

# Financial Statements of the Government of New Zealand

For the Nine Months Ended  
31 March 2009



Prepared by The Treasury  
6 May 2009

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New Zealand Government



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## COMMENTARY

## SUMMARY

The Financial Statements of the Government provide a record of the Government's financial performance over the nine months ended 31 March 2009 and its financial position as at 31 March 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 also 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.

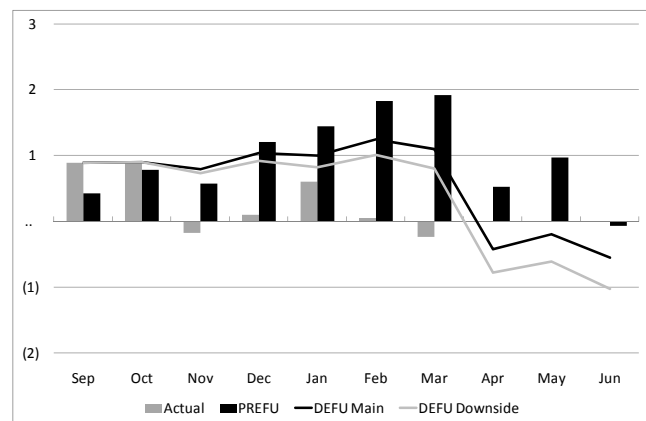
### Results for the nine months ended 31 March 2009:

- The tax revenue was approximately \$1.9 billion lower than forecast in the *PREFU* (\$0.7 billion lower than in the *December Update*). This result reflects lower than expected profits (both corporate and individual); weakness in private consumption; and stronger deterioration in the labour market.

We expect that, compared to the *December Update*, the tax variances will become increasingly negative through the 2008/09 fiscal year as the continued deterioration in the world economic situation flows through to the New Zealand economy.

- The operating balance before gains and losses (*OBEGAL*) was (\$0.2) billion. This was \$2.1 billion lower than forecast in the *PREFU* and \$1.3 billion lower than forecast in the *December Update* mainly due to the lower-than-expected tax revenue result.
- Further investment losses were reported on the investment portfolios of ACC (\$0.3 billion) and EQC (\$0.1 billion) for the month of March while the NZS Fund recorded a small gain of \$0.2 billion. This takes the year-to-date net investment losses on financial instruments for ACC, EQC and NZS Fund to \$0.5 billion, \$0.4 billion and \$4.8 billion respectively, a total of \$5.7 billion.
- Losses on non-financial instruments were \$3.6 billion. This included the ACC actuarial loss of \$2.0 billion and the GSF actuarial loss of \$2.4 billion. The ACC actuarial loss of \$2.0 billion compares to \$2.9 billion last month and is based on the latest valuation performed in December 2008. The GSF actuarial loss of \$2.4 billion is based on the latest (4-monthly) valuation performed in February 2009.
- A \$0.2 billion Kyoto net asset has been recorded as at 31 March compared to a \$0.5 billion net liability as at 28 February. This has resulted in a gain of \$0.7 billion. This move to a net surplus occurred as a result of:
  - the effects of the 2007/2008 drought on livestock and the resulting decline in agriculture emissions
  - greater information now being available on the carbon stored in post-1989 plantation forests, and
  - a reduction in the forecast for deforestation emissions.
- Overall this has led to an operating deficit of \$7.7 billion. This compares to the \$3.4 billion surplus forecast in the *PREFU* (a variance of \$11.1 billion) and a \$4.6 billion deficit forecast in the *December Update* (a variance of \$3.2 billion).

**Figure 1** – Operating balance before gains and losses (\$ billions)



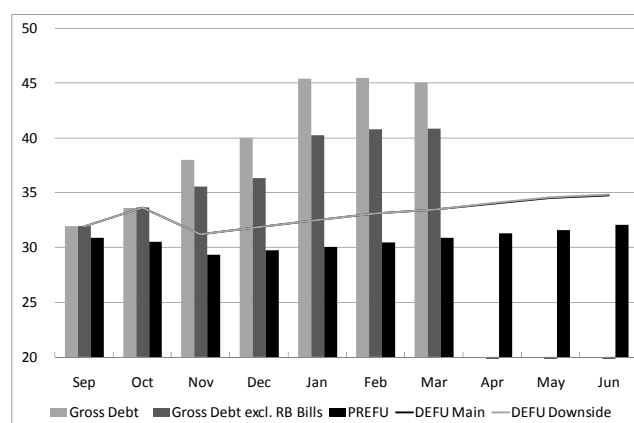
Source: The Treasury

- Gross debt<sup>1</sup> was significantly higher than forecast at \$45.0 billion (25.1% 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.

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 \$40.8 billion (22.7% of GDP).

- Net debt is broadly in line with forecast as positive valuation movements in financial assets and financial liabilities held by the Reserve Bank and NZDMO were partially offset by a higher-than-expected residual cash deficit (driven primarily by lower-than-expected tax receipts).

**Figure 2 – Gross Debt<sup>1</sup> (\$ billions)**



Source: The Treasury

The upcoming Budget will communicate the fiscal strategy for the new Government. As indicated in the 2009 Budget Policy Statement, the strategy will include a revised set of long-term fiscal objectives. This will include consideration of the current debt indicators, both gross and net, to ensure they correctly reflect the underlying strategy objectives

### 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). 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.

**Table 1** – Key indicators for the nine months ended 31 March 2009 compared to PREFU

	Year to date				Full Year	
	March 2009	March 2009	Variance to PREFU	Variance to PREFU	June 2009 PREFU	June 2009 DEFU
	Actual <sup>2</sup>	Forecast <sup>2</sup>	\$m	%	Forecast <sup>3</sup>	Forecast <sup>4</sup>
<b>\$ million</b>						
<b>Core Crown</b>						
Core Crown revenue (excl. NZS Fund) <sup>1</sup>	<b>43,993</b>	45,958	(1,965)	(4.3)	61,102	60,406
Core Crown expenses	<b>45,049</b>	44,903	(146)	(0.3)	62,359	62,741
NZS Fund operating balance	<b>(3,596)</b>	720	(4,316)	(599.4)	986	(2,119)
Core Crown residual cash	<b>(7,880)</b>	(6,098)	(1,782)	(29.2)	(5,909)	(6,633)
GSID (excl. settlement cash)	<b>45,042</b>	30,904	(14,138)	(45.7)	32,087	34,786
<i>as a percentage of GDP</i>	<b>25.1%</b>	17.2%			17.4%	19.2%
Net Core Crown debt	<b>5,124</b>	5,327	203	3.8	5,207	5,631
<i>as a percentage of GDP</i>	<b>2.9%</b>	3.0%			2.8%	3.1%
Net Core Crown debt (incl. NZS Fund)	<b>(5,447)</b>	(9,813)	(4,366)	(44.5)	(10,430)	(7,244)
<i>as a percentage of GDP</i>	<b>(3.0)%</b>	(5.5)%			(5.7)%	(4.0)%
<b>Total Crown</b>						
OBEGAL	<b>(233)</b>	1,914	(2,147)	(112.2)	(64)	(550)
Net gains/(losses) and other items	<b>(7,486)</b>	1,525	(9,011)		1,973	(3,779)
Operating Balance	<b>(7,719)</b>	3,439	(11,158)	(324.5)	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 \$179,661 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 nine months ended 31 March 2009 compared to PREFU

Key Indicator	Variance	Key Drivers
<b>Core Crown</b>		
Core Crown revenue (excl. NZS Fund revenue)	-\$1,965 million (lower than forecast)	<ul style="list-style-type: none"> <li>• Core Crown tax revenue was \$1,890m (4.5%) lower than <i>PREFU</i>. The variance against the <i>PREFU</i> comprised of: <ul style="list-style-type: none"> <li>○ Corporate tax revenue was \$830m (12.0%) lower than forecast due to two main factors: <ul style="list-style-type: none"> <li>– Terminal tax assessments were approximately \$493m lower than forecast due to lower-than-expected final profits generated in previous years.</li> <li>– Provisional tax payments were approximately \$340m lower than forecast reflecting weaker-than-expected 2009 tax year profitability.</li> </ul> <p>We expect that the corporate tax shortfall to become increasingly negative through the June 2009 quarter.</p> </li> <li>○ GST revenue was \$367m (4.1%) lower than forecast. This was likely to be due to weaker-than-forecast private consumption and residential investment during the March quarter. The March GST variance is expected to persist through the June quarter.</li> <li>○ Source deductions (mainly PAYE) were \$199 million (1.2%) lower than forecast. This is likely to be reflecting a stronger deterioration in the labour market during the March quarter than was forecast at the <i>PREFU</i>.</li> <li>○ Other individuals tax revenue was \$119m (3.8%) lower than forecast. Approximately \$80m of this is due to less-than-forecast net terminal tax, which relates to lower-than-expected final profits generated in previous tax years. The remainder relates to less-than-forecast provisional tax assessments and reflects lower-than-expected current period profitability.</li> <li>○ Tax revenue from the NZS Fund was \$261m lower than forecast reflecting the Fund's investment performance during the year</li> </ul> </li> <li>• Interest and dividend revenue was \$556m lower than forecast, primarily due to the recent decline in interest rates.</li> <li>• Other revenue was \$395m higher than forecast, due mainly to higher than expected petroleum mining royalties, triggered by high oil prices last year.</li> </ul>
Core Crown expenses	-\$146 million (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	-\$4,316 million (lower than forecast)	<ul style="list-style-type: none"> <li>• The Fund's investment return for the month of March was 1.12%. The Fund's annualised return since inception (September 2003) is now 2.09%, compared to 6.77% for the risk-free rate of return (Treasury bills).</li> <li>• NZSF forecasts are derived from its long-term expectation of making a profit. However in the short-term the Fund will experience volatility, both up and down.</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 \$1,211m lower than forecast in that update.</li> </ul>

