

Significant movements within total Crown **functional expenses** (refer information on page 25) were:

- lower **social security and welfare** expenses of \$1.0 billion, largely due to the lower movement in the ACC liability valuation, partially offset by annual benefit indexation
- lower **GSF** expenses of \$2.0 billion, due to the lower movement in the GSF liability valuation as a result of a higher discount rate
- higher **health** expenses of around \$0.2 billion, driven primarily by increased funding to maintain and improve existing service levels and the impact of demographic increases, offset by an increase in expenses transferred from 2003/04 into 2004/05
- higher **education** expenses of around \$0.6 billion due to increased funding provided in the 2003 Budget and the impact of demand-driven expenses (roll growth)
- lower **economic and industrial services** expenses of around \$0.2 billion due to the electricity SOEs incurring lower costs due to low spot prices for electricity (offset entirely by lower revenue as they also sold electricity at lower spot prices)
- higher **heritage, culture and recreation** expenses of around \$0.2 billion largely due to new policy initiatives.

Net worth significantly improved from 2002/03 by \$11.6 billion, reflecting the operating balance of \$7.4 billion for 2003/04 and revaluations of property, plant and equipment of \$4.2 billion.

Total Crown debt has decreased by \$1.5 billion mainly due to lower gross sovereign-issued debt (refer explanation below) and an increase in the cross-holding of Government stock held by the NZS Fund and ACC.

Gross sovereign-issued debt was \$0.6 billion lower than the previous year due to the maturity of debt which has not been rolled over (due to favourable cash flows).

Net core Crown debt was \$2.4 billion lower than the previous year primarily due to the residual cash impact from net cash flows (core Crown operating cash flows were higher than the outflows for the capital spending). The reconciliation of net core Crown cash flows from operations with net cash proceeds from domestic bonds outlines the variance in more detail (refer page 80).

Historical Information

| | 2004 \$m | 2003 \$m | 2002 \$m | 2001 \$m | 2000 \$m | 1999 \$m | 1998 \$m | 1997 \$m |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|
| Statement of Financial Performance | | | | | | | | |
| Tax revenue | 42,532 | 39,785 | 36,215 | 34,744 | 32,000 | 30,227 | 31,161 | 30,160 |
| % of GDP | 30.4% | 30.5% | 28.9% | 29.6% | 29.1% | 29.1% | 31.0% | 30.7% |
| Other revenue | 17,855 | 17,242 | 13,764 | 10,762 | 9,557 | 11,758 | 9,931 | 9,643 |
| Total Revenue | 60,387 | 57,027 | 49,979 | 45,506 | 41,557 | 41,985 | 41,092 | 39,803 |
| % of GDP | 43.1% | 43.7% | 39.9% | 38.8% | 37.8% | 40.5% | 40.8% | 40.5% |
| Total Expenses | 53,057 | 55,224 | 47,653 | 44,213 | 40,128 | 40,280 | 39,044 | 37,940 |
| % of GDP | 37.9% | 42.3% | 38.1% | 37.7% | 36.5% | 38.8% | 38.8% | 38.6% |
| Net surplus of TEIs | 139 | 151 | 78 | 65 | 74 | 58 | 79 | 45 |
| Minority interest | (45) | 12 | (13) | - | - | - | - | - |
| Operating Balance | 7,424 | 1,966 | 2,391 | 1,358 | 1,503 | 1,763 | 2,127 | 1,908 |
| % of GDP | 5.3% | 1.5% | 1.9% | 1.2% | 1.4% | 1.7% | 2.1% | 1.9% |
| OBERAC | 6,629 | 5,580 | 2,751 | 2,115 | 884 | 246 | 2,191 | 1,904 |
| % of GDP | 4.7% | 4.3% | 2.2% | 1.8% | 0.8% | 0.2% | 2.2% | 1.9% |
| Core Crown Revenue | 46,932 | 43,624 | 39,907 | 38,005 | 34,891 | 34,899 | 34,222 | 33,533 |
| Core Crown Expenses | | | | | | | | |
| Social security and welfare | 14,252 | 13,907 | 13,485 | 13,207 | 12,883 | 12,889 | 12,497 | 11,865 |
| GSF pension expenses | 660 | 2,625 | 1,409 | 1,112 | 736 | 1,372 | 735 | 994 |
| Health | 8,111 | 7,501 | 7,032 | 6,660 | 6,146 | 5,875 | 5,361 | 5,029 |
| Education | 7,585 | 7,016 | 6,473 | 6,136 | 5,712 | 5,337 | 5,162 | 4,817 |
| Core government services | 1,741 | 1,780 | 1,540 | 1,798 | 1,642 | 1,634 | 1,508 | 1,606 |
| Other | 7,000 | 6,442 | 5,838 | 5,529 | 5,274 | 4,940 | 4,903 | 4,440 |
| Finance costs | 2,252 | 2,360 | 2,118 | 2,304 | 2,205 | 2,367 | 2,673 | 2,945 |
| Net foreign exchange losses/ (gains) | 7 | 118 | 75 | (47) | (62) | (47) | 13 | 12 |
| Total Core Crown Expenses | 41,608 | 41,749 | 37,970 | 36,699 | 34,536 | 34,367 | 32,852 | 31,708 |
| Core Crown Cash Flows | | | | | | | | |
| operating and investing activity | 520 | 1,217 | (111) | (652) | 1,597 | 864 | (554) | 5,151 |
| Statement of Financial Position | | | | | | | | |
| Property, plant and equipment | 57,940 | 52,667 | 50,536 | 45,954 | 43,609 | 42,102 | 40,877 | 40,841 |
| Financial assets | 35,531 | 30,338 | 24,408 | 21,848 | 19,921 | 19,659 | 17,547 | 14,101 |
| Other assets | 17,201 | 16,846 | 13,116 | 9,878 | 9,731 | 9,588 | 10,961 | 10,730 |
| Total Assets | 110,672 | 99,851 | 88,060 | 77,680 | 73,261 | 71,349 | 69,385 | 65,672 |
| Total debt | 36,825 | 38,285 | 36,564 | 34,760 | 34,759 | 35,833 | 38,125 | 36,999 |
| % of GDP | 26.3% | 29.4% | 29.2% | 29.6% | 31.6% | 34.5% | 37.9% | 37.6% |
| Other liabilities | 38,384 | 37,785 | 32,676 | 31,457 | 29,919 | 29,494 | 21,339 | 21,203 |
| Total Liabilities | 75,209 | 76,070 | 69,240 | 66,217 | 64,678 | 65,327 | 59,464 | 58,202 |
| Net Worth | 35,463 | 23,781 | 18,820 | 11,463 | 8,583 | 6,022 | 9,921 | 7,470 |
| % of GDP | 25.3% | 18.2% | 15.0% | 9.8% | 7.8% | 5.8% | 9.9% | 7.6% |
| Net Core Crown Debt | 15,204 | 17,577 | 19,250 | 19,971 | 21,396 | 21,701 | 24,069 | 25,324 |
| % of GDP | 10.8% | 13.5% | 15.4% | 17.0% | 19.5% | 20.9% | 23.9% | 25.8% |
| Gross Sovereign-Issued Debt | 35,527 | 36,086 | 36,202 | 36,761 | 36,041 | 36,712 | 37,892 | 35,972 |
| % of GDP | 25.4% | 27.7% | 28.9% | 31.3% | 32.8% | 35.4% | 37.7% | 36.6% |
| GDP¹ | 140,138 | 130,414 | 125,191 | 117,416 | 109,938 | 103,752 | 100,619 | 98,311 |

