                    | 36,142                                   | Core Crown borrowings   | 54,253                          | 36,305          | (17,948)        | (49.4)        | 37,793                    |
| 409                                       | 573                                      | Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings       | (921)                           | 601             | 1,522           | 253.2         | 649                       |
| <b>37,745</b>                             | <b>36,715</b>                            | <b>Gross sovereign-issued debt<sup>4</sup></b>                                    | <b>53,332</b>                   | <b>36,906</b>   | <b>(16,426)</b> | <b>(44.5)</b> | <b>38,442</b>             |
| 50,698                                    | 47,058                                   | Less core Crown financial assets <sup>5</sup>                                     | 61,063                          | 47,327          | 13,736          | 29.0          | 48,872                    |
| <b>(12,953)</b>                           | <b>(10,343)</b>                          | <b>Net core Crown debt (incl NZS Fund)<sup>6</sup></b>                            | <b>(7,731)</b>                  | <b>(10,421)</b> | <b>(2,690)</b>  | <b>(25.8)</b> | <b>(10,430)</b>           |
| 12,934                                    | 12,089                                   | Add back NZS Fund holdings of core Crown financial assets and NZS Fund fin assets | 10,982                          | 14,585          | (3,603)         | (24.7)        | 15,637                    |
| <b>(19)</b>                               | <b>1,746</b>                             | <b>Net core Crown debt (excl NZS Fund)<sup>7</sup></b>                            | <b>3,251</b>                    | <b>4,164</b>    | <b>913</b>      | <b>21.9</b>   | <b>5,207</b>              |
|   |  | <b>Gross sovereign-issued debt excluding settlement cash:</b>                     |                                 |                 |                 |               |                           |
| 37,745                                    | 36,715                                   | Gross sovereign-issued debt <sup>4</sup>  | 53,332                          | 36,906          | (16,426)        | (44.5)        | 38,442                    |
| (7,955)                                   | (6,510)                                  | Less Reserve Bank settlement cash (including Kiwibank)                            | (9,508)                         | (8,035)         | 1,473           | 18.3          | (7,955)                   |
| 1,600                                     | 1,600                                    | Add back changes to DMO borrowing due to settlement cash <sup>8</sup>             | 1,600                           | 1,600           | -               | -             | 1,600                     |
| <b>31,390</b>                             | <b>31,805</b>                            | <b>Gross sovereign-issued debt excluding settlement cash</b>                      | <b>45,424</b>                   | <b>30,471</b>   | <b>(14,953)</b> | <b>(49.1)</b> | <b>32,087</b>             |

## Notes on Borrowings

- Government stock includes \$395 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 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. This does not include the Crown guarantee schemes as outlined in note 20.
- 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 28 February 2009

|  | As at<br>28 Feb<br>2009<br>\$m | As at<br>30 June<br>2008<br>\$m | As at<br>28 Feb<br>2008<br>\$m |
|--|--------------------------------|---------------------------------|--------------------------------|
| <b>Capital Commitments</b>                                     |                                |                                 |                                |
| Specialist military equipment                                  | 1,052                          | 873                             | 832                            |
| Land and buildings   | 1,206                          | 1,121                           | 717                            |
| Other property, plant and equipment                            | 4,078                          | 4,303                           | 2,576                          |
| Other capital commitments                                      | 365                            | 304                             | 158                            |
| Tertiary Education Institutions                                | 209                            | 209                             | 90                             |
| <b>Total capital commitments</b>                               | <b>6,910</b>                   | <b>6,810</b>                    | <b>4,373</b>                   |
| <b>Operating Commitments</b>                                   |                                |                                 |                                |
| Non-cancellable accommodation leases                           | 2,409                          | 2,460                           | 2,267                          |
| Other non-cancellable leases                                   | 2,663                          | 2,390                           | 2,337                          |
| Non-cancellable contracts for the supply of goods and services | 2,295                          | 2,157                           | 1,894                          |
| Other operating commitments                                    | 7,732                          | 7,995                           | 7,498                          |
| Tertiary Education Institutions                                | 315                            | 315                             | 303                            |
| <b>Total operating commitments</b>                             | <b>15,414</b>                  | <b>15,317</b>                   | <b>14,299</b>                  |
| <b>Total commitments</b>                                       | <b>22,324</b>                  | <b>22,127</b>                   | <b>18,672</b>                  |
| <b>Total Commitments by Segment</b>                            |                                |                                 |                                |
| Core Crown   | 14,022                         | 19,627                          | 14,010                         |
| Crown entities   | 13,200                         | 15,830                          | 9,957                          |
| State-owned Enterprises  | 4,876                          | 4,724                           | 3,472                          |
| Inter-segment eliminations                                     | (9,774)                        | (18,054)                        | (8,767)                        |
| <b>Total commitments</b>                                       | <b>22,324</b>                  | <b>22,127</b>                   | <b>18,672</b>                  |

## STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 28 February 2009

|   | As at<br>28 Feb<br>2009<br>\$m | As at<br>30 June<br>2008<br>\$m | As at<br>28 Feb<br>2008<br>\$m |
|---|--------------------------------|---------------------------------|--------------------------------|
| <b>Quantifiable Contingent Liabilities</b>                  |                                |                                 |                                |
| Guarantees and indemnities                                  | 1,160                          | 286                             | 167                            |
| Uncalled capital  | 3,312                          | 2,205                           | 2,025                          |
| Legal proceedings and disputes                              | 352                            | 383                             | 347                            |
| Other contingent liabilities                                | 2,459                          | 1,995                           | 2,176                          |
| <b>Total quantifiable contingent liabilities</b>            | <b>7,283</b>                   | <b>4,869</b>                    | <b>4,715</b>                   |
| <b>Total Quantifiable Contingent Liabilities by Segment</b> |                                |                                 |                                |
| Core Crown  | 7,107                          | 4,685                           | 4,572                          |
| Crown entities  | 109                            | 86                              | 52                             |
| State-owned Enterprises                                     | 67                             | 98                              | 91                             |
| Inter-segment eliminations                                  | -                              | -                               | -                              |
| <b>Total quantifiable contingent liabilities</b>            | <b>7,283</b>                   | <b>4,869</b>                    | <b>4,715</b>                   |
| <b>Quantifiable Contingent Assets</b>                       |                                |                                 |                                |
| Core Crown  | 319                            | 389                             | 91                             |
| Crown entities  | -                              | -                               | -                              |
| <b>Total quantifiable contingent assets</b>                 | <b>319</b>                     | <b>389</b>                      | <b>91</b>                      |

Please refer to note 20 for discussion on financial institution guarantee schemes.