Key Indicator	Variance	Key Drivers
Core Crown residual cash deficit	-\$1,782 million (higher than forecast)	<ul style="list-style-type: none"> <li>• Core Crown tax receipts were \$1,419m lower than forecast. This variance was due to: <ul style="list-style-type: none"> <li>○ GST receipts were \$427m (5.2%) lower than forecast. This is likely to be due to less-than-forecast private consumption and residential investment. This variance is expected to persist through the June quarter.</li> <li>○ Corporate tax receipts were \$216m (3.5%) lower than forecast due to lower-than-expected terminal tax and provisional payments reflecting lower-than-expected profits in prior years and in 2009.</li> <li>○ NZS Fund tax receipts were \$305m lower than forecast due to lower than expected investment returns (as noted above).</li> <li>○ Source deduction receipts (mainly PAYE) were \$200 million (1.1%) lower than forecast. This is likely to be reflecting a stronger deterioration in the labour market during the March quarter than was forecast at the <i>PREFU</i>.</li> <li>○ Other individuals tax receipts were \$194m (10.6%) lower than forecast, consistent with the variance in other individuals tax revenue and was due to lower-than-expected provisional tax payments.</li> </ul> </li> <li>• Interest and dividend receipts were \$379m lower than forecast as interest rates have declined.</li> <li>• Social assistance benefit payments were \$463m higher than expected. This variance relates to the timing of payments with an additional fortnightly payment in March.</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 \$436m 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 deficit is \$1,194m higher than forecast in the <i>December Update</i>.</li> </ul>
GSID (excluding settlement cash)  (Gross sovereign-issued debt)	-\$14,138 million (higher than forecast)	<ul style="list-style-type: none"> <li>• GSID (excluding settlement cash) was \$45,042m compared to a forecast of \$30,904m. The reasons for the variance are a continuation of previous months: <ul style="list-style-type: none"> <li>○ Reserve Bank bill tenders of \$4,231m were not forecast;</li> <li>○ Derivative liabilities were \$2,148m higher than forecast; and</li> <li>○ Treasury Bills were \$5,279m higher than 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)	\$203 million (lower than forecast)	<ul style="list-style-type: none"> <li>• Net core Crown debt was \$5,124m compared to a forecast of \$5,327m. This variance was mainly due to: <ul style="list-style-type: none"> <li>○ Circulating currency was \$386m higher than forecast resulting in a decrease in net debt; and</li> <li>○ Valuation changes to financial assets and liabilities 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 \$1,778m.</li> </ul> </li> <li>• These were partially offset by a higher-than-forecast residual cash deficit (as noted above).</li> </ul>
Net core Crown debt (incl. NZSF)	-\$4,366 million (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 \$5,447m, lower than the forecast net asset position of \$9,813m. The variance was due to the impact of the performance of global equity markets on NZS Fund's assets.</li> </ul>

Key Indicator	Variance	Key Drivers
<b>Total Crown</b>		
OBEGAL (Operating balance before gains and losses)	-\$2,147 million (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 \$244m lower than forecast. As Core Crown expenditure was broadly in line with forecast, this variance relates to entities outside the core Crown. This lower than forecast expenditure is broadly offset by lower revenue.</li> <li>• The OBEGAL is \$1,332m less than forecast in the <i>December Update</i>.</li> </ul>
Operating balance	-\$11,158 million (lower than forecast)	<ul style="list-style-type: none"> <li>• Along with the OBEGAL variance above, net losses of \$7,486m were recorded compared to a forecast gain of \$1,525m (a variance of \$9,011m). The main contributors were: <ul style="list-style-type: none"> <li>○ Further losses reported on the investment portfolios of ACC (\$251m) and EQC (\$100m) for the month of March while the NZS Fund recorded a small gain of \$153m for the month.</li> <li>○ This takes the year-to-date net losses on investment portfolios for ACC, EQC and NZS Fund to \$547m, \$415m and \$4,763m respectively.</li> <li>○ ACC recorded a favourable movement in the valuation of its insurance liability in the month of March due to an increase in the rate used to discount the liability. The year-to-date loss as at 31 March was \$2,023m which was \$884m less than at 28 February.</li> <li>○ The GSF (Government Superannuation Fund) liability was revalued as at 28 February. The total year-to-date actuarial loss on the GSF liability was \$2,378m.</li> </ul> </li> <li>• These losses were partially offset by: <ul style="list-style-type: none"> <li>○ A gain of \$1,104m on the Reserve Bank's financial instrument portfolio, and</li> <li>○ A gain of \$773m recorded as a result of the Crown's net position under the Kyoto protocol shifting from a 21.7 million unit deficit (\$546m net liability as at 28 February) to a 9.6 million unit surplus (\$225m net asset as at 31 March) with the release of the 2009 Net Position Report. This move to a net surplus occurred as a result of the effects of the 2007/2008 drought on livestock and the resulting decline in agriculture emissions combined with greater information now being available on the carbon stored in post-1989 plantation forests, and a reduction in the forecast for deforestation emissions.</li> </ul> </li> <li>• The operating deficit is \$4,591m less than forecast in the <i>December Update</i>.</li> </ul>

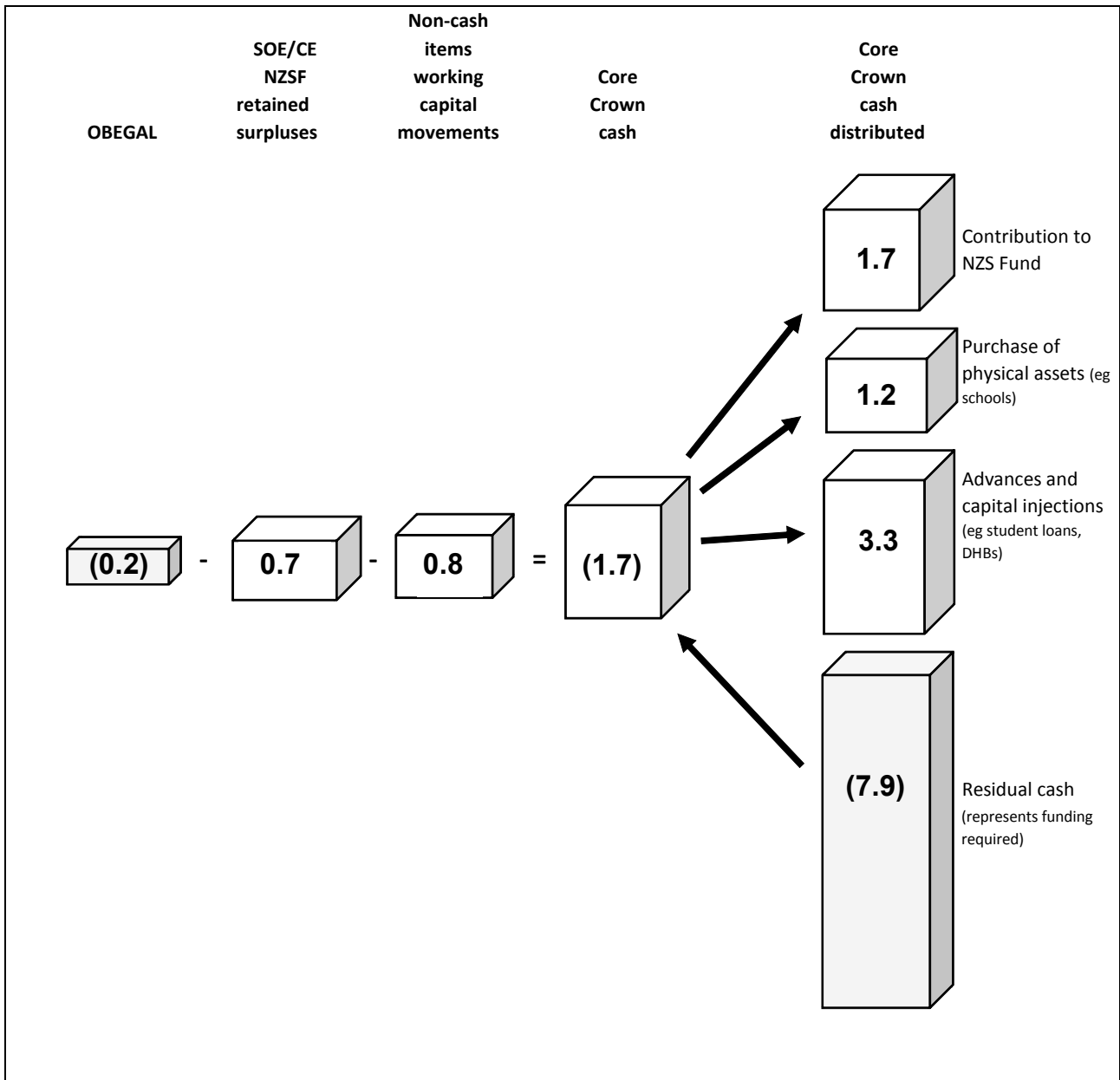
**Table 3 – Reconciliation of Total Crown OBEGAL to core Crown residual cash**

Amounts in \$ millions	Fiscal Indicators/Financial Statements	Year to date				Full Year
		March	March	Variance	Variance	-
		2009	2009			June 2009
		Actual	Forecast	\$m	%	Forecast
	Taxation as a percentage of GDP <sup>1</sup>	29.7%	31.1%			30.1%
Taxes...	Taxation	40,074	41,901	(1,827)	(4.4)	55,538
... combined with other revenue ...	Core Crown other revenue, gains and losses	(131)	5,117	(5,248)	(102.6)	7,060
... fund core crown expenses ...	Core Crown expenses	(45,049)	(44,903)	(146)	0.3	(62,359)
... and with the results of entities outside the budget process ...	Net surpluses/(deficits) of SOEs and Crown entities	(2,613)	1,324	(3,937)	(297.4)	1,670
... results in a net operating balance (surplus or deficit)...	<b>Operating balance</b>	<b>(7,719)</b>	<b>3,439</b>	<b>(11,158)</b>	<b>(324.5)</b>	<b>1,909</b>
...part of which is due to gains or losses set aside for fiscal purposes...	Other (gains)/losses	7,486	(1,525)	9,011	(590.9)	(1,973)
... and so we have developed an operating indicator excluding these items.	<b>OBEGAL</b>	<b>(233)</b>	<b>1,914</b>	<b>(2,147)</b>	<b>(112.2)</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)	(251)	40	(291)	(727.5)	33
" " " " " "	Net retained surpluses of SOEs and Crown entities	(502)	(797)	295	(37.0)	(1,088)
and some is income and expenses not impacting cash	Non-cash items and working capital movements	(754)	(865)	111	(12.8)	1,905
The operating cash flow that results, needs to provide sufficient funds for	<b>Core Crown Cash flow from Operations</b>	<b>(1,740)</b>	<b>292</b>	<b>(2,032)</b>	<b>(695.9)</b>	<b>786</b>
- building up assets in NZ Superannuation	Contribution to NZS Fund	(1,725)	(1,726)	1	(0.1)	(2,242)
- meeting the capital expenditure budget, and	Purchase of physical assets	(1,131)	(1,359)	228	(16.8)	(1,700)
- making advances (e.g. to students and DHBs)	Advances and Capital injections	(3,284)	(3,305)	21	(0.6)	(2,753)
with a residual impact on debt that allows it to remain at prudent levels	<b>Residual Cash</b>	<b>(7,880)</b>	<b>(6,098)</b>	<b>(1,782)</b>	<b>29.2</b>	<b>(5,909)</b>
	<b>... and as a percentage of GDP</b>	<b>-4.4%</b>	<b>-3.4%</b>			<b>-3.2%</b>