¹ GDP for 2003/04 is calculated using an updated Treasury estimate of nominal expenditure based GDP. Previous years' GDP figures have been restated where appropriate with updated data.



REPORT
of the
AUDITOR-GENERAL

To the Readers of the Financial Statements of the Government of New Zealand for the Year Ended 30 June 2004

I have carried out the audit of the financial statements of the Government of New Zealand for the year ended 30 June 2004, using my staff and resources and audit agents and their staff and resources.

Unqualified opinion

In our opinion the financial statements of the Government of New Zealand on pages 24 to 86:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the Government of New Zealand's financial position as at 30 June 2004; and
 - the results of its operations and cash flows for the year ended on that date.

The audit was completed on 17 September 2004 and is the date at which our opinion is expressed.

The basis of the opinion is explained below. In addition, we outline the responsibilities of the Government and the Auditor, and explain our independence.

Basis of opinion

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in the opinion.

Our audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analysis to identify anomalies in the reported data;
- reviewing significant estimates and judgements made;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support the opinion above.

Responsibilities of the Government and the Auditor

The Treasury is responsible for preparing financial statements for the Government in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Government as at 30 June 2004. They must also fairly reflect the results of its operations and cash flows for the year ended on that date. The Minister of Finance is responsible for forming an opinion that those financial statements fairly reflect the financial position and operations of the Government for that year. The responsibilities of the Treasury and the Minister of Finance arise from the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 30 of the Public Finance Act 1989.

Independence

The Auditor-General, as an Officer of Parliament, is constitutionally and operationally independent of the Government. Other than in exercising functions and powers under the Public Audit Act 2001 as the auditor of public entities, the Auditor-General has no relationship with or interest in the Government.