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

## NOTES TO THE FINANCIAL STATEMENTS

| Year 8 Months<br>to 30 Jun 2008                                      |               | 8 Months<br>to 29 Feb 2008                 |                 | Current Year Actual vs Forecast |                |               |                 | Annual<br>Forecast |
|--|---------------|--|-----------------|---------------------------------|----------------|---------------|-----------------|--------------------|
| Actual<br>\$m  | Actual<br>\$m | Actual<br>\$m                              | Forecast<br>\$m | Variance<br>\$m                 | %              | Actual<br>\$m | Forecast<br>\$m |                    |
| <b>NOTE 1: Revenue Collected Through the Crown's Sovereign Power</b> |               |  |                 |                                 |                |               |                 |                    |
| <b>Taxation Revenue (accrual)</b>                                    |               |  |                 |                                 |                |               |                 |                    |
| <b>Individuals</b>   |               |  |                 |                                 |                |               |                 |                    |
| 23,345   | 15,078        | PAYE                                       | 15,306          | 15,448                          | (142)          | (0.9)         | 23,073          |                    |
| 5,071  | 3,294         | Other persons                              | 3,104           | 3,306                           | (202)          | (6.1)         | 4,972           |                    |
| (1,470)  | (821)         | Refunds                                    | (880)           | (863)                           | (17)           | (2.0)         | (1,494)         |                    |
| 522  | 351           | Fringe benefit tax                         | 335             | 339                             | (4)            | (1.2)         | 514             |                    |
| <b>27,468</b>  | <b>17,902</b> | <b>Total individuals</b>                   | <b>17,865</b>   | <b>18,230</b>                   | <b>(365)</b>   | <b>(2.0)</b>  | <b>27,065</b>   |                    |
| <b>Corporate Tax</b>   |               |  |                 |                                 |                |               |                 |                    |
| 8,787  | 5,103         | Gross companies tax                        | 4,371           | 5,017                           | (646)          | (12.9)        | 7,651           |                    |
| (242)  | (41)          | Refunds                                    | (153)           | (134)                           | (19)           | (14.2)        | (310)           |                    |
| 1,506  | 951           | Non-resident withholding tax               | 1,031           | 1,091                           | (60)           | (5.5)         | 1,549           |                    |
| 71   | 69            | Foreign-source dividend w/holding payments | (6)             | 32                              | (38)           | (118.8)       | 42              |                    |
| <b>10,122</b>  | <b>6,082</b>  | <b>Total corporate tax</b>                 | <b>5,243</b>    | <b>6,006</b>                    | <b>(763)</b>   | <b>(12.7)</b> | <b>8,932</b>    |                    |
| <b>Other Income Tax</b>  |               |  |                 |                                 |                |               |                 |                    |
| 2,699  | 1,665         | Resident w/holding tax on interest income  | 1,832           | 1,826                           | 6              | 0.3           | 2,822           |                    |
| 69   | 38            | Resident w/holding tax on dividend income  | 50              | 20                              | 30             | 150.0         | 60              |                    |
| 3  | 2             | Estate and gift duties                     | 1               | 2                               | (1)            | (50.0)        | 3               |                    |
| <b>2,771</b>   | <b>1,705</b>  | <b>Total other income tax</b>              | <b>1,883</b>    | <b>1,848</b>                    | <b>35</b>      | <b>1.9</b>    | <b>2,885</b>    |                    |
| <b>40,361</b>  | <b>25,689</b> | <b>Total income tax</b>                    | <b>24,991</b>   | <b>26,084</b>                   | <b>(1,093)</b> | <b>(4.2)</b>  | <b>38,882</b>   |                    |
| <b>Goods and Services Tax</b>  |               |  |                 |                                 |                |               |                 |                    |
| 20,631   | 13,166        | Gross goods and services tax               | 14,058          | 14,348                          | (290)          | (2.0)         | 21,460          |                    |
| (9,516)  | (6,019)       | Refunds                                    | (6,496)         | (6,391)                         | (105)          | (1.6)         | (9,773)         |                    |
| <b>11,115</b>  | <b>7,147</b>  | <b>Total goods and services tax</b>        | <b>7,562</b>    | <b>7,957</b>                    | <b>(395)</b>   | <b>(5.0)</b>  | <b>11,687</b>   |                    |
| <b>Other Taxation</b>  |               |  |                 |                                 |                |               |                 |                    |
| 819  | 522           | Petroleum fuels excise                     | 553             | 573                             | (20)           | (3.5)         | 880             |                    |
| 159  | 114           | Tobacco excise                             | 148             | 122                             | 26             | 21.3          | 151             |                    |
| 1,857  | 1,260         | Customs duty                               | 1,220           | 1,257                           | (37)           | (2.9)         | 1,889           |                    |
| 851  | 563           | Road user charges                          | 586             | 575                             | 11             | 1.9           | 877             |                    |
| 573  | 383           | Alcohol excise                             | 421             | 419                             | 2              | 0.5           | 602             |                    |
| 260  | 144           | Gaming duties                              | 145             | 153                             | (8)            | (5.2)         | 252             |                    |
| 226  | 151           | Motor vehicle fees                         | 142             | 129                             | 13             | 10.1          | 185             |                    |
| 46   | 29            | Energy resources levies                    | 25              | 29                              | (4)            | (13.8)        | 43              |                    |
| 105  | 55            | Approved issuer levy and cheque duty       | 54              | 63                              | (9)            | (14.3)        | 90              |                    |
| <b>4,896</b>   | <b>3,221</b>  | <b>Total other indirect taxation</b>       | <b>3,294</b>    | <b>3,320</b>                    | <b>(26)</b>    | <b>(0.8)</b>  | <b>4,969</b>    |                    |
| <b>16,011</b>  | <b>10,368</b> | <b>Total indirect taxation</b>             | <b>10,856</b>   | <b>11,277</b>                   | <b>(421)</b>   | <b>(3.7)</b>  | <b>16,656</b>   |                    |
| <b>56,372</b>  | <b>36,057</b> | <b>Total taxation revenue</b>              | <b>35,847</b>   | <b>37,361</b>                   | <b>(1,514)</b> | <b>(4.1)</b>  | <b>55,538</b>   |                    |
| <b>Other Sovereign Revenue (accrual)</b>                             |               |  |                 |                                 |                |               |                 |                    |
| 2,718  | 1,868         | ACC levies                                 | 1,857           | 1,797                           | 60             | 3.3           | 2,742           |                    |
| 279  | 195           | Fire Service levies                        | 210             | 212                             | (2)            | (0.9)         | 303             |                    |
| 86   | 57            | EQC levies                                 | 57              | 58                              | (1)            | (1.7)         | 87              |                    |
| 796  | 492           | Other miscellaneous items                  | 575             | 569                             | 6              | 1.1           | 861             |                    |
| <b>3,879</b>   | <b>2,612</b>  | <b>Total other sovereign revenue</b>       | <b>2,699</b>    | <b>2,636</b>                    | <b>63</b>      | <b>2.4</b>    | <b>3,993</b>    |                    |
| <b>60,251</b>  | <b>38,669</b> | <b>Total sovereign revenue</b>             | <b>38,546</b>   | <b>39,997</b>                   | <b>(1,451)</b> | <b>(3.6)</b>  | <b>59,531</b>   |                    |