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

	March 2009 Actual \$m	March 2008 Actual \$m	Change <sup>1</sup> \$m	Change %
<b>Statement of Financial Performance</b>				
<b>Core Crown revenue</b>				
Taxation revenue	40,600	41,323	(723)	(1.7)
Other revenue	3,714	3,581	133	3.7
<b>Total Core Crown Revenue</b>	<b>44,314</b>	<b>44,904</b>	<b>(590)</b>	<b>(1.3)</b>
<b>Core Crown expenses</b>				
Social security and welfare	14,013	13,177	836	6.3
GSF pension expenses	495	506	(11)	(2.2)
Health	9,095	8,353	742	8.9
Education	7,930	7,262	668	9.2
Core government services	2,535	2,191	344	15.7
Law and order	2,247	2,116	131	6.2
Defence	1,289	1,090	199	18.3
Transport and communications	1,772	1,872	(100)	(5.3)
Economic and industrial services	2,352	1,939	413	21.3
Primary services	380	322	58	18.0
Heritage, culture and recreation	761	835	(74)	(8.9)
Housing and community development	205	187	18	9.6
Other	107	46	61	132.6
Finance costs	1,868	1,796	72	4.0
<b>Total Core Crown Expenses</b>	<b>45,049</b>	<b>41,692</b>	<b>3,357</b>	<b>8.1</b>
Net surplus of SOE/CE's	502	1,419	(917)	(64.6)
<b>OBEGAL</b>	<b>(233)</b>	<b>4,631</b>	<b>(4,864)</b>	<b>(105.0)</b>
Total gains/(losses)	(7,713)	(3,611)	(4,102)	(113.6)
Other operating items	227	111	116	104.5
<b>Operating Balance</b>	<b>(7,719)</b>	<b>1,131</b>	<b>(8,850)</b>	<b>-</b>
<b>Core Crown residual cash</b>	<b>(7,880)</b>	<b>2,096</b>	<b>(9,976)</b>	<b>(476.0)</b>
<b>Debt indicators</b>				
<b>Gross sovereign-issued debt (excluding settlement cash)</b>	<b>45,042</b>	<b>32,006</b>	<b>13,036</b>	<b>40.7</b>
<b>Net Core Crown debt</b>	<b>5,124</b>	<b>594</b>	<b>4,530</b>	<b>-</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 nine months ended 31 March 2009 has decreased by \$0.7 billion (1.7%) 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, one less provisional tax due date during the period, declining profits and falling terminal tax assessments. 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 \$3.4 billion (8.1%) 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	+ \$0.8 billion	<ul style="list-style-type: none"> <li>• Indexation of welfare benefits</li> </ul>
Health	+ \$0.7 billion	<ul style="list-style-type: none"> <li>• Funding provided in the 2008 Budget to maintain and improve existing service levels</li> </ul>
Education	+ \$0.7 billion	<ul style="list-style-type: none"> <li>• Higher demand-driven expenses from roll growth</li> <li>• Funding provided in the 2008 Budget</li> </ul>
Core government services	+ \$0.3 billion	<ul style="list-style-type: none"> <li>• Mainly due to policy initiatives from the 2008 Budget</li> </ul>
Economic and industrial services	+ \$0.4 billion	<ul style="list-style-type: none"> <li>• Primarily due to the introduction of the KiwiSaver initiative</li> </ul>
Other	+ \$0.5 billion	<ul style="list-style-type: none"> <li>• Mainly due to policy initiatives from the 2008 Budget</li> </ul>
<b>Total</b>	<b>+ \$3.4 billion</b>	

**Total Gains and losses** were in a net loss position of \$7.7 billion for the period ended 31 March 2009, compared to \$3.6 billion for the same period last year. The \$4.1 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 March 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 March 2008 due to a decrease in the discount rate and lower than expected investment performance.

The **core Crown residual cash** deficit increased by \$10.0 billion compared to the same period last year. This is primarily due to:

- a decrease of \$3.7 billion in tax receipts largely due to corporate tax, other individuals' tax and GST which was partly offset by an increase in source deductions. Similar to tax revenue, the fall in corporate and other individuals' tax receipts was due to 2008 tax cuts, one less tax due date during the period, declining profits and a decline in terminal tax
- 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 derivative liabilities, Reserve Bank bill tenders, Treasury Bills and increased short term deposits, 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 nine months ended 31 March 2009

Year to 30 Jun 2008	9 Months to 31 Mar 2008		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
		<b>Revenue</b>						
56,372	41,007	Taxation revenue	1	40,074	41,901	(1,827)	(4.4)	55,538
3,879	2,881	Other sovereign revenue	1	3,009	2,952	57	1.9	3,993
<b>60,251</b>	<b>43,888</b>	<b>Total Revenue Levied through the Crown's Sovereign Power</b>		<b>43,083</b>	<b>44,853</b>	<b>(1,770)</b>	<b>(3.9)</b>	<b>59,531</b>
15,399	10,246	Sales of goods and services		11,293	11,893	(600)	(5.0)	16,084
3,214	2,417	Interest revenue and dividends	2	2,624	3,048	(424)	(13.9)	3,828
2,615	1,722	Other revenue		2,415	2,012	403	20.0	2,247
<b>21,228</b>	<b>14,385</b>	<b>Total revenue earned through the Crown's operations</b>		<b>16,332</b>	<b>16,953</b>	<b>(621)</b>	<b>(3.7)</b>	<b>22,159</b>
<b>81,479</b>	<b>58,273</b>	<b>Total revenue (excluding gains)</b>		<b>59,415</b>	<b>61,806</b>	<b>(2,391)</b>	<b>(3.9)</b>	<b>81,690</b>
		<b>Expenses</b>						
18,374	13,562	Social assistance and official development assistance	3	14,833	14,770	(63)	(0.4)	20,151
16,478	12,167	Personnel expenses	4	13,464	13,338	(126)	(0.9)	17,800
3,670	2,626	Depreciation and amortisation	5	3,118	3,180	62	1.9	3,973
30,656	20,568	Other operating expenses	5	22,968	24,050	1,082	4.5	33,721
3,101	2,289	Interest expenses	6	2,806	2,708	(98)	(3.6)	3,311
3,563	2,430	Insurance expenses	7	2,459	2,393	(66)	(2.8)	4,076
-	-	Forecast new operating spending	5	-	-	-	-	172
-	-	Top-down expense adjustment	5	-	(547)	(547)	(100.0)	(1,450)
<b>75,842</b>	<b>53,642</b>	<b>Total expenses (excluding losses)</b>		<b>59,648</b>	<b>59,892</b>	<b>244</b>	<b>0.4</b>	<b>81,754</b>
<b>5,637</b>	<b>4,631</b>	<b>Operating balance before gains/(losses)</b>		<b>(233)</b>	<b>1,914</b>	<b>(2,147)</b>	<b>(112.2)</b>	<b>(64)</b>
(617)	(1,186)	Net gains/(losses) on financial instruments	8	(4,116)	1,181	(5,297)	(448.5)	1,462
(2,925)	(2,425)	Net gains/(losses) on non-financial instruments	9	(3,597)	90	(3,687)	-	178
<b>(3,542)</b>	<b>(3,611)</b>	<b>Total gains/(losses)</b>		<b>(7,713)</b>	<b>1,271</b>	<b>(8,984)</b>	<b>-</b>	<b>1,640</b>
334	111	Net surplus/(deficit) from associates and joint ventures		223	254	(31)	(12.2)	334
<b>2,429</b>	<b>1,131</b>	<b>Operating balance from continuing activities</b>		<b>(7,723)</b>	<b>3,439</b>	<b>(11,162)</b>	<b>(324.6)</b>	<b>1,910</b>
22	-	Gain/(loss) from discontinued operations	4	4	-	4	-	(1)
<b>2,451</b>	<b>1,131</b>	<b>Operating balance (including minority interest)</b>		<b>(7,719)</b>	<b>3,439</b>	<b>(11,158)</b>	<b>(324.5)</b>	<b>1,909</b>
(67)	-	Attributable to minority interest in Air New Zealand		-	-	-	-	-
<b>2,384</b>	<b>1,131</b>	<b>Operating Balance</b>	10	<b>(7,719)</b>	<b>3,439</b>	<b>(11,158)</b>	<b>(324.5)</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 nine months ended 31 March 2009

Year to 30 Jun 2008	9 Months to 31 Mar 2008		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	
		<b>Total Crown expenses</b>					
21,509	15,650	Social security and welfare	16,458	16,555	97	0.6	23,382
690	506	GSF pension expenses	495	491	(4)	(0.8)	654
10,809	7,916	Health	8,898	8,840	(58)	(0.7)	11,884
10,397	7,701	Education	8,554	8,625	71	0.8	11,643
3,274	2,154	Core government services	2,515	2,537	22	0.9	3,576
3,082	2,248	Law and order	2,381	2,443	62	2.5	3,370
1,525	1,063	Defence	1,255	1,279	24	1.9	1,716
7,424	5,348	Transport and communications	6,726	6,985	259	3.7	9,487
9,038	5,362	Economic and industrial services	5,843	6,200	357	5.8	8,641
1,459	988	Primary services	1,050	1,019	(31)	(3.0)	1,450
2,337	1,693	Heritage, culture and recreation	1,797	1,952	155	7.9	2,808
938	673	Housing and community development	767	779	12	1.5	1,053
259	51	Other	103	26	(77)	(296.2)	57
3,101	2,289	Finance costs	2,806	2,708	(98)	(3.6)	3,311
-	-	Forecast new operating spending	-	-	-	-	172
-	-	Top-down expense adjustment	-	(547)	(547)	(100.0)	(1,450)
<b>75,842</b>	<b>53,642</b>	<b>Total Crown expenses excluding losses</b>	<b>59,648</b>	<b>59,892</b>	<b>244</b>	<b>0.4</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	9 Months to 31 Mar 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	13,177	Social security and welfare	14,013	14,012	(1)	-	19,156
690	506	GSF pension expenses	495	491	(4)	(0.8)	654
11,297	8,353	Health	9,095	9,210	115	1.2	12,377
9,551	7,262	Education	7,930	7,893	(37)	(0.5)	10,739
3,371	2,191	Core government services	2,535	2,490	(45)	(1.8)	3,649
2,894	2,116	Law and order	2,247	2,294	47	2.0	3,139
1,562	1,090	Defence	1,289	1,311	22	1.7	1,756
2,244	1,872	Transport and communications	1,772	1,796	24	1.3	3,566
2,889	1,939	Economic and industrial services	2,352	2,392	40	1.7	3,549
541	322	Primary services	380	374	(6)	(1.6)	545
1,107	835	Heritage, culture and recreation	761	952	191	20.1	1,446
260	187	Housing and community development	205	231	26	11.3	347
254	46	Other	107	36	(71)	(197.2)	57
2,460	1,796	Finance costs	1,868	1,968	100	5.1	2,657
-	-	Forecast new operating spending	-	-	-	-	172
-	-	Top-down expense adjustment	-	(547)	(547)	(100.0)	(1,450)
<b>56,997</b>	<b>41,692</b>	<b>Total core Crown expenses excluding losses</b>	<b>45,049</b>	<b>44,903</b>	<b>(146)</b>	<b>(0.3)</b>	<b>62,359</b>