K B Brady
Controller and Auditor-General
Wellington
New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Government of New Zealand for the year ended 30 June 2004 included on the Treasury's website. The Secretary to the Treasury is responsible for the maintenance and integrity of the Treasury's website. We have not been engaged to report on the integrity of the Treasury's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

We have not been engaged to report on any other electronic versions of the Government of New Zealand's financial statements, and accept no responsibility for any changes that may have occurred to electronic versions of the financial statements published on other websites and/or published by other electronic means.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 17 September 2004 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



FINANCIAL STATEMENTS

Statement of Financial Performance

(for the year ended 30 June 2004)

| <i>Forecast</i> | | | <i>Actual</i> | |
|---|---------------|---|-----------------|---------------|
| 2003 | Estimated | | 30 June | 30 June |
| Budget | Actual | Note | 2004 | 2003 |
| \$m | \$m | | \$m | \$m |
| Revenue | | | | |
| Levied through the Crown's Sovereign Power | | | | |
| 40,651 | 42,353 | Taxation revenue | 1 42,532 | 39,785 |
| 2,826 | 3,006 | Levies, fees, fines and penalties | 1 2,986 | 2,763 |
| 43,477 | 45,359 | Total Revenue Levied through the Crown's Sovereign Power | 1 45,518 | 42,548 |
| Earned through the Crown's operations | | | | |
| 10,281 | 10,207 | Sales of goods and services | 2 10,200 | 10,385 |
| 1,831 | 2,566 | Investment income | 3 2,653 | 1,859 |
| 1,681 | 2,062 | Other revenue | 4 2,016 | 2,235 |
| 13,793 | 14,835 | Total Revenue Earned through the Crown's Operations | 14,869 | 14,479 |
| 57,270 | 60,194 | Total Crown Revenue | 60,387 | 57,027 |
| Expenses | | | | |
| By Input Type | | | | |
| 15,787 | 15,506 | Subsidies and transfer payments | 5 15,466 | 15,107 |
| 12,099 | 12,536 | Personnel expenses | 6 12,501 | 11,620 |
| 22,850 | 22,890 | Operating expenses | 7 22,662 | 22,565 |
| 175 | - | Forecast for future new spending | - | - |
| 2,225 | 2,576 | Finance costs | 2,602 | 2,550 |
| - | 80 | Net foreign-exchange (gains)/losses | (29) | 81 |
| (87) | 214 | Movement in total GSF liability | 16 (315) | 1,647 |
| 499 | 608 | Movement in total ACC liability | 17 170 | 1,654 |
| 53,548 | 54,410 | Total Crown Expenses | 53,057 | 55,224 |
| 3,722 | 5,784 | Revenues less Expenses | 7,330 | 1,803 |
| 77 | 151 | Net surplus of TEIs | 13 139 | 151 |
| 3,799 | 5,935 | Operating Balance (including minority interest) | 7,469 | 1,954 |
| (38) | (60) | Minority interest | (45) | 12 |
| 3,761 | 5,875 | Operating Balance | 7,424 | 1,966 |

The accompanying notes and accounting policies are an integral part of these statements.

Analysis of Expenses of the Statement of Financial Performance

(for the year ended 30 June 2004)

Below is an analysis of total Crown expenses and core Crown expenses by functional classification. This information reconciles with the segment information within the Statement of Segments.

| Forecast | | | Actual | |
|-------------------------------------|------------------|-------------------------------------|----------------|----------------|
| 2003 | Estimated | | 30 June | 30 June |
| Budget | Actual | | 2004 | 2003 |
| \$m | \$m | | \$m | \$m |
| Total Crown Expenses | | | | |
| By Functional Classification | | | | |
| 16,534 | 16,447 | Social security and welfare | 16,038 | 17,084 |
| 923 | 1,201 | GSF pension expenses | 660 | 2,625 |
| 7,970 | 7,892 | Health | 7,623 | 7,412 |
| 8,134 | 8,235 | Education | 8,349 | 7,788 |
| 1,623 | 1,652 | Core government services | 1,670 | 1,655 |
| 1,966 | 2,036 | Law and order | 2,022 | 1,911 |
| 1,151 | 1,218 | Defence | 1,259 | 1,154 |
| 5,700 | 5,258 | Transport and communications | 5,443 | 5,619 |
| 3,792 | 4,440 | Economic and industrial services | 4,070 | 4,280 |
| 1,083 | 1,101 | Primary services | 1,074 | 1,023 |
| 1,556 | 1,602 | Heritage, culture and recreation | 1,609 | 1,425 |
| 607 | 616 | Housing and community development | 615 | 542 |
| 109 | 56 | Other | 52 | 75 |
| 2,225 | 2,576 | Finance costs | 2,602 | 2,550 |
| - | 80 | Net foreign-exchange (gains)/losses | (29) | 81 |
| 175 | - | Forecast for future new spending | - | - |
| 53,548 | 54,410 | Total Crown Expenses | 53,057 | 55,224 |
| Core Crown Expenses | | | | |
| By Functional Classification | | | | |
| 14,446 | 14,205 | Social security and welfare | 14,252 | 13,907 |
| 923 | 1,201 | GSF pension expenses | 660 | 2,625 |
| 8,176 | 8,123 | Health | 8,111 | 7,501 |
| 7,607 | 7,589 | Education | 7,585 | 7,016 |
| 1,693 | 1,731 | Core government services | 1,741 | 1,780 |
| 1,774 | 1,862 | Law and order | 1,843 | 1,734 |
| 1,192 | 1,266 | Defence | 1,311 | 1,199 |
| 1,316 | 1,454 | Transport and communications | 1,461 | 1,408 |
| 1,226 | 1,246 | Economic and industrial services | 1,192 | 1,054 |
| 367 | 373 | Primary services | 368 | 355 |
| 575 | 671 | Heritage, culture and recreation | 634 | 515 |
| 135 | 140 | Housing and community development | 139 | 102 |
| 110 | 56 | Other | 52 | 75 |
| 2,023 | 2,273 | Finance costs | 2,252 | 2,360 |
| - | 21 | Net foreign-exchange losses/(gains) | 7 | 118 |
| 175 | - | Forecast for future new spending | - | - |
| 41,738 | 42,211 | Total Core Crown Expenses | 41,608 | 41,749 |

The accompanying notes and accounting policies are an integral part of these statements.