## NOTES TO THE FINANCIAL STATEMENTS

| Year 8 Months<br>to 30 Jun 2008   |               | to 29 Feb 2008                             |  | Current Year Actual vs Forecast |               |                |              | Annual        |
|---|---------------|--|--|---------------------------------|---------------|----------------|--------------|---------------|
| Actual  | Actual        |  |  | Actual                          | Forecast      | Variance       | %            | Forecast      |
| \$m   | \$m           |  |  | \$m                             | \$m           | \$m            |              | \$m           |
| <b>NOTE 1 (continued): Receipts Collected Through the Crown's Sovereign Power</b> |               |  |  |                                 |               |                |              |               |
| <b>Income Tax Receipts (cash)</b>   |               |  |  |                                 |               |                |              |               |
| <b>Individuals</b>  |               |  |  |                                 |               |                |              |               |
| 22,830  | 15,067        | PAYE                                       |  | 15,435                          | 15,683        | (248)          | (1.6)        | 23,041        |
| 5,469   | 3,117         | Other persons                              |  | 2,844                           | 2,988         | (144)          | (4.8)        | 5,447         |
| (2,171)   | (1,408)       | Refunds                                    |  | (1,605)                         | (1,532)       | (73)           | (4.8)        | (2,369)       |
| 489   | 353           | Fringe benefit tax                         |  | 367                             | 368           | (1)            | (0.3)        | 507           |
| <b>26,617</b>   | <b>17,129</b> | <b>Total individuals</b>                   |  | <b>17,041</b>                   | <b>17,507</b> | <b>(466)</b>   | <b>(2.7)</b> | <b>26,626</b> |
| <b>Corporate Tax</b>  |               |  |  |                                 |               |                |              |               |
| 9,075   | 5,856         | Gross companies tax                        |  | 4,760                           | 4,853         | (93)           | (1.9)        | 7,954         |
| (1,026)   | (561)         | Refunds                                    |  | (976)                           | (718)         | (258)          | (35.9)       | (1,150)       |
| 1,638   | 1,144         | Non-resident withholding tax               |  | 981                             | 1,064         | (83)           | (7.8)        | 1,344         |
| 72  | 72            | Foreign-source dividend w/holding payments |  | (5)                             | 31            | (36)           | (116.1)      | 42            |
| <b>9,759</b>  | <b>6,511</b>  | <b>Total corporate tax</b>                 |  | <b>4,760</b>                    | <b>5,230</b>  | <b>(470)</b>   | <b>(9.0)</b> | <b>8,190</b>  |
| <b>Other Income Tax</b>   |               |  |  |                                 |               |                |              |               |
| 2,616   | 1,656         | Resident w/holding tax on interest income  |  | 1,850                           | 1,856         | (6)            | (0.3)        | 2,823         |
| 40  | 27            | Resident w/holding tax on dividend income  |  | 46                              | 51            | (5)            | (9.8)        | 90            |
| 2   | 1             | Estate and gift duties                     |  | 1                               | 2             | (1)            | (50.0)       | 3             |
| <b>2,658</b>  | <b>1,684</b>  | <b>Total other income tax</b>              |  | <b>1,897</b>                    | <b>1,909</b>  | <b>(12)</b>    | <b>(0.6)</b> | <b>2,916</b>  |
| <b>39,034</b>   | <b>25,324</b> | <b>Total income tax</b>                    |  | <b>23,698</b>                   | <b>24,646</b> | <b>(948)</b>   | <b>(3.8)</b> | <b>37,732</b> |
| <b>Goods and Services Tax</b>   |               |  |  |                                 |               |                |              |               |
| 20,085  | 13,128        | Gross goods and services tax               |  | 13,140                          | 13,839        | (699)          | (5.1)        | 20,727        |
| (8,859)   | (5,797)       | Refunds                                    |  | (6,219)                         | (6,256)       | 37             | 0.6          | (9,260)       |
| <b>11,226</b>   | <b>7,331</b>  | <b>Total goods and services tax</b>        |  | <b>6,921</b>                    | <b>7,583</b>  | <b>(662)</b>   | <b>(8.7)</b> | <b>11,467</b> |
| <b>Other Taxation</b>   |               |  |  |                                 |               |                |              |               |
| 809   | 540           | Petroleum fuels excise                     |  | 545                             | 599           | (54)           | (9.0)        | 880           |
| 160   | 117           | Tobacco excise                             |  | 155                             | 115           | 40             | 34.8         | 151           |
| 1,946   | 1,338         | Customs duty                               |  | 1,260                           | 1,240         | 20             | 1.6          | 1,889         |
| 851   | 563           | Road user charges                          |  | 584                             | 572           | 12             | 2.1          | 877           |
| 554   | 374           | Alcohol excise                             |  | 396                             | 401           | (5)            | (1.2)        | 602           |
| 238   | 160           | Gaming duties                              |  | 154                             | 164           | (10)           | (6.1)        | 248           |
| 223   | 159           | Motor vehicle fees                         |  | 151                             | 129           | 22             | 17.1         | 185           |
| 42  | 26            | Energy resources levies                    |  | 23                              | 29            | (6)            | (20.7)       | 48            |
| 85  | 60            | Approved issuer levy and cheque duty       |  | 67                              | 63            | 4              | 6.3          | 80            |
| <b>4,908</b>  | <b>3,337</b>  | <b>Total other indirect taxation</b>       |  | <b>3,335</b>                    | <b>3,312</b>  | <b>23</b>      | <b>0.7</b>   | <b>4,960</b>  |
| <b>16,134</b>   | <b>10,668</b> | <b>Total indirect taxation</b>             |  | <b>10,256</b>                   | <b>10,895</b> | <b>(639)</b>   | <b>(5.9)</b> | <b>16,427</b> |
| <b>55,168</b>   | <b>35,992</b> | <b>Total tax receipts collected</b>        |  | <b>33,954</b>                   | <b>35,541</b> | <b>(1,587)</b> | <b>(4.5)</b> | <b>54,159</b> |
| <b>Other Sovereign Receipts (cash)</b>  |               |  |  |                                 |               |                |              |               |
| 2,561   | 1,884         | ACC levies                                 |  | 1,952                           | 1,980         | (28)           | (1.4)        | 2,752         |
| 281   | 197           | Fire Service levies                        |  | 210                             | 212           | (2)            | (0.9)        | 303           |
| 86  | 59            | EQC levies                                 |  | 60                              | 58            | 2              | 3.4          | 87            |
| 532   | 369           | Other miscellaneous items                  |  | 367                             | 394           | (27)           | (6.9)        | 595           |
| <b>3,460</b>  | <b>2,509</b>  | <b>Total other sovereign receipts</b>      |  | <b>2,589</b>                    | <b>2,644</b>  | <b>(55)</b>    | <b>(2.1)</b> | <b>3,737</b>  |
| <b>58,628</b>   | <b>38,501</b> | <b>Total sovereign receipts</b>            |  | <b>36,543</b>                   | <b>38,185</b> | <b>(1,642)</b> | <b>(4.3)</b> | <b>57,896</b> |