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

# STATEMENT OF CASH FLOWS

for the nine months ended 31 March 2009

Year 9 Months		Current Year Actual vs Forecast					
to 30 Jun	to 31 Mar					Annual	
2008	2008	Actual	Forecast	Variance		Forecast	
Actual	Actual	\$m	\$m	\$m	%	\$m	
\$m	\$m						
<b>Cash Flows From Operations</b>							
<b>Cash was provided from</b>							
55,168	41,312	Taxation receipts	37,915	39,187	(1,272)	(3.2)	54,159
3,460	2,707	Other sovereign receipts	2,872	2,896	(24)	(0.8)	3,737
14,635	10,215	Sales of goods and services	12,731	12,834	(103)	(0.8)	16,599
3,111	2,282	Interest and dividends	2,428	2,682	(254)	(9.5)	3,292
2,211	1,879	Other operating receipts	1,999	2,042	(43)	(2.1)	2,727
<b>78,585</b>	<b>58,395</b>	<b>Total cash provided from operations</b>	<b>57,945</b>	<b>59,641</b>	<b>(1,696)</b>	<b>(2.8)</b>	<b>80,514</b>
<b>Cash was disbursed to</b>							
18,026	13,392	Social assistance and official development assistance	14,748	14,285	(463)	(3.2)	19,675
45,972	34,178	Personnel and operating payments	38,941	40,438	1,497	3.7	54,076
2,820	2,125	Interest payments	2,360	2,384	24	1.0	2,970
-	-	Forecast new operating spending	-	-	-	-	172
-	-	Top-down expense adjustment	-	(547)	(547)	(100.0)	(1,450)
<b>66,818</b>	<b>49,695</b>	<b>Total cash disbursed to operations</b>	<b>56,049</b>	<b>56,560</b>	<b>511</b>	<b>0.9</b>	<b>75,443</b>
<b>11,767</b>	<b>8,700</b>	<b>Net cash flows from operations</b>	<b>1,896</b>	<b>3,081</b>	<b>(1,185)</b>	<b>(38.5)</b>	<b>5,071</b>
<b>Cash Flows From Investing Activities</b>							
<b>Cash was provided from/(disbursed to)</b>							
(4,922)	(3,591)	Net purchase of physical assets	(3,842)	(4,489)	647	14.4	(6,909)
(6,080)	(6,488)	Net purchase of shares and other securities	(609)	1,391	(2,000)	(143.8)	499
(320)	(179)	Net purchase of intangible assets	(238)	(317)	79	24.9	(444)
(2,646)	(154)	Net (issue)/repayment of advances	(665)	(374)	(291)	(77.8)	359
(363)	(300)	Net acquisition of investments in associates	(317)	(270)	(47)	(17.4)	(1,024)
-	-	Capital contingency provision	-	-	-	-	(184)
-	-	Top-down capital adjustment	-	-	-	-	485
<b>(14,331)</b>	<b>(10,712)</b>	<b>Net cash flows from investing activities</b>	<b>(5,671)</b>	<b>(4,059)</b>	<b>(1,612)</b>	<b>(39.7)</b>	<b>(7,218)</b>
<b>(2,564)</b>	<b>(2,012)</b>	<b>Net cash flows from operating and investing activities</b>	<b>(3,775)</b>	<b>(978)</b>	<b>(2,797)</b>	<b>(286.0)</b>	<b>(2,147)</b>
<b>Cash Flows From Financing Activities</b>							
<b>Cash was provided from/(disbursed to)</b>							
86	300	Issues of circulating currency	515	129	386	299.2	172
1,674	1,313	Net issue/(repayment) of Government stock <sup>1</sup>	255	532	(277)	(52.1)	1,748
1,099	1,012	Net issue/(repayment) of foreign currency borrowing	(2,579)	(458)	(2,121)	(463.1)	(336)
(697)	(131)	Net issue/(repayment) of other New Zealand dollar borrowing	7,799	807	6,992	-	637
<b>2,162</b>	<b>2,494</b>	<b>Net cash flows from financing activities</b>	<b>5,990</b>	<b>1,010</b>	<b>4,980</b>	<b>493.1</b>	<b>2,221</b>
<b>(402)</b>	<b>482</b>	<b>Net movement in cash</b>	<b>2,215</b>	<b>32</b>	<b>2,183</b>	<b>-</b>	<b>74</b>
4,162	4,163	<b>Opening Cash Balance</b>	3,804	3,804	-	-	3,804
44	-	Foreign-exchange gains/(losses) on opening cash	53	(1)	54	-	(10)
<b>3,804</b>	<b>4,645</b>	<b>Closing Cash Balance</b>	<b>6,072</b>	<b>3,835</b>	<b>2,237</b>	<b>58.3</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 nine months ended 31 March 2009

Year 9 Months to 30 Jun 2008 Actual \$m		9 Months to 31 Mar 2008 Actual \$m		Current Year Actual vs Forecast				
				Actual \$m	Forecast \$m	Variance \$m	Annual Forecast %	Annual Forecast \$m
<b>Reconciliation Between the Net Cash Flows from Operations and the Operating Balance</b>								
<b>11,767</b>	<b>8,700</b>	<b>Net Cash Flows from Operations</b>		<b>1,896</b>	<b>3,081</b>	<b>(1,185)</b>	<b>(38.5)</b>	<b>5,071</b>
<i>Items included in the operating balance but not in net cash flows from operations.</i>								
<b>Gains/(losses)</b>								
(617)	(1,186)	Gains/(losses) on other financial instruments		(4,116)	1,181	(5,297)	(448.5)	1,462
(2,925)	(2,425)	Gains/(losses) on other non-financial instruments		(3,597)	90	(3,687)	-	178
<b>(3,542)</b>	<b>(3,611)</b>	<b>Total gains/(losses)</b>		<b>(7,713)</b>	<b>1,271</b>	<b>(8,984)</b>	<b>-</b>	<b>1,640</b>
<b>Other Non-cash Items in Operating Balance</b>								
(3,670)	(2,626)	Depreciation and amortisation		(3,118)	(3,180)	62	1.9	(3,973)
(559)	(502)	Write-down on initial recognition of loans Impairment on financial assets (excluding receivables)		(491)	(474)	(17)	(3.6)	(611)
213	(202)	Decrease/(increase) in defined benefit retirement plan liabilities		17	4	13	325.0	3
2	(31)	Decrease/(increase) in insurance liabilities		(27)	(27)	-	-	(75)
(1,358)	652	Other		938	1,058	(120)	(11.3)	(1,498)
334	111			223	252	(29)	(11.5)	334
<b>(5,038)</b>	<b>(2,598)</b>	<b>Total other non-cash Items</b>		<b>(2,458)</b>	<b>(2,367)</b>	<b>(91)</b>	<b>(3.8)</b>	<b>(5,820)</b>
<b>Movements in Working Capital</b>								
2,100	(2,378)	Increase/(decrease) in receivables		(1,335)	246	(1,581)	-	321
(179)	(29)	Increase/(decrease) in accrued interest		(250)	41	(291)	-	196
138	83	Increase/(decrease) in inventories		195	64	131	204.7	46
77	209	Increase/(decrease) in prepayments		204	80	124	155.0	9
(326)	(153)	Decrease/(increase) in deferred revenue		12	(90)	102	113.3	87
(2,613)	908	Decrease/(increase) in payables		1,730	1,113	617	55.4	359
<b>(803)</b>	<b>(1,360)</b>	<b>Total movements in working capital</b>		<b>556</b>	<b>1,454</b>	<b>(898)</b>	<b>(61.8)</b>	<b>1,018</b>
<b>2,384</b>	<b>1,131</b>	<b>Operating Balance</b>		<b>(7,719)</b>	<b>3,439</b>	<b>(11,158)</b>	<b>(324.5)</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 nine months ended 31 March 2009

Year 9 Months to 30 Jun 2008 Actual \$m		9 Months to 31 Mar 2008 Actual \$m		Current Year Actual vs Forecast				
				Actual \$m	Forecast \$m	Variance \$m	Annual Forecast %	Annual Forecast \$m
6,214	3	Revaluation of physical assets		355	330	25	7.6	292
9	(69)	Effective portion of changes in value of cash flow hedges		565	4	561	-	19
22	(1)	Net change in fair value of cash flow hedges transferred to operating balance		(5)	(5)	-	-	-
(60)	(40)	Net change in fair value of cash flow hedges transferred to the hedged item		27	12	15	125.0	34
17	(2)	Foreign currency translation differences for foreign operations		52	(3)	55	-	(1)
11	14	Valuation gain/(losses) on investments available for sale taken to reserves		43	-	43	-	1
-	-	Other movements		-	-	-	-	1
<b>6,213</b>	<b>(95)</b>	<b>Total income/(expense) recognised directly in Net Worth</b>		<b>1,037</b>	<b>338</b>	<b>699</b>	<b>206.8</b>	<b>346</b>
2,451	1,131	<b>Operating Balance (including minority interest)</b>		(7,719)	3,439	(11,158)	(324.5)	1,909
<b>8,664</b>	<b>1,036</b>	<b>Total recognised income and expense</b>		<b>(6,682)</b>	<b>3,777</b>	<b>(10,459)</b>	<b>(276.9)</b>	<b>2,255</b>
<b>Attributable to:</b>								
83	-	- minority interest in Air New Zealand		-	-	-	-	-
8,581	1,036	- the Crown		(6,682)	3,777	(10,459)	(276.9)	2,255
<b>8,664</b>	<b>1,036</b>	<b>Total recognised income and expense</b>		<b>(6,682)</b>	<b>3,777</b>	<b>(10,459)</b>	<b>(276.9)</b>	<b>2,255</b>