Statement of Cash Flows

(for the year ended 30 June 2004)

| Forecast | | | Actual | |
|---|------------------|--|----------------|----------------|
| 2003 | Estimated | | 30 June | 30 June |
| Budget | Actual | | 2004 | 2003 |
| \$m | \$m | | \$m | \$m |
| Cash Flows from Operations | | | | |
| Cash was provided from | | | | |
| 40,609 | 42,199 | Total tax receipts (refer Note 1) | 42,308 | 39,499 |
| 2,724 | 2,773 | Total other sovereign receipts (refer Note 1) | 2,852 | 2,531 |
| 919 | 1,474 | Interest | 1,366 | 1,200 |
| 47 | 58 | Dividends | 56 | 45 |
| 9,798 | 10,144 | Sales of goods and services | 10,478 | 10,543 |
| 1,816 | 2,024 | Other operating receipts | 1,958 | 1,472 |
| 55,913 | 58,672 | Total Cash Provided from Operations | 59,018 | 55,290 |
| Cash was disbursed to | | | | |
| 16,187 | 15,715 | Subsidies and transfer payments | 15,370 | 15,305 |
| 31,412 | 32,585 | Personnel and operating payments | 32,398 | 30,087 |
| 2,168 | 2,315 | Finance costs | 2,256 | 2,203 |
| 175 | - | Forecast for future new spending | - | - |
| 49,942 | 50,615 | Total Cash Disbursed to Operations | 50,024 | 47,595 |
| 5,971 | 8,057 | Net Cash Flows from Operations | 8,994 | 7,695 |
| Cash Flows From Investing Activities | | | | |
| Cash was provided from | | | | |
| 103 | 230 | Sale of physical assets | 226 | 240 |
| 103 | 230 | Total Cash Provided from Investing Activities | 226 | 240 |
| Cash was disbursed to | | | | |
| 3,619 | 4,177 | Purchase of physical assets | 3,761 | 3,492 |
| 1,527 | 2,330 | Net increase in advances | 976 | 1,341 |
| (35) | 2,160 | Net purchase/(sale) of marketable securities, | | |
| 206 | - | deposits and equity investments | 2,556 | 5,023 |
| | | Forecast for future new capital spending | - | - |
| 5,317 | 8,667 | Total Cash Disbursed to Investing Activities | 7,293 | 9,856 |
| (5,214) | (8,437) | Net Cash Flows from Investing Activities | (7,067) | (9,616) |
| 757 | (380) | Net Cash Flows from | | |
| | | Operating and Investing Activities | 1,927 | (1,921) |
| Cash Flows from Financing Activities | | | | |
| Cash was provided from | | | | |
| - | 177 | Issues of circulating currency | 114 | 147 |
| 6 | 1,323 | Net issue/(repayment) of foreign-currency borrowing | 129 | 1,542 |
| 6 | 1,500 | Total Cash Provided from Financing Activities | 243 | 1,689 |
| Cash was disbursed to | | | | |
| 327 | 357 | Net repayment/(issue) of other New Zealand- | | |
| | | dollar borrowing | 241 | (392) |
| 506 | 1,150 | Net repayments/(issues) of Government stock ¹ | 1,120 | (292) |
| 833 | 1,507 | Total Cash Disbursed to Financing Activities | 1,361 | (684) |
| (827) | (7) | Net Cash Flows from Financing Activities | (1,118) | 2,373 |
| (70) | (387) | Net Movement in Cash | 809 | 452 |
| 2,147 | 2,732 | Opening Cash Balance | 2,732 | 2,274 |
| (4) | (4) | Foreign-exchange (losses)/gains on opening cash | (91) | 6 |
| 2,073 | 2,341 | Closing Cash Balance | 3,450 | 2,732 |

¹ Net (repayments)/issues of Government stock include movements within Government stock holdings of entities such as NZS Fund, GSF, ACC and EQC. The bonds reconciliation reconciles core Crown activity to New Zealand Debt Management Office (NZDMO) bond issues (refer page 80).

The accompanying notes and accounting policies are an integral part of these statements.