## NOTES TO THE FINANCIAL STATEMENTS

| Year 8 Months<br>to 30 Jun 2008                                      |               | 8 Months<br>to 29 Feb 2008 |                 | Current Year Actual vs Forecast |               |                           |  |
|--|---------------|----------------------------|-----------------|---------------------------------|---------------|---------------------------|--|
| Actual<br>\$m  | Actual<br>\$m | Actual<br>\$m              | Forecast<br>\$m | Variance<br>\$m                 | %             | Annual<br>Forecast<br>\$m |  |
| <b>NOTE 2: Interest Revenue and Dividends</b>                        |               |                            |                 |                                 |               |                           |  |
| <i>By type</i>   |               |                            |                 |                                 |               |                           |  |
| 2,803  | 1,949         | 2,130                      | 2,444           | (314)                           | (12.8)        | 3,378                     |  |
| 411  | 188           | 215                        | 188             | 27                              | 14.4          | 450                       |  |
| <b>3,214</b>   | <b>2,137</b>  | <b>2,345</b>               | <b>2,632</b>    | <b>(287)</b>                    | <b>(10.9)</b> | <b>3,828</b>              |  |
| <i>By source</i>   |               |                            |                 |                                 |               |                           |  |
| 2,344  | 1,476         | 1,280                      | 1,717           | (437)                           | (25.5)        | 2,647                     |  |
| 1,233  | 731           | 1,059                      | 732             | 327                             | 44.7          | 1,162                     |  |
| 704  | 479           | 848                        | 662             | 186                             | 28.1          | 673                       |  |
| (1,067)  | (549)         | (842)                      | (479)           | (363)                           | (75.8)        | (654)                     |  |
| <b>3,214</b>   | <b>2,137</b>  | <b>2,345</b>               | <b>2,632</b>    | <b>(287)</b>                    | <b>(10.9)</b> | <b>3,828</b>              |  |
| <b>NOTE 3: Social Assistance and Official Development Assistance</b> |               |                            |                 |                                 |               |                           |  |
| 7,348  | 4,840         | 5,079                      | 5,088           | 9                               | 0.2           | 7,785                     |  |
| 1,478  | 979           | 1,004                      | 996             | (8)                             | (0.8)         | 1,501                     |  |
| 458  | 320           | 354                        | 328             | (26)                            | (7.9)         | 487                       |  |
| 1,216  | 793           | 835                        | 841             | 6                               | 0.7           | 1,273                     |  |
| 1,897  | 1,318         | 1,331                      | 1,365           | 34                              | 2.5           | 2,153                     |  |
| 891  | 593           | 640                        | 632             | (8)                             | (1.3)         | 951                       |  |
| 582  | 392           | 400                        | 383             | (17)                            | (4.4)         | 570                       |  |
| 386  | 223           | 235                        | 233             | (2)                             | (0.9)         | 411                       |  |
| 278  | 185           | 256                        | 256             | -                               | -             | 389                       |  |
| 1,102  | 645           | 1,059                      | 1,023           | (36)                            | (3.5)         | 1,440                     |  |
| 2,376  | 1,518         | 1,552                      | 1,565           | 13                              | 0.8           | 2,707                     |  |
| <b>18,012</b>  | <b>11,806</b> | <b>12,745</b>              | <b>12,710</b>   | <b>(35)</b>                     | <b>(0.3)</b>  | <b>19,667</b>             |  |
| 362  | 265           | 354                        | 367             | 13                              | 3.5           | 484                       |  |
| <b>18,374</b>  | <b>12,071</b> | <b>13,099</b>              | <b>13,077</b>   | <b>(22)</b>                     | <b>(0.2)</b>  | <b>20,151</b>             |  |
| <b>NOTE 4: Personnel Expenses</b>                                    |               |                            |                 |                                 |               |                           |  |
| 5,584  | 3,758         | 4,056                      | 4,012           | (44)                            | (1.1)         | 5,865                     |  |
| 8,741  | 5,709         | 6,325                      | 6,294           | (31)                            | (0.5)         | 9,505                     |  |
| 2,164  | 1,438         | 1,605                      | 1,617           | 12                              | 0.7           | 2,438                     |  |
| (11)   | (6)           | (7)                        | (6)             | 1                               | 16.7          | (8)                       |  |
| <b>16,478</b>  | <b>10,899</b> | <b>11,979</b>              | <b>11,917</b>   | <b>(62)</b>                     | <b>(0.5)</b>  | <b>17,800</b>             |  |
| <b>NOTE 5: Operating Expenses</b>                                    |               |                            |                 |                                 |               |                           |  |
| <i>By type</i>   |               |                            |                 |                                 |               |                           |  |
| 3,670  | 2,344         | 2,790                      | 2,854           | 64                              | 2.2           | 3,973                     |  |
| 30,656   | 17,718        | 20,411                     | 21,137          | 726                             | 3.4           | 33,721                    |  |
| -  | -             | -                          | -               | -                               | -             | 172                       |  |
| -  | -             | -                          | (438)           | (438)                           | (100.0)       | (1,450)                   |  |
| <b>34,326</b>  | <b>20,062</b> | <b>23,201</b>              | <b>23,553</b>   | <b>352</b>                      | <b>1.5</b>    | <b>36,416</b>             |  |
| <i>By source</i>   |               |                            |                 |                                 |               |                           |  |
| 30,432   | 19,211        | 20,804                     | 20,760          | (44)                            | (0.2)         | 33,518                    |  |
| 15,754   | 9,260         | 10,310                     | 10,172          | (138)                           | (1.4)         | 16,028                    |  |
| 10,945   | 6,217         | 6,899                      | 7,512           | 613                             | 8.2           | 11,426                    |  |
| (22,805)   | (14,626)      | (14,812)                   | (14,891)        | (79)                            | (0.5)         | (24,556)                  |  |
| <b>34,326</b>  | <b>20,062</b> | <b>23,201</b>              | <b>23,553</b>   | <b>352</b>                      | <b>1.5</b>    | <b>36,416</b>             |  |

<sup>1</sup> Refer Note 19 regarding cost of KiwiRail Holdings Limited.

## NOTES TO THE FINANCIAL STATEMENTS

| Year to 30 Jun 2008 | 8 Months to 29 Feb 2008 | Current Year Actual vs Forecast                              |              |                 |                | Annual Forecast \$m |
|---------------------|-------------------------|--|--------------|-----------------|----------------|---------------------|
|                     |                         | Actual \$m   | Forecast \$m | Variance \$m    | %              |                     |
|                     |                         | <b>NOTE 6: Interest Expenses</b>                             |              |                 |                |                     |
|                     |                         | <i>By type</i>   |              |                 |                |                     |
| 3,015               | 1,997                   | 2,435  | 2,356        | (79)            | (3.4)          | 3,219               |
| 86                  | 12                      | 90   | 67           | (23)            | (34.3)         | 92                  |
| <b>3,101</b>        | <b>2,009</b>            | <b>2,525</b>   | <b>2,423</b> | <b>(102)</b>    | <b>(4.2)</b>   | <b>3,311</b>        |
|                     |                         | <i>By source</i>   |              |                 |                |                     |
| 2,460               | 1,596                   | 1,678  | 1,749        | 71              | 4.1            | 2,650               |
| 248                 | 149                     | 151  | 132          | (19)            | (14.4)         | 254                 |
| 870                 | 572                     | 1,107  | 870          | (237)           | (27.2)         | 1,022               |
| (477)               | (308)                   | (411)  | (328)        | 83              | 25.3           | (615)               |
| <b>3,101</b>        | <b>2,009</b>            | <b>2,525</b>   | <b>2,423</b> | <b>(102)</b>    | <b>(4.2)</b>   | <b>3,311</b>        |
|                     |                         | <b>NOTE 7: Insurance Expenses</b>                            |              |                 |                |                     |
|                     |                         | <i>By entity</i>   |              |                 |                |                     |
| 3,423               | 1,913                   | 2,078  | 2,077        | (1)             | -              | 4,020               |
| 130                 | 69                      | 69   | 26           | (43)            | (165.4)        | 39                  |
| 10                  | 9                       | 17   | 11           | (6)             | (54.5)         | 17                  |
| <b>3,563</b>        | <b>1,991</b>            | <b>2,164</b>   | <b>2,114</b> | <b>(50)</b>     | <b>(2.4)</b>   | <b>4,076</b>        |
|                     |                         | <b>NOTE 8: Gains and Losses on Financial Instruments</b>     |              |                 |                |                     |
|                     |                         | <i>By source</i>   |              |                 |                |                     |
| 353                 | (276)                   | (2,118)  | 874          | (2,992)         | (342.3)        | 1,287               |
| (743)               | (647)                   | (774)  | 302          | (1,076)         | (356.3)        | 412                 |
| (37)                | (100)                   | (350)  | 46           | (396)           | -              | 17                  |
| (190)               | (53)                    | (233)  | (169)        | (64)            | (37.9)         | (254)               |
| <b>(617)</b>        | <b>(1,076)</b>          | <b>(3,475)</b>   | <b>1,053</b> | <b>(4,528)</b>  | <b>(430.0)</b> | <b>1,462</b>        |
|                     |                         | <b>NOTE 9: Gains and Losses on Non-Financial Instruments</b> |              |                 |                |                     |
|                     |                         | <i>By type</i>   |              |                 |                |                     |
| (1,098)             | (293)                   | (2,378)  | -            | (2,378)         | -              | -                   |
| (1,709)             | (1,302)                 | (2,908)  | -            | (2,908)         | -              | -                   |
| (118)               | (146)                   | 66   | 76           | (10)            | (13.2)         | 178                 |
| <b>(2,925)</b>      | <b>(1,741)</b>          | <b>(5,220)</b>   | <b>76</b>    | <b>(5,296)</b>  | <b>-</b>       | <b>178</b>          |
|                     |                         | <i>By source</i>   |              |                 |                |                     |
| (1,369)             | (530)                   | (2,409)  | (22)         | (2,387)         | -              | 33                  |
| (1,725)             | (1,305)                 | (2,904)  | (14)         | (2,890)         | -              | (13)                |
| 170                 | 94                      | 94   | 112          | (18)            | (16.1)         | 158                 |
| (1)                 | -                       | (1)  | -            | (1)             | -              | -                   |
| <b>(2,925)</b>      | <b>(1,741)</b>          | <b>(5,220)</b>   | <b>76</b>    | <b>(5,296)</b>  | <b>-</b>       | <b>178</b>          |
|                     |                         | <b>NOTE 10: Operating Balance</b>                            |              |                 |                |                     |
|                     |                         | <i>By source</i>   |              |                 |                |                     |
| 3,891               | 1,757                   | (4,901)  | 2,112        | (7,013)         | (332.1)        | 239                 |
| (1,526)             | (589)                   | (2,773)  | 885          | (3,658)         | (413.3)        | 970                 |
| 723                 | 486                     | 369  | 593          | (224)           | (37.8)         | 938                 |
| (704)               | (223)                   | (1,141)  | (411)        | (730)           | (177.6)        | (238)               |
| <b>2,384</b>        | <b>1,431</b>            | <b>(8,446)</b>   | <b>3,179</b> | <b>(11,625)</b> | <b>(365.7)</b> | <b>1,909</b>        |