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

# STATEMENT OF FINANCIAL POSITION

as at 31 March 2009

As at 30 June 2008 Actual \$m	As at 31 Mar 2008 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m	
			Note	Actual \$m	Forecast \$m	Variance \$m		%
		<b>Assets</b>						
3,804	4,645	Cash and cash equivalents	11	6,072	3,835	2,237	58.3	3,868
14,158	9,681	Receivables	11	12,823	14,404	(1,581)	(11.0)	14,479
		Marketable securities, deposits and						
		derivatives in gain	11	46,872	37,038	9,834	26.6	37,672
12,964	12,499	Share investments	11	10,187	14,602	(4,415)	(30.2)	14,293
12,948	13,158	Advances	11	15,559	14,749	810	5.5	17,134
964	909	Inventory		1,159	1,028	131	12.7	1,010
1,663	1,510	Other assets		1,570	1,464	106	7.2	1,441
103,329	96,761	Property, plant & equipment	12	105,431	106,535	(1,104)	(1.0)	107,895
8,065	7,251	Equity accounted investments <sup>1</sup>		8,537	8,451	86	1.0	8,820
1,751	1,660	Intangible assets and goodwill <sup>2</sup>		2,089	1,872	217	11.6	2,308
-	-	Forecast for new capital spending		-	-	-	-	184
-	-	Top-down capital adjustment		-	-	-	-	(485)
<b>200,835</b>	<b>187,221</b>	<b>Total assets</b>		<b>210,299</b>	<b>203,978</b>	<b>6,321</b>	<b>3.1</b>	<b>208,619</b>
		<b>Liabilities</b>						
3,530	3,746	Issued currency		4,045	3,662	(383)	(10.5)	3,702
10,895	7,959	Payables	14	7,892	10,001	2,109	21.1	11,936
1,292	1,119	Deferred revenue		1,279	1,382	103	7.5	1,205
46,110	45,934	Borrowings		61,614	47,484	(14,130)	(29.8)	48,618
20,484	18,090	Insurance liabilities	15	21,569	19,425	(2,144)	(11.0)	21,982
8,257	8,098	Retirement plan liabilities		10,662	8,284	(2,378)	(28.7)	8,332
4,753	4,411	Provisions	16	4,402	4,452	50	1.1	5,075
<b>95,321</b>	<b>89,357</b>	<b>Total liabilities</b>		<b>111,463</b>	<b>94,690</b>	<b>(16,773)</b>	<b>(17.7)</b>	<b>100,850</b>
<b>105,514</b>	<b>97,864</b>	<b>Total assets less total liabilities</b>		<b>98,836</b>	<b>109,288</b>	<b>(10,452)</b>	<b>(9.6)</b>	<b>107,769</b>
		<b>Net Worth</b>						
46,700	45,361	Taxpayer funds	17	39,054	50,143	(11,089)	(22.1)	48,675
58,566	52,437	Revaluation reserve	17	58,852	58,890	(38)	(0.1)	58,793
(134)	(230)	Other reserves	17	548	(127)	675	-	(81)
<b>105,132</b>	<b>97,568</b>	<b>Total net worth attributable to the Crown</b>		<b>98,454</b>	<b>108,906</b>	<b>(10,452)</b>	<b>(9.6)</b>	<b>107,387</b>
		Net worth attributable to minority						
		in Air New Zealand		382	382	-	-	382
<b>105,514</b>	<b>97,864</b>	<b>Total net worth</b>		<b>98,836</b>	<b>109,288</b>	<b>(10,452)</b>	<b>(9.6)</b>	<b>107,769</b>

<sup>1</sup>Tertiary education institutions constitute most equity accounted investments.

<sup>2</sup>Intangible assets as at 31 March 2009 includes the Kyoto net asset, previously a net liability (refer Note 16).

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

# STATEMENT OF BORROWINGS

as at 31 March 2009

As at 30 June 2008 Actual \$m	As at 31 Mar 2008 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
18,516	18,018	Government stock <sup>1</sup>	19,726	18,742	(984)	(5.3)	19,244
1,484	1,537	Treasury bills	5,767	1,188	(4,579)	(385.4)	1,116
423	393	Government retail stock	558	417	(141)	(33.8)	416
7,750	7,618	Settlement deposits with Reserve Bank	6,648	7,830	1,182	15.1	7,750
1,591	1,487	Derivatives in loss <sup>2</sup>	2,874	744	(2,130)	(286.3)	746
955	950	Finance lease liabilities	1,112	1,007	(105)	(10.4)	1,124
15,391	15,931	Other borrowings	24,929	17,556	(7,373)	(42.0)	18,222
<b>46,110</b>	<b>45,934</b>	<b>Total borrowings<sup>3</sup></b>	<b>61,614</b>	<b>47,484</b>	<b>(14,130)</b>	<b>(29.8)</b>	<b>48,618</b>
33,192	33,116	Sovereign-guaranteed debt <sup>3</sup>	44,104	31,664	(12,440)	(39.3)	33,378
12,918	12,818	Non sovereign-guaranteed debt	17,510	15,820	(1,690)	(10.7)	15,240
<b>46,110</b>	<b>45,934</b>	<b>Total borrowings<sup>3</sup></b>	<b>61,614</b>	<b>47,484</b>	<b>(14,130)</b>	<b>(29.8)</b>	<b>48,618</b>
<b>Gross and net debt analysis:</b>							
37,336	37,620	Core Crown borrowings	50,400	36,746	(13,654)	(37.2)	37,793
409	555	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(87)	593	680	114.7	649
<b>37,745</b>	<b>38,175</b>	<b>Gross sovereign-issued debt<sup>4</sup></b>	<b>50,313</b>	<b>37,339</b>	<b>(12,974)</b>	<b>(34.7)</b>	<b>38,442</b>
50,698	49,819	Less core Crown financial assets <sup>5</sup>	55,760	47,152	8,608	18.3	48,872
<b>(12,953)</b>	<b>(11,644)</b>	<b>Net core Crown debt (incl NZS Fund)<sup>6</sup></b>	<b>(5,447)</b>	<b>(9,813)</b>	<b>(4,366)</b>	<b>(44.5)</b>	<b>(10,430)</b>
12,934	12,238	Add back NZS Fund holdings of core Crown financial assets and NZS Fund fin assets	10,571	15,140	(4,569)	(30.2)	15,637
<b>(19)</b>	<b>594</b>	<b>Net core Crown debt (excl NZS Fund)<sup>7</sup></b>	<b>5,124</b>	<b>5,327</b>	<b>203</b>	<b>3.8</b>	<b>5,207</b>
<b>Gross sovereign-issued debt excluding settlement cash:</b>							
37,745	38,175	Gross sovereign-issued debt <sup>4</sup>	50,313	37,339	(12,974)	(34.7)	38,442
(7,955)	(7,769)	Less Reserve Bank settlement cash (including Kiwibank)	(6,871)	(8,035)	(1,164)	(14.5)	(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>32,006</b>	<b>Gross sovereign-issued debt excluding settlement cash</b>	<b>45,042</b>	<b>30,904</b>	<b>(14,138)</b>	<b>(45.7)</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 31 March 2009

	As at 31 Mar 2009 \$m	As at 30 June 2008 \$m	As at 31 Mar 2008 \$m
<b>Capital Commitments</b>			
Specialist military equipment	895	873	832
Land and buildings	1,211	1,121	704
Other property, plant and equipment	4,097	4,303	2,608
Other capital commitments	371	304	167
Tertiary Education Institutions	209	209	90
<b>Total capital commitments</b>	<b>6,783</b>	<b>6,810</b>	<b>4,401</b>
<b>Operating Commitments</b>			
Non-cancellable accommodation leases	2,440	2,460	2,262
Other non-cancellable leases	2,658	2,390	2,327
Non-cancellable contracts for the supply of goods and services	2,397	2,157	1,813
Other operating commitments	6,784	7,995	7,445
Tertiary Education Institutions	315	315	303
<b>Total operating commitments</b>	<b>14,594</b>	<b>15,317</b>	<b>14,150</b>
<b>Total commitments</b>	<b>21,377</b>	<b>22,127</b>	<b>18,551</b>
<b>Total Commitments by Segment</b>			
Core Crown	11,980	19,627	12,932
Crown entities	12,959	15,830	9,907
State-owned Enterprises	4,895	4,724	3,509
Inter-segment eliminations	(8,457)	(18,054)	(7,797)
<b>Total commitments</b>	<b>21,377</b>	<b>22,127</b>	<b>18,551</b>

## STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 March 2009

	As at 31 Mar 2009 \$m	As at 30 June 2008 \$m	As at 31 Mar 2008 \$m
<b>Quantifiable Contingent Liabilities</b>			
Guarantees and indemnities	107	286	168
Uncalled capital	2,972	2,205	2,080
Legal proceedings and disputes	347	383	349
Other contingent liabilities	2,437	1,995	1,984
<b>Total quantifiable contingent liabilities</b>	<b>5,863</b>	<b>4,869</b>	<b>4,581</b>
<b>Total Quantifiable Contingent Liabilities by Segment</b>			
Core Crown	5,717	4,685	4,474
Crown entities	79	86	52
State-owned Enterprises	67	98	91
Inter-segment eliminations	-	-	(36)
<b>Total quantifiable contingent liabilities</b>	<b>5,863</b>	<b>4,869</b>	<b>4,581</b>
<b>Quantifiable Contingent Assets</b>			
Core Crown	318	389	85
Crown entities	-	-	5
<b>Total quantifiable contingent assets</b>	<b>318</b>	<b>389</b>	<b>90</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 9 Months to 30 Jun to 31 Mar		Current Year Actual vs Forecast					
2008	2008					Annual	
Actual	Actual			Variance		Forecast	
\$m	\$m	Actual	Forecast	\$m	%	\$m	
		\$m	\$m	\$m		\$m	
<b>NOTE 1: Revenue Collected Through the Crown's Sovereign Power</b>							
<b>Taxation Revenue (accrual)</b>							
<b>Individuals</b>							
23,345	16,934	PAYE	17,055	17,255	(200)	(1.2)	23,073
5,071	3,768	Other persons	3,602	3,688	(86)	(2.3)	4,972
(1,470)	(933)	Refunds	(1,009)	(976)	(33)	(3.4)	(1,494)
522	395	Fringe benefit tax	384	385	(1)	(0.3)	514
<b>27,468</b>	<b>20,164</b>	<b>Total individuals</b>	<b>20,032</b>	<b>20,352</b>	<b>(320)</b>	<b>(1.6)</b>	<b>27,065</b>
<b>Corporate Tax</b>							
8,787	5,954	Gross companies tax	4,737	5,504	(767)	(13.9)	7,651
(242)	(100)	Refunds	(192)	(152)	(40)	(26.3)	(310)
1,506	1,055	Non-resident withholding tax	1,056	1,231	(175)	(14.2)	1,549
71	70	Foreign-source dividend w/holding payments	(6)	32	(38)	(118.8)	42
<b>10,122</b>	<b>6,979</b>	<b>Total corporate tax</b>	<b>5,595</b>	<b>6,615</b>	<b>(1,020)</b>	<b>(15.4)</b>	<b>8,932</b>
<b>Other Income Tax</b>							
2,699	1,991	Resident w/holding tax on interest income	2,015	2,116	(101)	(4.8)	2,822
69	41	Resident w/holding tax on dividend income	36	28	8	28.6	60
3	2	Estate and gift duties	1	2	(1)	(50.0)	3
<b>2,771</b>	<b>2,034</b>	<b>Total other income tax</b>	<b>2,052</b>	<b>2,146</b>	<b>(94)</b>	<b>(4.4)</b>	<b>2,885</b>
<b>40,361</b>	<b>29,177</b>	<b>Total income tax</b>	<b>27,679</b>	<b>29,113</b>	<b>(1,434)</b>	<b>(4.9)</b>	<b>38,882</b>
<b>Goods and Services Tax</b>							
20,631	14,894	Gross goods and services tax	15,641	16,140	(499)	(3.1)	21,460
(9,516)	(6,689)	Refunds	(6,950)	(7,081)	131	1.9	(9,773)
<b>11,115</b>	<b>8,205</b>	<b>Total goods and services tax</b>	<b>8,691</b>	<b>9,059</b>	<b>(368)</b>	<b>(4.1)</b>	<b>11,687</b>
<b>Other Taxation</b>							
819	591	Petroleum fuels excise	607	646	(39)	(6.0)	880
159	128	Tobacco excise	152	130	22	16.9	151
1,857	1,388	Customs duty	1,381	1,397	(16)	(1.1)	1,889
851	639	Road user charges	668	647	21	3.2	877
573	443	Alcohol excise	484	482	2	0.4	602
260	172	Gaming duties	161	179	(18)	(10.1)	252
226	171	Motor vehicle fees	162	145	17	11.7	185
46	33	Energy resources levies	28	32	(4)	(12.5)	43
105	60	Approved issuer levy and cheque duty	61	71	(10)	(14.1)	90
<b>4,896</b>	<b>3,625</b>	<b>Total other indirect taxation</b>	<b>3,704</b>	<b>3,729</b>	<b>(25)</b>	<b>(0.7)</b>	<b>4,969</b>
<b>16,011</b>	<b>11,830</b>	<b>Total indirect taxation</b>	<b>12,395</b>	<b>12,788</b>	<b>(393)</b>	<b>(3.1)</b>	<b>16,656</b>
<b>56,372</b>	<b>41,007</b>	<b>Total taxation revenue</b>	<b>40,074</b>	<b>41,901</b>	<b>(1,827)</b>	<b>(4.4)</b>	<b>55,538</b>
<b>Other Sovereign Revenue (accrual)</b>							
2,718	2,053	ACC levies	2,080	2,023	57	2.8	2,742
279	211	Fire Service levies	226	229	(3)	(1.3)	303
86	64	EQC levies	65	65	-	-	87
796	553	Other miscellaneous items	638	635	3	0.5	861
<b>3,879</b>	<b>2,881</b>	<b>Total other sovereign revenue</b>	<b>3,009</b>	<b>2,952</b>	<b>57</b>	<b>1.9</b>	<b>3,993</b>
<b>60,251</b>	<b>43,888</b>	<b>Total sovereign revenue</b>	<b>43,083</b>	<b>44,853</b>	<b>(1,770)</b>	<b>(3.9)</b>	<b>59,531</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year 9 Months to 30 Jun to 31 Mar		Current Year Actual vs Forecast				Annual	
2008	2008	Actual	Forecast	Variance	%	Forecast	
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	16,890	PAYE	17,203	17,408	(205)	(1.2)	23,041
5,469	4,213	Other persons	3,061	3,151	(90)	(2.9)	5,447
(2,171)	(1,552)	Refunds	(1,789)	(1,687)	(102)	(6.0)	(2,369)
489	356	Fringe benefit tax	368	370	(2)	(0.5)	507
<b>26,617</b>	<b>19,907</b>	<b>Total individuals</b>	<b>18,843</b>	<b>19,242</b>	<b>(399)</b>	<b>(2.1)</b>	<b>26,626</b>
<b>Corporate Tax</b>							
9,075	7,214	Gross companies tax	5,693	5,582	111	2.0	7,954
(1,026)	(634)	Refunds	(1,085)	(784)	(301)	(38.4)	(1,150)
1,638	1,195	Non-resident withholding tax	1,025	1,111	(86)	(7.7)	1,344
72	72	Foreign-source dividend w/holding payments	(7)	31	(38)	(122.6)	42
<b>9,759</b>	<b>7,847</b>	<b>Total corporate tax</b>	<b>5,626</b>	<b>5,940</b>	<b>(314)</b>	<b>(5.3)</b>	<b>8,190</b>
<b>Other Income Tax</b>							
2,616	1,859	Resident w/holding tax on interest income	2,006	2,067	(61)	(3.0)	2,823
40	34	Resident w/holding tax on dividend income	51	59	(8)	(13.6)	90
2	1	Estate and gift duties	1	2	(1)	(50.0)	3
<b>2,658</b>	<b>1,894</b>	<b>Total other income tax</b>	<b>2,058</b>	<b>2,128</b>	<b>(70)</b>	<b>(3.3)</b>	<b>2,916</b>
<b>39,034</b>	<b>29,648</b>	<b>Total income tax</b>	<b>26,527</b>	<b>27,310</b>	<b>(783)</b>	<b>(2.9)</b>	<b>37,732</b>
<b>Goods and Services Tax</b>							
20,085	14,487	Gross goods and services tax	14,692	15,202	(510)	(3.4)	20,727
(8,859)	(6,494)	Refunds	(6,951)	(6,985)	34	0.5	(9,260)
<b>11,226</b>	<b>7,993</b>	<b>Total goods and services tax</b>	<b>7,741</b>	<b>8,217</b>	<b>(476)</b>	<b>(5.8)</b>	<b>11,467</b>
<b>Other Taxation</b>							
809	603	Petroleum fuels excise	598	661	(63)	(9.5)	880
160	123	Tobacco excise	155	118	37	31.4	151
1,946	1,454	Customs duty	1,352	1,357	(5)	(0.4)	1,889
851	638	Road user charges	666	644	22	3.4	877
554	417	Alcohol excise	447	448	(1)	(0.2)	602
238	177	Gaming duties	170	185	(15)	(8.1)	248
223	166	Motor vehicle fees	157	145	12	8.3	185
42	29	Energy resources levies	26	32	(6)	(18.8)	48
85	64	Approved issuer levy and cheque duty	76	70	6	8.6	80
<b>4,908</b>	<b>3,671</b>	<b>Total other indirect taxation</b>	<b>3,647</b>	<b>3,660</b>	<b>(13)</b>	<b>(0.4)</b>	<b>4,960</b>
<b>16,134</b>	<b>11,664</b>	<b>Total indirect taxation</b>	<b>11,388</b>	<b>11,877</b>	<b>(489)</b>	<b>(4.1)</b>	<b>16,427</b>
<b>55,168</b>	<b>41,312</b>	<b>Total tax receipts collected</b>	<b>37,915</b>	<b>39,187</b>	<b>(1,272)</b>	<b>(3.2)</b>	<b>54,159</b>
<b>Other Sovereign Receipts (cash)</b>							
2,561	2,016	ACC levies	2,171	2,157	14	0.6	2,752
281	212	Fire Service levies	226	229	(3)	(1.3)	303
86	65	EQC levies	66	65	1	1.5	87
532	414	Other miscellaneous items	409	445	(36)	(8.1)	595
<b>3,460</b>	<b>2,707</b>	<b>Total other sovereign receipts</b>	<b>2,872</b>	<b>2,896</b>	<b>(24)</b>	<b>(0.8)</b>	<b>3,737</b>
<b>58,628</b>	<b>44,019</b>	<b>Total sovereign receipts</b>	<b>40,787</b>	<b>42,083</b>	<b>(1,296)</b>	<b>(3.1)</b>	<b>57,896</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year 9 Months to 30 Jun to 31 Mar		Current Year Actual vs Forecast					
2008	2008	Actual	Forecast	Variance	Annual		
Actual	Actual	\$m	\$m	\$m	%	Forecast	
\$m	\$m					\$m	
<b>NOTE 2: Interest Revenue and Dividends</b>							
<i>By type</i>							
2,803	2,178	Interest revenue	2,352	2,731	(379)	(13.9)	3,378
411	239	Dividends	272	317	(45)	(14.2)	450
<b>3,214</b>	<b>2,417</b>	<b>Total interest revenue and dividends</b>	<b>2,624</b>	<b>3,048</b>	<b>(424)</b>	<b>(13.9)</b>	<b>3,828</b>
<i>By source</i>							
2,344	1,935	Core Crown	1,464	2,020	(556)	(27.5)	2,647
1,233	861	Crown entities	1,032	823	209	25.4	1,162
704	547	State-owned Enterprises	938	724	214	29.6	673
(1,067)	(926)	Inter-segment eliminations	(810)	(519)	(291)	(56.1)	(654)
<b>3,214</b>	<b>2,417</b>	<b>Total interest revenue and dividends</b>	<b>2,624</b>	<b>3,048</b>	<b>(424)</b>	<b>(13.9)</b>	<b>3,828</b>
<b>NOTE 3: Social Assistance and Official Development Assistance</b>							
7,348	5,459	New Zealand superannuation	5,733	5,746	13	0.2	7,785
1,478	1,102	Domestic purposes benefit	1,132	1,119	(13)	(1.2)	1,501
458	354	Unemployment benefit	405	366	(39)	(10.7)	487
1,216	896	Invalids benefit	939	947	8	0.8	1,273
1,897	1,489	Family tax credit	1,498	1,554	56	3.6	2,153
891	668	Accommodation supplement	727	713	(14)	(2.0)	951
582	438	Sickness benefit	450	429	(21)	(4.9)	570
386	259	Student allowances	284	274	(10)	(3.6)	411
278	208	Disability allowances	290	290	-	-	389
1,102	702	KiwiSaver	1,225	1,166	(59)	(5.1)	1,440
2,376	1,706	Other social assistance benefits	1,759	1,773	14	0.8	2,707
<b>18,012</b>	<b>13,281</b>	<b>Total social assistance</b>	<b>14,442</b>	<b>14,377</b>	<b>(65)</b>	<b>(0.5)</b>	<b>19,667</b>
362	281	Official development assistance	391	393	2	0.5	484
<b>18,374</b>	<b>13,562</b>	<b>Total social assistance and official development assistance</b>	<b>14,833</b>	<b>14,770</b>	<b>(63)</b>	<b>(0.4)</b>	<b>20,151</b>
<b>NOTE 4: Personnel Expenses</b>							
5,584	4,102	Core Crown	4,494	4,424	(70)	(1.6)	5,865
8,741	6,440	Crown entities	7,155	7,088	(67)	(0.9)	9,505
2,164	1,631	State-owned Enterprises	1,823	1,832	9	0.5	2,438
(11)	(6)	Inter-segment eliminations	(8)	(6)	2	33.3	(8)
<b>16,478</b>	<b>12,167</b>	<b>Total personnel expenses</b>	<b>13,464</b>	<b>13,338</b>	<b>(126)</b>	<b>(0.9)</b>	<b>17,800</b>
<b>NOTE 5: Operating Expenses</b>							
<i>By type</i>							
3,670	2,626	Depreciation and amortisation <sup>1</sup>	3,118	3,180	62	1.9	3,973
30,656	20,568	Other operating expenses	22,968	24,050	1,082	4.5	33,721
-	-	Forecast new operating spending	-	-	-	-	172
-	-	Top-down expense adjustment	-	(547)	(547)	(100.0)	(1,450)
<b>34,326</b>	<b>23,194</b>	<b>Total operating expenses</b>	<b>26,086</b>	<b>26,683</b>	<b>597</b>	<b>2.2</b>	<b>36,416</b>
<i>By source</i>							
30,432	22,140	Core Crown	23,729	23,615	(114)	(0.5)	33,518
15,754	10,614	Crown entities	11,754	11,647	(107)	(0.9)	16,028
10,945	7,205	State-owned Enterprises	7,838	8,467	629	7.4	11,426
(22,805)	(16,765)	Inter-segment eliminations	(17,235)	(17,046)	189	1.1	(24,556)
<b>34,326</b>	<b>23,194</b>	<b>Total operating expenses</b>	<b>26,086</b>	<b>26,683</b>	<b>597</b>	<b>2.2</b>	<b>36,416</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