Statement of Cash Flows

(for the year ended 30 June 2004) - continued

| <i>Forecast</i> | | | <i>Actual</i> | |
|--|----------------------------|--|------------------------|------------------------|
| 2003 Budget \$m | Estimated Actual \$m | | 30 June 2004 \$m | 30 June 2003 \$m |
| Reconciliation Between the Net Cash Flows from Operations and the Operating Balance | | | | |
| 5,971 | 8,057 | Net Cash Flows from Operations | 8,994 | 7,695 |
| <i>Items included in the operating balance but not in net cash flows from operations</i> | | | | |
| Valuation Changes | | | | |
| 87 | (214) | Decrease/(increase) in pension liabilities | 315 | (1,647) |
| (499) | (608) | (Increase)/decrease in ACC liabilities | (170) | (1,654) |
| - | - | (Increase)/decrease NPF guarantee | (9) | (197) |
| - | - | (Decrease)/increase in commercial forests | (40) | (20) |
| - | (278) | Unrealised net foreign-exchange (losses)/gains | (225) | (247) |
| 108 | 753 | Other valuation changes | 648 | (349) |
| (304) | (347) | Total Valuation Changes | 519 | (4,114) |
| Property, Plant and Equipment Asset Movements | | | | |
| (2,340) | (2,398) | Depreciation | (2,347) | (2,177) |
| - | - | Gains/(loss) on sale of physical assets | 15 | (19) |
| (2,340) | (2,398) | Total Property, Plant and Equipment Movements | (2,332) | (2,196) |
| Other Non-Cash Items | | | | |
| (99) | (15) | Student loans | (80) | (79) |
| (47) | (47) | Amortisation of goodwill | (78) | (84) |
| 264 | 199 | Other | 139 | 127 |
| 118 | 137 | Total Other Non-Cash Items | (19) | (36) |
| Movements in Working Capital | | | | |
| 37 | 96 | Increase/(decrease) in taxes receivable | 468 | 685 |
| (113) | (686) | (Decrease)/increase in other receivables | (24) | 854 |
| 35 | 48 | Increase/(decrease) in inventories | 48 | (56) |
| 357 | 968 | (Increase)/decrease in payables | (230) | (866) |
| 316 | 426 | Total Movements in Working Capital | 262 | 617 |
| 3,761 | 5,875 | Operating Balance | 7,424 | 1,966 |

The accompanying notes and accounting policies are an integral part of these statements.

Statement of Financial Position

(as at 30 June 2004)

| <i>Forecast</i> | | | <i>Actual</i> | |
|--------------------|------------------|-------------|----------------|----------------|
| 2003 | Estimated | | 30 June | 30 June |
| Budget | Actual | Note | 2004 | 2003 |
| \$m | \$m | | \$m | \$m |
| Assets | | | | |
| 2,073 | 2,341 | | | |
| | | | | |
| 19,453 | 22,222 | | | |
| 7,222 | 7,602 | | | |
| 8,325 | 9,553 | | | |
| 902 | 888 | | | |
| 396 | 241 | | | |
| 52,105 | 53,912 | | | |
| 302 | 291 | | | |
| 3,976 | 4,412 | | | |
| 618 | 1,131 | | | |
| 206 | - | | | |
| 95,578 | 102,593 | | 110,672 | 99,851 |
| Liabilities | | | | |
| 9,706 | 10,255 | | | |
| 2,963 | 3,072 | | | |
| 28,957 | 28,682 | | | |
| 7,421 | 6,958 | | | |
| 13,335 | 14,071 | | | |
| 9,200 | 9,763 | | | |
| 71,582 | 72,801 | | 75,209 | 76,070 |
| 23,996 | 29,792 | | 35,463 | 23,781 |
| Net Worth | | | | |
| 11,017 | 13,956 | | | |
| 12,786 | 15,682 | | | |
| 193 | 154 | | | |
| 23,996 | 29,792 | | 35,463 | 23,781 |

The accompanying notes and accounting policies are an integral part of these statements.

Analysis of Key Components of the Statement of Financial Position (as at 30 June 2004)

Following is an analysis of the New Zealand Superannuation (NZS) Fund and Gross and Net Debt information. The notes to the accounts provide a breakdown of other key balance sheet items.

New Zealand Superannuation Fund (NZS Fund)

Within marketable securities, deposits and equity investments is the NZS Fund (except for cross holdings of investments with other parts of the Crown, for example the NZS Fund may hold NZ Government Stock). The following information includes all investments and income, including cross-holdings of NZ Government Stock and accrued interest on such stock. Income after tax includes interest earned from 1 July 2003 to 30 September 2003, while the funds were still held by NZDMO on behalf of the NZS Fund. The NZS Fund's income after tax reported in their financial statements will represent the period 1 October 2003 to 30 June 2004.

| <i>Forecast</i> | | | <i>Actual</i> | |
|-----------------------|----------------------------|-------------------------|------------------------|------------------------|
| 2003 Budget \$m | Estimated Actual \$m | | 30 June 2004 \$m | 30 June 2003 \$m |
| 1,884 | 1,884 | Opening balance | 1,884 | 615 |
| 1,879 | 1,879 | Gross contribution | 1,879 | 1,200 |
| 187 | 122 | Income after tax | 193 | 69 |
| 3,950 | 3,885 | NZS Fund Balance | 3,956 | 1,884 |

Gross and Net Debt information

Definitions of debt:

Total Crown 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 (ie, after eliminations of internal cross-holdings).