## NOTES TO THE FINANCIAL STATEMENTS

| As at<br>30 June<br>2008<br>\$m               | As at<br>29 Feb<br>2008<br>\$m |  | Current Year Actual vs Forecast |                 |                 |              | Annual<br>Forecast<br>\$m |
|---|--------------------------------|--|---------------------------------|-----------------|-----------------|--------------|---------------------------|
|   |                                |  | Actual<br>\$m                   | Forecast<br>\$m | Variance<br>\$m | %            |                           |
| <b>NOTE 11: Financial Assets</b>              |                                |  |                                 |                 |                 |              |                           |
| 3,804   | 5,045                          | Cash and cash equivalents                          | 6,783                           | 3,625           | 3,158           | 87.1         | 3,868                     |
| 7,398   | 5,931                          | Tax receivables                                    | 7,895                           | 8,792           | (897)           | (10.2)       | 7,637                     |
| 6,760   | 4,546                          | Trade and other receivables                        | 4,525                           | 4,933           | (408)           | (8.3)        | 6,842                     |
| 6,741   | 6,262                          | Student loans                                      | 7,046                           | 7,040           | 6               | 0.1          | 7,173                     |
| 5,581   | 5,026                          | Kiwibank mortgages                                 | 7,322                           | 6,656           | 666             | 10.0         | 8,500                     |
| 2,787   | 2,041                          | Long-term deposits                                 | 3,155                           | 2,854           | 301             | 10.5         | 1,670                     |
| 188   | 178                            | Reserve position at the IMF                        | 383                             | 176             | 207             | 117.6        | 174                       |
| 626   | 1,923                          | Other loans  | 722                             | 698             | 24              | 3.4          | 1,461                     |
| 12,964  | 12,522                         | Share investments                                  | 10,446                          | 14,357          | (3,911)         | (27.2)       | 14,293                    |
| 1,563   | 2,387                          | Derivatives in gain                                | 4,180                           | 926             | 3,254           | 351.4        | 858                       |
| 36,651  | 31,593                         | Other marketable securities                        | 45,066                          | 33,784          | 11,282          | 33.4         | 34,970                    |
| <b>85,063</b>                                 | <b>77,454</b>                  | <b>Total financial assets</b>                      | <b>97,523</b>                   | <b>83,841</b>   | <b>13,682</b>   | <b>16.3</b>  | <b>87,446</b>             |
| <b>Financial assets by entity</b>             |                                |  |                                 |                 |                 |              |                           |
| 20,635  | 19,805                         | NZDMO  | 21,215                          | 15,778          | 5,437           | 34.5         | 15,501                    |
| 18,159  | 16,623                         | Reserve Bank of New Zealand                        | 30,390                          | 18,120          | 12,270          | 67.7         | 18,264                    |
| 13,791  | 12,929                         | NZ Superannuation Fund                             | 11,735                          | 15,428          | (3,693)         | (23.9)       | 16,563                    |
| 16,639  | 14,674                         | Other core Crown                                   | 18,459                          | 18,889          | (430)           | (2.3)        | 17,526                    |
| (9,595)                                       | (9,467)                        | Intra-segment eliminations                         | (10,678)                        | (10,078)        | (600)           | (6.0)        | (9,341)                   |
| <b>59,629</b>                                 | <b>54,564</b>                  | <b>Total core Crown segment</b>                    | <b>71,121</b>                   | <b>58,137</b>   | <b>12,984</b>   | <b>22.3</b>  | <b>58,513</b>             |
| 12,958  | 11,463                         | ACC portfolio                                      | 11,898                          | 12,156          | (258)           | (2.1)        | 13,651                    |
| 5,615   | 5,484                          | EQC portfolio                                      | 5,718                           | 5,877           | (159)           | (2.7)        | 5,999                     |
| 6,835   | 6,539                          | Other Crown entities                               | 6,723                           | 6,117           | 606             | 10           | 6,203                     |
| (1,517)                                       | (1,381)                        | Intra-segment eliminations                         | (652)                           | (561)           | (91)            | (16.2)       | (662)                     |
| <b>23,891</b>                                 | <b>22,105</b>                  | <b>Total Crown entities segment</b>                | <b>23,687</b>                   | <b>23,589</b>   | <b>98</b>       | <b>0.4</b>   | <b>25,191</b>             |
| <b>11,727</b>                                 | <b>10,544</b>                  | <b>Total State-owned enterprises segment</b>       | <b>15,581</b>                   | <b>12,836</b>   | <b>2,745</b>    | <b>21.4</b>  | <b>14,231</b>             |
| (10,184)                                      | (9,759)                        | Inter-segment eliminations                         | (12,866)                        | (10,721)        | (2,145)         | (20.0)       | (10,489)                  |
| <b>85,063</b>                                 | <b>77,454</b>                  | <b>Total financial assets</b>                      | <b>97,523</b>                   | <b>83,841</b>   | <b>13,682</b>   | <b>16.3</b>  | <b>87,446</b>             |
| <b>NOTE 12: Property, Plant and Equipment</b> |                                |  |                                 |                 |                 |              |                           |
| <b>By Class of asset</b>                      |                                |  |                                 |                 |                 |              |                           |
| <b>Net Carrying Value</b>                     |                                |  |                                 |                 |                 |              |                           |
| 17,609  | 16,571                         | Land (valuation)                                   | 17,802                          | 18,058          | (256)           | (1.4)        | 18,122                    |
| 22,257  | 21,013                         | Buildings (valuation)                              | 22,758                          | 22,741          | 17              | 0.1          | 22,977                    |
| 1,887   | 2,074                          | Electricity distribution network (cost)            | 1,996                           | 2,280           | (284)           | (12.5)       | 2,255                     |
| 11,202  | 10,687                         | Electricity generation assets (valuation)          | 11,554                          | 11,607          | (53)            | (0.5)        | 11,890                    |
| 2,071   | 2,065                          | Aircraft (excl military) (valuation)               | 1,913                           | 1,900           | 13              | 0.7          | 2,051                     |
| 20,947  | 19,833                         | State highways (valuation)                         | 21,371                          | 21,320          | 51              | 0.2          | 21,628                    |
| 11,621  | 10,570                         | Rail network (valuation)                           | 12,417                          | 12,391          | 26              | 0.2          | 11,979                    |
| 3,345   | 3,114                          | Specialist military equipment (valuation)          | 3,295                           | 3,444           | (149)           | (4.3)        | 3,421                     |
| 4,412   | 3,545                          | Other plant and equipment (cost)                   | 4,346                           | 4,570           | (224)           | (4.9)        | 5,578                     |
| 7,978   | 7,065                          | Specified cultural and heritage assets (valuation) | 7,960                           | 7,962           | (2)             | -            | 7,994                     |
| <b>103,329</b>                                | <b>96,537</b>                  | <b>Total net carrying value</b>                    | <b>105,412</b>                  | <b>106,273</b>  | <b>(861)</b>    | <b>(0.8)</b> | <b>107,895</b>            |