Year 9 Months to 30 Jun to 31 Mar 2008 2008 Actual Actual \$m \$m		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	2,275	2,705	2,633	(72)	(2.7)	3,219
86	14	101	75	(26)	(34.7)	92
<b>3,101</b>	<b>2,289</b>	<b>2,806</b>	<b>2,708</b>	<b>(98)</b>	<b>(3.6)</b>	<b>3,311</b>
<i>By source</i>						
2,460	1,796	1,868	1,969	101	5.1	2,650
248	170	162	152	(10)	(6.6)	254
870	652	1,147	959	(188)	(19.6)	1,022
(477)	(329)	(371)	(372)	(1)	(0.3)	(615)
<b>3,101</b>	<b>2,289</b>	<b>2,806</b>	<b>2,708</b>	<b>(98)</b>	<b>(3.6)</b>	<b>3,311</b>
<b>NOTE 7: Insurance Expenses</b>						
<i>By entity</i>						
3,423	2,343	2,366	2,351	(15)	(0.6)	4,020
130	77	74	29	(45)	(155.2)	39
10	10	19	13	(6)	(46.2)	17
<b>3,563</b>	<b>2,430</b>	<b>2,459</b>	<b>2,393</b>	<b>(66)</b>	<b>(2.8)</b>	<b>4,076</b>
<b>NOTE 8: Gains and Losses on Financial Instruments</b>						
<i>By source</i>						
353	(159)	(2,726)	970	(3,696)	(381.0)	1,287
(743)	(815)	(1,075)	338	(1,413)	(418.0)	412
(37)	(148)	(119)	60	(179)	(298.3)	17
(190)	(64)	(196)	(187)	(9)	(4.8)	(254)
<b>(617)</b>	<b>(1,186)</b>	<b>(4,116)</b>	<b>1,181</b>	<b>(5,297)</b>	<b>(448.5)</b>	<b>1,462</b>
<b>NOTE 9: Gains and Losses on Non-Financial Instruments</b>						
<i>By type</i>						
(1,098)	(906)	(2,378)	-	(2,378)	-	-
(1,709)	(1,324)	(2,023)	-	(2,023)	-	-
(118)	(195)	804	90	714	-	178
<b>(2,925)</b>	<b>(2,425)</b>	<b>(3,597)</b>	<b>90</b>	<b>(3,687)</b>	<b>-</b>	<b>178</b>
<i>By source</i>						
(1,369)	(1,204)	(1,682)	(19)	(1,663)	-	33
(1,725)	(1,327)	(2,022)	(16)	(2,006)	-	(13)
170	107	107	125	(18)	(14.4)	158
(1)	(1)	-	-	-	-	-
<b>(2,925)</b>	<b>(2,425)</b>	<b>(3,597)</b>	<b>90</b>	<b>(3,687)</b>	<b>-</b>	<b>178</b>
<b>NOTE 10: Operating Balance</b>						
<i>By source</i>						
3,891	1,857	(5,106)	2,115	(7,221)	(341.4)	239
(1,526)	(782)	(2,287)	905	(3,192)	(352.7)	970
723	542	666	718	(52)	(7.2)	938
(704)	(486)	(992)	(299)	(693)	(231.8)	(238)
<b>2,384</b>	<b>1,131</b>	<b>(7,719)</b>	<b>3,439</b>	<b>(11,158)</b>	<b>(324.5)</b>	<b>1,909</b>

## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2008 \$m	As at 31 Mar 2008 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 11: Financial Assets</b>							
3,804	4,645	Cash and cash equivalents	6,072	3,835	2,237	58.3	3,868
7,398	5,235	Tax receivables	7,855	9,556	(1,701)	(17.8)	7,637
6,760	4,446	Trade and other receivables	4,968	4,848	120	2.5	6,842
6,741	6,399	Student loans	7,236	7,206	30	0.4	7,173
5,581	5,167	Kiwibank mortgages	7,613	6,808	805	11.8	8,500
2,787	2,080	Long-term deposits	3,357	2,855	502	17.6	1,670
188	185	Reserve position at the IMF	348	176	172	97.7	174
626	1,592	Other loans	710	735	(25)	(3.4)	1,461
12,964	12,499	Share investments	10,187	14,602	(4,415)	(30.2)	14,293
1,563	1,696	Derivatives in gain	4,152	900	3,252	361.3	858
36,651	35,186	Other marketable securities	39,015	33,107	5,908	17.8	34,970
<b>85,063</b>	<b>79,130</b>	<b>Total financial assets</b>	<b>91,513</b>	<b>84,628</b>	<b>6,885</b>	<b>8.1</b>	<b>87,446</b>
<b>Financial assets by entity</b>							
20,536	20,726	NZDMO	20,079	15,768	4,311	27.3	15,501
18,159	18,167	Reserve Bank of New Zealand	25,147	18,152	6,995	38.5	18,264
13,791	13,120	NZ Superannuation Fund	11,216	15,992	(4,776)	(29.9)	16,563
16,738	14,750	Other core Crown	19,571	20,144	(573)	(2.8)	17,526
(9,595)	(10,058)	Intra-segment eliminations	(10,038)	(11,338)	1,300	11.5	(9,341)
<b>59,629</b>	<b>56,705</b>	<b>Total core Crown segment</b>	<b>65,975</b>	<b>58,718</b>	<b>7,257</b>	<b>12.4</b>	<b>58,513</b>
12,958	11,042	ACC portfolio	11,566	12,091	(525)	(4.3)	13,651
5,615	5,544	EQC portfolio	5,572	5,910	(338)	(5.7)	5,999
6,835	6,669	Other Crown entities	6,679	6,031	648	11	6,203
(1,517)	(1,397)	Intra-segment eliminations	(655)	(561)	(94)	(16.8)	(662)
<b>23,891</b>	<b>21,858</b>	<b>Total Crown entities segment</b>	<b>23,162</b>	<b>23,471</b>	<b>(309)</b>	<b>(1.3)</b>	<b>25,191</b>
<b>11,727</b>	<b>10,852</b>	<b>Total State-owned enterprises segment</b>	<b>15,306</b>	<b>13,117</b>	<b>2,189</b>	<b>16.7</b>	<b>14,231</b>
(10,184)	(10,285)	Inter-segment eliminations	(12,930)	(10,678)	(2,252)	(21.1)	(10,489)
<b>85,063</b>	<b>79,130</b>	<b>Total financial assets</b>	<b>91,513</b>	<b>84,628</b>	<b>6,885</b>	<b>8.1</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	16,620	Land (valuation)	17,531	18,067	(536)	(3.0)	18,122
22,257	21,111	Buildings (valuation)	22,807	22,784	23	0.1	22,977
1,887	2,086	Electricity distribution network (cost)	2,010	2,309	(299)	(12.9)	2,255
11,202	10,702	Electricity generation assets (valuation)	11,598	11,664	(66)	(0.6)	11,890
2,071	2,057	Aircraft (excl military) (valuation)	1,900	1,907	(7)	(0.4)	2,051
20,947	19,922	State highways (valuation)	21,494	21,381	113	0.5	21,628
11,621	10,577	Rail network (valuation)	12,447	12,415	32	0.3	11,979
3,345	3,105	Specialist military equipment (valuation)	3,309	3,421	(112)	(3.3)	3,421
4,412	3,557	Other plant and equipment (cost)	4,372	4,621	(249)	(5.4)	5,578
7,978	7,024	Specified cultural and heritage assets (valuation)	7,963	7,966	(3)	-	7,994
<b>103,329</b>	<b>96,761</b>	<b>Total net carrying value</b>	<b>105,431</b>	<b>106,535</b>	<b>(1,104)</b>	<b>(1.0)</b>	<b>107,895</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year 9 Months to 30 Jun 2008 to 31 Mar 2008 \$m \$m		Current Year Actual vs Forecast				Annual Forecast \$m	
		Actual \$m	Forecast \$m	Variance \$m	%		
<b>NOTE 13: NZ Superannuation Fund</b>							
385	260	Revenue	297	298	(1)	(0.3)	431
237	242	Less current tax expense	(24)	237	261	110.1	326
34	23	Less other expenses <sup>1</sup>	(846)	115	961	-	156
(995)	(1,101)	Add gains/(losses)	(4,763)	774	(5,537)	-	1,037
<b>(881)</b>	<b>(1,106)</b>	<b>Operating balance</b>	<b>(3,596)</b>	<b>720</b>	<b>(4,316)</b>	<b>-</b>	<b>986</b>
12,973	12,973	Opening net worth	14,212	14,212	-	-	14,212
2,104	1,537	Gross contribution from the Crown	1,725	1,726	(1)	(0.1)	2,242
(881)	(1,106)	Operating balance	(3,596)	720	(4,316)	-	986
16	(1)	Other movements in reserves	51	(2)	53	-	-
<b>14,212</b>	<b>13,403</b>	<b>Closing net worth</b>	<b>12,392</b>	<b>16,656</b>	<b>(4,264)</b>	<b>(25.6)</b>	<b>17,440</b>
<i>comprising:</i>							
13,791	13,120	Financial assets	11,216	15,992	(4,776)	(29.9)	16,563
421	283	Net other assets	1,176	664	512	77.1	877
<b>14,212</b>	<b>13,403</b>	<b>Closing net worth</b>	<b>12,392</b>	<b>16,656</b>	<b>(4,264)</b>	<b>(25.6)</b>	<b>17,440</b>
<b>Core Crown revenue (excl NZS Fund)</b>							
61,819	44,904	Core Crown revenue	44,314	46,019	(1,705)	(3.7)	61,207
385	260	Less NZS Fund revenue	297	298	(1)	(0.3)	431
237	242	Add back NZS Fund intra-segment revenue	(24)	237	(261)	(110.1)	326
<b>61,671</b>	<b>44,886</b>	<b>Core Crown revenue (excl NZS Fund)</b>	<b>43,993</b>	<b>45,958</b>	<b>(1,965)</b>	<b>(4.3)</b>	<b>61,102</b>
<b>OBEGAL excluding NZS Fund</b>							
5,637	4,631	Total Crown OBEGAL	(233)	1,914	(2,147)	(112.2)	(64)
385	260	Less NZS Fund revenue	297	298	(1)	(0.3)	431
97	73	Less NZS Fund external expenses	70	101	(31)	(30.7)	138
237	242	Add back NZS Fund tax	(24)	237	(261)	(110.1)	326
<b>5,586</b>	<b>4,686</b>	<b>OBEGAL excluding NZS Fund</b>	<b>(484)</b>	<b>1,954</b>	<b>(2,438)</b>	<b>(124.8)</b>	<b>(31)</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2008 \$m	As at 31 Mar 2008 \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	% %	Annual Forecast \$m
<b>NOTE 14: Payables</b>							
6,444	4,793	Accounts payable	4,415	5,550	1,135	20.5	7,485
4,451	3,166	Taxes repayable	3,477	4,451	974	21.9	4,451
<b>10,895</b>	<b>7,959</b>	<b>Total payables</b>	<b>7,892</b>	<b>10,001</b>	<b>2,109</b>	<b>21.1</b>	<b>11,936</b>
<b>NOTE 15: Insurance liabilities</b>							
20,374	18,003	ACC liability	21,409	19,319	(2,090)	(10.8)	21,876
97	77	EQC liability	89	96	7	7.3	97
13	10	Other insurance liabilities	71	10	(61)	-	9
<b>20,484</b>	<b>18,090</b>	<b>Total insurance liabilities</b>	<b>21,569</b>	<b>19,425</b>	<b>(2,144)</b>	<b>(11.0)</b>	<b>21,982</b>
<b>NOTE 16: Provisions</b>							
562	1,009	Provision for Kyoto <sup>1</sup>	-	562	562	100.0	562
907	771	Provision for National Provident Fund	994	961	(33)	(3.4)	978
2,220	1,764	Provision for employee entitlements	2,287	2,188	(99)	(4.5)	2,206
1,064	867	Other provisions	1,121	741	(380)	(51.3)	1,329
<b>4,753</b>	<b>4,411</b>	<b>Total provisions</b>	<b>4,402</b>	<b>4,452</b>	<b>50</b>	<b>1.1</b>	<b>5,075</b>
<p><sup>1</sup> The Crown's net position under the Kyoto protocol has shifted from a 21.7 million unit deficit (\$546 million net liability as at 28 February) to a 9.6 million unit surplus (\$225 million net asset as at 31 March) with the release of the 2009 Net Position Report. The net asset is included in the intangible asset line within these financial statements. A full copy of the Net Position report 2009 can be found on the Ministry for the Environment's website: <a href="http://www.mfe.govt.nz">www.mfe.govt.nz</a></p>							
<b>NOTE 17: Changes in Net Worth</b>							
44,222	44,222	Opening taxpayers funds	46,700	46,700	-	-	46,700
2,384	1,131	Operating balance excluding minority interest	(7,719)	3,439	(11,158)	(324.5)	1,909
94	8	Transfers from/(to) other reserves	73	4	69	-	66
<b>46,700</b>	<b>45,361</b>	<b>Closing taxpayers funds</b>	<b>39,054</b>	<b>50,143</b>	<b>(11,089)</b>	<b>(22.1)</b>	<b>48,675</b>
52,442	52,442	Opening revaluation reserve	58,566	58,566	-	-	58,566
6,214	3	Net revaluations	355	330	25	7.6	292
(90)	(8)	Transfers from/(to) other reserves	(69)	(6)	(63)	-	(65)
<b>58,566</b>	<b>52,437</b>	<b>Closing revaluation reserve</b>	<b>58,852</b>	<b>58,890</b>	<b>(38)</b>	<b>(0.1)</b>	<b>58,793</b>
(133)	(133)	Opening other reserves	(134)	(134)	-	-	(134)
(1)	(97)	Net movements	682	7	675	-	53
<b>(134)</b>	<b>(230)</b>	<b>Closing other reserves</b>	<b>548</b>	<b>(127)</b>	<b>675</b>	<b>-</b>	<b>(81)</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year 9 Months to 30 Jun to 31 Mar		Current Year Actual vs Forecast				Annual Forecast	
2008	2008	Actual	Forecast	Variance			
\$m	\$m	\$m	\$m	\$m	%	\$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	41,900	Total tax receipts	38,160	39,579	(1,419)	(3.6)	54,851
486	369	Total other sovereign receipts	378	405	(27)	(6.7)	536
2,128	1,729	Interest, profits and dividends	1,173	1,552	(379)	(24.4)	2,009
1,411	1,075	Sale of goods & services and other receipts	1,624	1,187	437	36.8	1,641
(18,171)	(13,482)	Subsidies and transfer payments	(14,873)	(14,410)	(463)	(3.2)	(22,045)
(32,183)	(24,176)	Personnel and operating costs	(26,669)	(26,877)	208	0.8	(35,043)
(2,354)	(1,687)	Finance costs	(1,533)	(1,691)	158	9.3	(2,441)
-	-	Forecast for future new operating spending	-	0	(0)	(100.0)	(172)
-	-	Top-down expense adjustment	-	547	(547)	(100.0)	1,450
<b>7,292</b>	<b>5,728</b>	<b>Net cash flows from core Crown operations</b>	<b>(1,740)</b>	<b>292</b>	<b>(2,032)</b>	<b>-</b>	<b>786</b>
(1,433)	(958)	Net purchase of physical assets	(1,131)	(1,359)	228	16.8	(2,001)
(1,254)	(972)	Net increase in advances	(909)	(907)	(2)	(0.2)	(903)
(444)	(167)	Net purchase of investments	(2,375)	(2,398)	23	1.0	(1,850)
(2,104)	(1,535)	Contribution to NZ Superannuation Fund	(1,725)	(1,726)	1	0.1	(2,242)
-	-	Forecast for future new capital spending	-	-	-	-	(184)
-	-	Top-down capital adjustment	-	-	-	-	485
<b>2,057</b>	<b>2,096</b>	<b>Residual cash</b>	<b>(7,880)</b>	<b>(6,098)</b>	<b>(1,782)</b>	<b>(29.2)</b>	<b>(5,909)</b>
<b>Financed by:</b>							
(3,595)	(3,710)	Other net sale/(purchase) of marketable securities and deposits	385	5,895	(5,510)	(93.5)	4,493
<b>(1,538)</b>	<b>(1,614)</b>	<b>Total operating and investing activities</b>	<b>(7,495)</b>	<b>(203)</b>	<b>(7,292)</b>	<b>-</b>	<b>(1,416)</b>
<b>Used in:</b>							
(1,585)	(1,057)	Net (repayment)/issue of other New Zealand dollar borrowing	10,345	155	10,190	-	440
901	928	Net (repayment)/issue of foreign currency borrowing	(2,867)	(595)	(2,272)	(381.8)	(602)
86	300	Issues of circulating currency	515	129	386	299.2	172
249	(51)	Decrease/(increase) in cash	(1,408)	(32)	(1,376)	-	(29)
<b>(349)</b>	<b>120</b>		<b>6,585</b>	<b>(343)</b>	<b>6,928</b>	<b>-</b>	<b>(19)</b>
<b>(1,887)</b>	<b>(1,494)</b>	<b>Net cash inflow/(outflow) to be offset by domestic bonds</b>	<b>(910)</b>	<b>(546)</b>	<b>(364)</b>	<b>(66.7)</b>	<b>(1,435)</b>
<b>Gross Cash Proceeds from Domestic Bonds</b>							
1,757	1,364	Domestic bonds (market)	3,611	3,070	541	17.6	4,048
130	130	Domestic bonds (non-market)	514	627	(113)	(18.0)	738
<b>1,887</b>	<b>1,494</b>	<b>Total gross cash proceeds from domestic bonds</b>	<b>4,125</b>	<b>3,697</b>	<b>428</b>	<b>11.6</b>	<b>4,786</b>
-	-	Repayment of domestic bonds (market)	(2,700)	(2,700)	-	-	(2,900)
-	-	Repayment of domestic bonds (non-market)	(515)	(451)	(64)	(14.2)	(451)
-	-	<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>1,494</b>	<b>Net (repayments of)/cash proceeds from domestic bonds</b>	<b>910</b>	<b>546</b>	<b>364</b>	<b>66.7</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 nine months ended 31 March 2009, revenue earned by KiwiRail Holdings Limited of \$501 million and an operating surplus of \$11 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)**

On 2 March 2009 the Treasury announced that Mascot Finance Limited had been placed in receivership, thereby triggering the guarantee. An estimation of the potential claim (\$69 million) for Mascot Finance Ltd under the deposit guarantee scheme has been included in the March financial statements. The cost to the Government will be less than this as recovery of remaining assets are also applied to satisfy the debt when there is virtual certainty of realisation.

As at 31 March 2009, 86 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 24 April it was announced that Strata Finance Limited (a company covered by the Crown retail deposit guarantee scheme) had defaulted. The amount covered by the Crown guarantee is \$0.4 million.

#### *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 31 March 2009, \$285 million wholesale securities had been guaranteed. Subsequent to balance date, additional wholesale securities totalling \$1,776 million have been guaranteed.