The balance sheet splits total Crown debt into sovereign-guaranteed and non-sovereign-guaranteed debt. This split reflects the fact that debt held by SOEs and Crown entities is not explicitly guaranteed by the Crown. Any such debt that may be guaranteed is included in the sovereign-guaranteed total. No debt of SOEs and Crown entities is currently guaranteed by the Crown.

Gross sovereign-issued debt is debt issued by the sovereign (ie, core Crown) and includes Government stock held by the NZS Fund, GSF, ACC or EQC for example. In other words, the gross sovereign-issued debt does not eliminate any internal cross-holdings of entities listed above. The Government's debt objective uses this measure of debt.

| | | Total Crown | | |
|---------------|---------------|------------------------------------|---------------|---------------|
| 36,378 | 35,640 | Total Crown Gross Debt | 36,825 | 38,285 |
| 34,160 | 34,031 | Gross Sovereign-Issued Debt | 35,527 | 36,086 |
| | | Core Crown | | |
| 34,160 | 34,031 | Gross sovereign-issued debt | 35,527 | 36,086 |
| (22,382) | (24,581) | Financial assets | (26,752) | (23,029) |
| 11,778 | 9,450 | | 8,775 | 13,057 |
| 6,677 | 6,451 | NZS Fund and GSF financial assets | 6,429 | 4,520 |
| 18,455 | 15,901 | Net core Crown Debt | 15,204 | 17,577 |

The accompanying notes and accounting policies are an integral part of these statements.

Statement of Movements in Equity

(for the year ended 30 June 2004)

| <i>Forecast</i> | | | <i>Actual</i> | |
|-----------------|------------------|---|----------------|----------------|
| 2003 | Estimated | | 30 June | 30 June |
| Budget | Actual | | 2004 | 2003 |
| \$m | \$m | | \$m | \$m |
| 20,197 | 23,781 | Opening Net Worth | 23,781 | 18,820 |
| 3,761 | 5,875 | Operating balance (excl. minority interest) | 7,424 | 1,978 |
| 38 | 60 | Minority interest in operating balance | 45 | (12) |
| - | 76 | Net revaluations | 4,213 | 2,995 |
| 3,799 | 6,011 | Total Recognised Revenues and Expenses | 11,682 | 4,961 |
| 23,996 | 29,792 | Closing Net Worth | 35,463 | 23,781 |

The accompanying notes and accounting policies are an integral part of these statements.

Statement of Borrowings

(as at 30 June 2004)

| <i>Forecast</i> | | | <i>Actual</i> | |
|---|----------------------------|---|------------------------|------------------------|
| 2003 Budget \$m | Estimated Actual \$m | | 30 June 2004 \$m | 30 June 2003 \$m |
| Sovereign Guaranteed Debt | | | | |
| New Zealand-Dollar Debt | | | | |
| 18,259 | 17,412 | Government stock | 17,351 | 18,745 |
| 5,270 | 5,435 | Treasury bills | 5,525 | 5,317 |
| (1,183) | 468 | Loans and foreign-exchange contracts | (1,098) | (500) |
| 632 | 648 | Retail stock | 654 | 818 |
| 22,978 | 23,963 | Total New Zealand-Dollar Debt | 22,432 | 24,380 |
| Foreign-Currency Debt | | | | |
| 3,591 | 1,788 | United States dollars | 3,079 | 2,495 |
| 106 | 729 | Japanese yen | 1,015 | 835 |
| 2,282 | 2,202 | European and other currencies | 3,432 | 3,367 |
| 5,979 | 4,719 | Total Foreign-Currency Debt | 7,526 | 6,697 |
| 28,957 | 28,682 | Total Sovereign-Guaranteed Debt | 29,958 | 31,077 |
| Non-Sovereign-Guaranteed Debt | | | | |
| 6,469 | 5,907 | New Zealand dollars | 4,283 | 5,739 |
| 829 | 928 | United States dollars | 1,679 | 977 |
| - | - | Japanese yen | 351 | 212 |
| 123 | 123 | European and other currencies | 554 | 280 |
| 7,421 | 6,958 | Total Non-Sovereign Guaranteed Debt | 6,867 | 7,208 |
| 36,378 | 35,640 | Total Borrowings (Gross Debt) | 36,825 | 38,285 |
| Less | | | | |
| Financial Assets (including restricted assets) | | | | |
| Marketable Securities, Deposits and Equity Investments | | | | |
| 7,670 | 8,230 | New Zealand dollars | 7,089 | 8,276 |
| 5,211 | 3,544 | United States dollars | 4,069 | 4,144 |
| 143 | 763 | Japanese yen | 1,206 | 838 |
| 607 | 773 | European and other currencies | 2,814 | 2,247 |
| 1,074 | 849 | Reserve position at International Monetary Fund (IMF) | 1,012 | 1,067 |
| 1,362 | 1,758 | New Zealand equity investments | 1,968 | 1,401 |
| 3,386 | 6,305 | Foreign equity investments | 6,478 | 3,333 |
| 19,453 | 22,222 | Total Marketable Securities, Deposits and Equity Investments | 24,636 | 21,306 |
| Advances and Cash and Bank | | | | |
| 5,926 | 6,095 | Student loans | 5,995 | 5,370 |
| 1,296 | 1,507 | Other advances | 1,450 | 930 |
| 2,073 | 2,341 | Cash | 3,450 | 2,732 |
| 9,295 | 9,943 | Total Advances and Cash | 10,895 | 9,032 |
| 28,748 | 32,165 | Total Financial Assets | 35,531 | 30,338 |
| 7,630 | 3,475 | Borrowings less Financial Assets | 1,294 | 7,947 |
| 11,120 | 10,000 | Net New Zealand-dollar debt | 6,862 | 11,478 |
| (3,490) | (6,525) | Net foreign-currency debt | (5,568) | (3,531) |
| 7,630 | 3,475 | Borrowings less Financial Assets | 1,294 | 7,947 |