## NOTES TO THE FINANCIAL STATEMENTS

| Year<br>to 30 Jun<br>2008<br>\$m          | 8 Months<br>to 29 Feb<br>2008<br>\$m |   | Current Year Actual vs Forecast |                 |                 |                | Annual<br>Forecast<br>\$m |
|---|--------------------------------------|---|---------------------------------|-----------------|-----------------|----------------|---------------------------|
|   |                                      |   | Actual<br>\$m                   | Forecast<br>\$m | Variance<br>\$m | %              |                           |
| <b>NOTE 13: NZ Superannuation Fund</b>    |                                      |   |                                 |                 |                 |                |                           |
| 385                                       | 217                                  | Revenue                                   | 262                             | 242             | 20              | 8.3            | 431                       |
| 237                                       | 172                                  | Less current tax expense                  | (32)                            | 209             | 241             | 115.3          | 326                       |
| 34  | 3                                    | Less other expenses <sup>1</sup>          | (1,032)                         | 98              | 1,130           | -              | 156                       |
| (995)                                     | (953)                                | Add gains/(losses)                        | (4,892)                         | 699             | (5,591)         | -              | 1,037                     |
| <b>(881)</b>                              | <b>(911)</b>                         | <b>Operating balance</b>                  | <b>(3,566)</b>                  | <b>634</b>      | <b>(4,200)</b>  | <b>-</b>       | <b>986</b>                |
| 12,973                                    | 12,973                               | Opening net worth                         | 14,212                          | 14,212          | -               | -              | 14,212                    |
| 2,104                                     | 1,375                                | Gross contribution from the Crown         | 1,468                           | 1,467           | 1               | 0.1            | 2,242                     |
| (881)                                     | (911)                                | Operating balance                         | (3,566)                         | 634             | (4,200)         | -              | 986                       |
| 16  | -                                    | Other movements in reserves               | 78                              | (1)             | 79              | -              | -                         |
| <b>14,212</b>                             | <b>13,437</b>                        | <b>Closing net worth</b>                  | <b>12,192</b>                   | <b>16,312</b>   | <b>(4,120)</b>  | <b>(25.3)</b>  | <b>17,440</b>             |
| <i>comprising:</i>                        |                                      |   |                                 |                 |                 |                |                           |
| 13,791                                    | 12,929                               | Financial assets                          | 11,735                          | 15,428          | (3,693)         | (23.9)         | 16,563                    |
| 421                                       | 508                                  | Net other assets                          | 457                             | 884             | (427)           | (48.3)         | 877                       |
| <b>14,212</b>                             | <b>13,437</b>                        | <b>Closing net worth</b>                  | <b>12,192</b>                   | <b>16,312</b>   | <b>(4,120)</b>  | <b>(25.3)</b>  | <b>17,440</b>             |
| <b>Core Crown revenue (excl NZS Fund)</b> |                                      |   |                                 |                 |                 |                |                           |
| 61,819                                    | 39,263                               | Core Crown revenue                        | 39,344                          | 40,928          | (1,584)         | (3.9)          | 61,207                    |
| 385                                       | 217                                  | Less NZS Fund revenue                     | 262                             | 242             | 20              | 8.3            | 431                       |
| 237                                       | 172                                  | Add back NZS Fund intra-segment revenue   | (32)                            | 209             | (241)           | (115.3)        | 326                       |
| <b>61,671</b>                             | <b>39,218</b>                        | <b>Core Crown revenue (excl NZS Fund)</b> | <b>39,050</b>                   | <b>40,895</b>   | <b>(1,845)</b>  | <b>(4.5)</b>   | <b>61,102</b>             |
| <b>OBEGAL excluding NZS Fund</b>          |                                      |   |                                 |                 |                 |                |                           |
| 5,637                                     | 4,147                                | Total Crown OBEGAL                        | 49                              | 1,826           | (1,777)         | (97.3)         | (64)                      |
| 385                                       | 217                                  | Less NZS Fund revenue                     | 262                             | 242             | 20              | 8.3            | 431                       |
| 97  | 69                                   | Less NZS Fund external expenses           | 66                              | 87              | (21)            | (24.1)         | 138                       |
| 237                                       | 172                                  | Add back NZS Fund tax                     | (32)                            | 209             | (241)           | (115.3)        | 326                       |
| <b>5,586</b>                              | <b>4,171</b>                         | <b>OBEGAL excluding NZS Fund</b>          | <b>(179)</b>                    | <b>1,880</b>    | <b>(2,059)</b>  | <b>(109.5)</b> | <b>(31)</b>               |

<sup>1</sup> NZS Fund other expenses include deferred tax expense/(credits)