Non-sovereign guaranteed debt is a mixture of secured and non-secured debt. Where debt is secured it is over assets of the particular entity or by way of a negative pledge that while any of the stock issued under the relevant deed remains outstanding the entity will not, subject to certain exceptions, create or permit to exist any charge or lien over any of their respective assets.

The accompanying notes and accounting policies are an integral part of these statements.

Statement of Commitments

(as at 30 June 2004)

| | As at 30 June 2004 \$m | As at 30 June 2003 \$m |
|--|---------------------------------|---------------------------------|
| Capital Commitments | | |
| Specialist military equipment | 86 | 292 |
| Land and buildings (including electricity assets) | 1,611 | 987 |
| Other property, plant and equipment | 1,012 | 862 |
| Investments | 400 | 145 |
| TEIs | 60 | 32 |
| Total Capital Commitments | 3,169 | 2,318 |
| Operating Commitments | | |
| Non-cancellable accommodation leases | 1,492 | 1,268 |
| Other non-cancellable leases | 2,330 | 3,174 |
| Non-cancellable contracts for the supply of goods and services | 2,253 | 1,907 |
| Other operating commitments | 3,567 | 2,645 |
| TEIs | 325 | 316 |
| Total Operating Commitments | 9,967 | 9,310 |
| Total Commitments | 13,136 | 11,628 |
| Total Commitments by Institutional Segment | | |
| Core Crown | 3,530 | 4,731 |
| Crown entities | 7,413 | 4,783 |
| SOEs | 2,193 | 2,114 |
| Total Commitments | 13,136 | 11,628 |
| By Term | | |
| Capital Commitments | | |
| One year or less | 2,143 | 1,156 |
| From one year to two years | 740 | 705 |
| From two to five years | 224 | 434 |
| Over five years | 62 | 23 |
| Capital Commitments | 3,169 | 2,318 |
| Operating Commitments | | |
| One year or less | 3,042 | 3,416 |
| From one year to two years | 2,182 | 1,635 |
| From two to five years | 2,883 | 2,298 |
| Over five years | 1,860 | 1,961 |
| Operating Commitments | 9,967 | 9,310 |
| Total Commitments | 13,136 | 11,628 |

The accompanying notes and accounting policies are an integral part of these statements.

Statement of Contingent Liabilities and Contingent Assets

(as at 30 June 2004)

| | As at 30 June 2004 \$m | As at 30 June 2003 \$m |
|---|---------------------------------|---------------------------------|
| Guarantees and indemnities | 292 | 418 |
| Uncalled capital | 2,528 | 2,641 |
| Legal proceedings and disputes | 794 | 242 |
| Other contingent liabilities | 1,371 | 1,316 |
| Total Quantifiable Contingent Liabilities | 4,985 | 4,617 |
| Total Quantifiable Contingent Liabilities by Institutional Segment | | |
| Core Crown | 4,734 | 4,418 |
| Crown entities | 53 | 45 |
| SOEs | 198 | 154 |
| Total Quantifiable Contingent Liabilities | 4,985 | 4,617 |
| Quantifiable Contingent Assets | | |
| Total Crown | 157 | 129 |
| Total Quantifiable Contingent Assets | 157 | 129 |

Note 21 contains a breakdown of the material contingent liabilities and a description of non-quantified contingent liabilities and contingent assets.

The accompanying notes and accounting policies are an integral part of these statements.