## NOTES TO THE FINANCIAL STATEMENTS

| As at<br>30 June<br>2008<br>\$m       | As at<br>29 Feb<br>2008<br>\$m |   | Current Year Actual vs Forecast |                 |                 |                         |                           |
|---------------------------------------|--------------------------------|---|---------------------------------|-----------------|-----------------|-------------------------|---------------------------|
|                                       |                                |   | Actual<br>\$m                   | Forecast<br>\$m | Variance<br>\$m | Annual<br>Forecast<br>% | Annual<br>Forecast<br>\$m |
| <b>NOTE 14: Payables</b>              |                                |   |                                 |                 |                 |                         |                           |
| 6,444                                 | 4,859                          | Accounts payable                              | 4,459                           | 5,274           | 815             | 15.5                    | 7,485                     |
| 4,451                                 | 3,328                          | Taxes repayable                               | 3,710                           | 4,451           | 741             | 16.6                    | 4,451                     |
| <b>10,895</b>                         | <b>8,187</b>                   | <b>Total payables</b>                         | <b>8,169</b>                    | <b>9,725</b>    | <b>1,556</b>    | <b>16.0</b>             | <b>11,936</b>             |
| <b>NOTE 15: Insurance liabilities</b> |                                |   |                                 |                 |                 |                         |                           |
| 20,374                                | 18,608                         | ACC liability                                 | 22,307                          | 19,438          | (2,869)         | (14.8)                  | 21,876                    |
| 97                                    | 76                             | EQC liability                                 | 91                              | 96              | 5               | 5.2                     | 97                        |
| 13                                    | (727)                          | Other insurance liabilities                   | 65                              | 11              | (54)            | (490.9)                 | 9                         |
| <b>20,484</b>                         | <b>17,957</b>                  | <b>Total insurance liabilities</b>            | <b>22,463</b>                   | <b>19,545</b>   | <b>(2,918)</b>  | <b>(14.9)</b>           | <b>21,982</b>             |
| <b>NOTE 16: Provisions</b>            |                                |   |                                 |                 |                 |                         |                           |
| 562                                   | 946                            | Provision for Kyoto                           | 546                             | 562             | 16              | 2.8                     | 562                       |
| 907                                   | 771                            | Provision for National Provident Fund         | 988                             | 955             | (33)            | (3.5)                   | 978                       |
| 2,220                                 | 1,803                          | Provision for employee entitlements           | 2,293                           | 2,180           | (113)           | (5.2)                   | 2,206                     |
| 1,064                                 | 820                            | Other provisions                              | 1,122                           | 789             | (333)           | (42.2)                  | 1,329                     |
| <b>4,753</b>                          | <b>4,340</b>                   | <b>Total provisions</b>                       | <b>4,949</b>                    | <b>4,486</b>    | <b>(463)</b>    | <b>(10.3)</b>           | <b>5,075</b>              |
| <b>NOTE 17: Changes in Net Worth</b>  |                                |   |                                 |                 |                 |                         |                           |
| 44,222                                | 44,169                         | Opening taxpayers funds                       | 46,700                          | 46,700          | -               | -                       | 46,700                    |
| 2,384                                 | 1,431                          | Operating balance excluding minority interest | (8,446)                         | 3,179           | (11,625)        | (365.7)                 | 1,909                     |
| 94                                    | (4)                            | Transfers from/(to) other reserves            | 60                              | 5               | 55              | -                       | 66                        |
| <b>46,700</b>                         | <b>45,596</b>                  | <b>Closing taxpayers funds</b>                | <b>38,314</b>                   | <b>49,884</b>   | <b>(11,570)</b> | <b>(23.2)</b>           | <b>48,675</b>             |
| 52,442                                | 52,371                         | Opening revaluation reserve                   | 58,566                          | 58,566          | -               | -                       | 58,566                    |
| 6,214                                 | (2)                            | Net revaluations                              | 389                             | 330             | 59              | 17.9                    | 292                       |
| (90)                                  | 5                              | Transfers from/(to) other reserves            | (60)                            | (6)             | (54)            | -                       | (65)                      |
| <b>58,566</b>                         | <b>52,374</b>                  | <b>Closing revaluation reserve</b>            | <b>58,895</b>                   | <b>58,890</b>   | <b>5</b>        | <b>-</b>                | <b>58,793</b>             |
| (133)                                 | (132)                          | Opening other reserves                        | (134)                           | (134)           | -               | -                       | (134)                     |
| (1)                                   | (114)                          | Net movements                                 | 664                             | 8               | 656             | -                       | 53                        |
| <b>(134)</b>                          | <b>(246)</b>                   | <b>Closing other reserves</b>                 | <b>530</b>                      | <b>(126)</b>    | <b>656</b>      | <b>-</b>                | <b>(81)</b>               |

## NOTES TO THE FINANCIAL STATEMENTS

| Year 8 Months<br>to 30 Jun to 29 Feb<br>2008 2008<br>\$m \$m                                  |              | Current Year Actual vs Forecast                                 |                 |                 |                | Annual<br>Forecast<br>\$m |                |
|---|--------------|---|-----------------|-----------------|----------------|---------------------------|----------------|
|   |              | Actual<br>\$m   | Forecast<br>\$m | Variance<br>\$m | %              |                           |                |
| <b>NOTE 18: Reconciliation of core Crown operating cash flows to residual core Crown cash</b> |              |   |                 |                 |                |                           |                |
| <b>Core Crown Cash Flows from Operations</b>  |              |   |                 |                 |                |                           |                |
| 55,975  | 36,537       | Total tax receipts  | 33,999          | 35,863          | (1,864)        | (5.2)                     | 54,851         |
| 486   | 331          | Total other sovereign receipts                                  | 343             | 361             | (18)           | (5.0)                     | 536            |
| 2,128   | 1,293        | Interest, profits and dividends                                 | 1,062           | 1,280           | (218)          | (17.0)                    | 2,009          |
| 1,411   | 992          | Sale of goods & services and other receipts                     | 1,341           | 1,053           | 288            | 27.4                      | 1,641          |
| (19,562)  | (12,385)     | Subsidies and transfer payments                                 | (14,258)        | (14,094)        | (164)          | (1.2)                     | (22,045)       |
| (30,792)  | (20,826)     | Personnel and operating costs                                   | (22,229)        | (22,570)        | 341            | 1.5                       | (35,043)       |
| (2,354)   | (1,578)      | Finance costs   | (1,478)         | (1,587)         | 109            | 6.9                       | (2,441)        |
| -   | -            | Forecast for future new operating spending                      | -               | 1               | (1)            | (100.0)                   | (172)          |
| -   | -            | Top-down expense adjustment                                     | -               | 438             | (438)          | (100.0)                   | 1,450          |
| <b>7,292</b>  | <b>4,364</b> | <b>Net cash flows from core Crown operations</b>                | <b>(1,220)</b>  | <b>744</b>      | <b>(1,964)</b> | <b>(264.0)</b>            | <b>786</b>     |
| (1,433)   | (864)        | Net purchase of physical assets                                 | (985)           | (1,213)         | 228            | 18.8                      | (2,001)        |
| (1,254)   | (897)        | Net increase in advances  | (617)           | (660)           | 43             | 6.5                       | (903)          |
| (444)   | (153)        | Net purchase of investments                                     | (2,323)         | (2,306)         | (17)           | (0.7)                     | (1,850)        |
| (2,104)   | (1,373)      | Contribution to NZ Superannuation Fund                          | (1,467)         | (1,468)         | 1              | 0.1                       | (2,242)        |
| -   | -            | Forecast for future new capital spending                        | -               | -               | -              | -                         | (184)          |
| -   | -            | Top-down capital adjustment                                     | -               | -               | -              | -                         | 485            |
| <b>2,057</b>  | <b>1,077</b> | <b>Residual cash</b>  | <b>(6,612)</b>  | <b>(4,903)</b>  | <b>(1,709)</b> | <b>(34.9)</b>             | <b>(5,909)</b> |
| <b>Financed by:</b>   |              |   |                 |                 |                |                           |                |
| (3,595)   | (850)        | Other net sale/(purchase) of marketable securities and deposits | (2,034)         | 5,040           | (7,074)        | (140.4)                   | 4,493          |
| <b>(1,538)</b>  | <b>227</b>   | <b>Total operating and investing activities</b>                 | <b>(8,646)</b>  | <b>137</b>      | <b>(8,783)</b> | <b>-</b>                  | <b>(1,416)</b> |
| <b>Used in:</b>   |              |   |                 |                 |                |                           |                |
| (1,585)   | (1,786)      | Net (repayment)/issue of other New Zealand dollar borrowing     | 13,165          | 255             | 12,910         | -                         | 440            |
| 901   | 1,410        | Net (repayment)/issue of foreign currency borrowing             | (3,435)         | (595)           | (2,840)        | (477.3)                   | (602)          |
| 86  | 201          | Issues of circulating currency                                  | 509             | 115             | 394            | 342.6                     | 172            |
| 249   | (782)        | Decrease/(increase) in cash                                     | (1,667)         | (31)            | (1,636)        | -                         | (29)           |
| <b>(349)</b>  | <b>(957)</b> |   | <b>8,572</b>    | <b>(256)</b>    | <b>8,828</b>   | <b>-</b>                  | <b>(19)</b>    |
| <b>(1,887)</b>  | <b>(730)</b> | <b>Net cash inflow/(outflow) to be offset by domestic bonds</b> | <b>(74)</b>     | <b>(119)</b>    | <b>45</b>      | <b>37.8</b>               | <b>(1,435)</b> |
| <b>Gross Cash Proceeds from Domestic Bonds</b>  |              |   |                 |                 |                |                           |                |
| 1,757   | 1,168        | Domestic bonds (market)   | 2,775           | 2,675           | 100            | 3.7                       | 4,048          |
| 130   | 130          | Domestic bonds (non-market)                                     | 514             | 595             | (81)           | (13.6)                    | 738            |
| <b>1,887</b>  | <b>1,298</b> | <b>Total gross cash proceeds from domestic bonds</b>            | <b>3,289</b>    | <b>3,270</b>    | <b>19</b>      | <b>0.6</b>                | <b>4,786</b>   |
| -   | (568)        | Repayment of domestic bonds (market)                            | (2,700)         | (2,700)         | -              | -                         | (2,900)        |
| -   | -            | Repayment of domestic bonds (non-market)                        | (515)           | (451)           | (64)           | (14.2)                    | (451)          |
| -   | <b>(568)</b> | <b>Total repayment of domestic bonds</b>                        | <b>(3,215)</b>  | <b>(3,151)</b>  | <b>(64)</b>    | <b>(2.0)</b>              | <b>(3,351)</b> |
| <b>1,887</b>  | <b>730</b>   | <b>Net (repayments of)/cash proceeds from domestic bonds</b>    | <b>74</b>       | <b>119</b>      | <b>(45)</b>    | <b>(37.8)</b>             | <b>1,435</b>   |

## NOTES TO THE FINANCIAL STATEMENTS

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### **Note 19: Acquisition of Toll (NZ) Limited**

On 1 July 2008, negotiations were completed and an agreement was signed for the purchase of 100% of the shares in Toll (New Zealand) Limited. Prior to the acquisition, assets and operations not integral to the rail operation were separated out of Toll (New Zealand) Limited. On acquisition by the Government, the company was renamed KiwiRail Holdings Limited.

Ownership of the rail business is intended to place the Government in a better position to integrate rail planning and funding with its wider transport policy, and to ensure capital investment for improving the rolling stock.

The cost of acquisition of the company was \$690 million, settled in cash on 1 July. A provisional assessment as at 30 September 2008 of the fair value of the assets acquired and liabilities assumed through this purchase was \$442 million. No goodwill has been recognised and the difference between the provisional assessment of the fair value of the assets acquired and liabilities assumed and the cost of acquisition has been charged to the statement of financial performance.

The fair value of the assets acquired and liabilities assumed may be adjusted in future reporting periods to reflect final valuations. Final valuations must be completed within one year of the purchase date.

In the eight months ended 28 February 2009, revenue earned by KiwiRail Holdings Limited of \$448 million and an operating surplus of \$7 million has been included in the financial statements of the Government.

### **Note 20: Crown Retail Deposit Guarantee Scheme and Wholesale Funding Guarantee Facility**

The Government has recently announced the introduction of two guarantee schemes in relation to financial institution deposits; the retail deposit scheme and the wholesale funding guarantee facility.

The likelihood that the guarantees will be called is considered remote. Therefore they do not meet the definition of a contingent liability and are excluded from the statement of contingent liabilities and assets on page 23. However if a guarantee is not considered remote a provision will be made for any potential loss in these financial statements.

#### *Retail Deposit Scheme*

On 12 October 2008 the Minister of Finance announced an opt-in retail deposit guarantee scheme. The objective of the two year opt-in retail deposit scheme is to ensure ongoing retail depositor confidence in New Zealand's financial system given the international financial market turbulence. Under the retail deposit guarantee scheme, fees are payable to the government by participating institutions if they hold significant deposits (i.e., greater than \$5 billion) or if they experience significant growth in deposits (i.e., greater than 10% per annum). Approved deposit takers to date are listed on the Treasury web-site.

The Government is managing its exposure to this risk both through the prudential regulation processes for registered banks, and by requiring other deposit takers who sign the guarantee to agree to certain controls on their business including:

- Some restrictions on distributions to shareholders
- Some assurance that the business dealings of the deposit taker are on arms-length terms
- The ability for the Crown to appoint an inspector
- The ability for the Crown to withdraw the guarantee if the business is being deliberately operated in a way to undermine the intention of the guarantee, and
- Personal undertakings from directors to ensure the non-bank deposit takers comply with the guarantee.

## NOTES TO THE FINANCIAL STATEMENTS

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### **Note 20: Crown Retail Deposit Guarantee Scheme and Wholesale Funding Guarantee Facility (continued)**

As at 28 February 2009, 78 financial institutions had joined the scheme and deposits totalling \$126.1 billion had been guaranteed. This is the maximum exposure and does not include any offset resulting from the recovery of the remaining assets of the financial institution in the event the guarantee is called upon.

#### **Subsequent Event Note**

On 2 March 2009 the Treasury announced that Mascot Finance Limited had been placed in receivership, thereby triggering the guarantee. While the company has \$70 million in debenture holders, the cost to the Government is likely to be less than this, as remaining assets are also applied to satisfy the debt and the guarantee is for eligible deposit holders only.

#### *Wholesale Funding Guarantee Facility*

On 1 November 2008 the Minister of Finance announced an opt-in wholesale funding guarantee facility. The objective of the opt-in wholesale funding guarantee facility is to facilitate access to international financial markets by New Zealand financial institutions, in a global environment where international investors remain highly risk averse and where many other governments have offered guarantees on their banks' wholesale debt. Under the wholesale funding guarantee facility, the Government receives a fee from each participating institution based on the institution's credit rating and the term and amount of guaranteed debt issued.

Deposit-taking financial institutions seeking to utilise the wholesale funding guarantee facility will be expected to have applied for a guarantee under the Crown retail deposit guarantee scheme. In addition to the risk management under the retail scheme, the Government further manages its risk exposure by:

- limiting the availability of the scheme to financial institutions that have an investment grade credit rating (BBB- or better), and have substantial New Zealand borrowing and lending operations (but not to institutions that are simply financing a parent or related company)
- limiting the amount of debt covered by the guarantee to debt up to 125 percent of the total stock of eligible types of debt in issue prior to the intensification of the crisis
- establishing additional capital buffers by requiring an additional two percent Tier 1 capital buffer above the four percent regulatory minimum, and
- requiring the debt issuer to hedge and manage any foreign exchange risk.

As at 28 February 2009, \$180 million wholesale securities had been guaranteed. Subsequent to balance date, additional wholesale securities totalling \$1,865 million have been guaranteed.