Statement of Segments

(for the year ended 30 June 2004)

Statement of Financial Performance (institutional form)

for the year ended 30 June 2004 (actual to forecast)

| | Current Year Actual vs Forecast | | | |
|--|---------------------------------|---------------|----------------|---------------|
| | Core Crown | | Crown entities | |
| | Actual | Forecast | Actual | Forecast |
| | 2004 | 2004 | 2004 | 2004 |
| | \$m | \$m | \$m | \$m |
| Revenue | | | | |
| Taxation revenue | 43,008 | 42,740 | - | - |
| Other sovereign-levied income | 611 | 621 | 2,415 | 2,441 |
| Sales of goods and services | 736 | 735 | 1,700 | 1,652 |
| Investment income | 1,999 | 1,885 | 984 | 994 |
| Other revenues | 578 | 640 | 16,073 | 15,588 |
| Total Revenue | 46,932 | 46,621 | 21,172 | 20,675 |
| Expenses by Input Type | | | | |
| Subsidies and transfer payments | 14,058 | 14,087 | 1,408 | 1,419 |
| Personnel expenses | 4,315 | 4,336 | 6,566 | 6,572 |
| Operating expenses | 21,291 | 21,280 | 11,200 | 10,869 |
| Finance costs | 2,252 | 2,273 | 235 | 216 |
| FX losses/(gains) | 7 | 21 | 23 | 147 |
| GSF and ACC liability revaluation movements | (315) | 214 | 170 | 608 |
| Total Expenses | 41,608 | 42,211 | 19,602 | 19,831 |
| Expenses by Functional Classification | | | | |
| Social security and welfare | 14,252 | 14,205 | 2,199 | 2,654 |
| Health | 8,111 | 8,123 | 6,613 | 6,686 |
| Education | 7,585 | 7,589 | 6,175 | 5,843 |
| Other functional classifications | 9,401 | 10,000 | 4,357 | 4,285 |
| Forecast for future new spending | - | - | - | - |
| Finance costs and FX losses/(gains) | 2,259 | 2,294 | 258 | 363 |
| Total expenses | 41,608 | 42,211 | 19,602 | 19,831 |
| Net surplus of TEIs | - | - | 139 | 151 |
| Minority interest | - | - | - | - |
| Operating balance | 5,324 | 4,410 | 1,709 | 995 |

Statement of Financial Position (institutional form)

as at 30 June 2004 (actual to forecast)

| | Core Crown | | Crown entities | |
|--|---------------|---------------|---|----------------|
| | Actual | Forecast | Actual | Forecast |
| | 2004 | 2004 | 2004 | 2004 |
| | \$m | \$m | \$m | \$m |
| Assets | | | | |
| Financial assets | 26,752 | 24,581 | 13,117 | 11,930 |
| Physical assets | 18,675 | 17,832 | 28,884 | 25,922 |
| Investment in SOEs & Crown entities (including TEIs) | 23,162 | 23,451 | 4,367 | 4,412 |
| Other assets | 9,088 | 8,164 | 2,589 | 2,053 |
| Total Assets | 77,677 | 74,028 | 48,957 | 44,317 |
| Liabilities | | | | |
| Borrowings | 34,719 | 33,313 | 3,757 | 3,395 |
| Other liabilities | 23,489 | 23,286 | 13,539 | 12,529 |
| Total Liabilities | 58,208 | 56,599 | 17,296 | 15,924 |
| Net Worth | 19,469 | 17,429 | 31,661 | 28,393 |
| Taxpayer funds | 13,626 | 12,726 | 19,126 | 18,712 |
| Revaluation reserves | 5,843 | 4,703 | 12,535 | 9,681 |
| Minority interest | - | - | - | - |
| Net Worth | 19,469 | 17,429 | 31,661 | 28,393 |
| Analysis of Financial Assets and Borrowings | | | | |
| Advances and cash | 8,919 | 8,482 | 1,794 | 1,460 |
| MSDs and equity investments | 17,833 | 16,099 | 11,323 | 10,470 |
| Total Financial Assets | 26,752 | 24,581 | 13,117 | 11,930 |
| Borrowings - sovereign guaranteed | 34,719 | 33,313 | - | - |
| Borrowings - non-sovereign guaranteed | - | - | 3,757 | 3,395 |
| Total Borrowings | 34,719 | 33,313 | 3,757 | 3,395 |
| Borrowings less Financial Assets | 7,967 | 8,732 | (9,360) | (8,535) |
| Net Crown Debt | 15,204 | 15,901 | Net Crown debt and gross sovereign-issued debt differ from the analysis above due to elimination of cross-holdings of Govt stock and adding back the NZS Fund and GSF assets. | |
| Gross Sovereign-Issued Debt | 35,527 | 34,031 | | |

Statement of Segments

(for the year ended 30 June 2004) – continued

Statement of Financial Performance (institutional form)

for the year ended 30 June 2004 (actual to forecast)

| | Current Year Actual vs Forecast | | | | | |
|--|---------------------------------|--------------|-----------------|-----------------|---------------|---------------|
| | State-owned | | Inter-segment | | Total Crown | |
| | Actual | Forecast | Actual | Forecast | Actual | Forecast |
| | 2004 | 2004 | 2004 | 2004 | 2004 | 2004 |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Revenue | | | | | | |
| Taxation revenue | - | - | (476) | (387) | 42,532 | 42,353 |
| Other sovereign-levied income | - | - | (40) | (56) | 2,986 | 3,006 |
| Sales of goods and services | 8,209 | 8,202 | (445) | (382) | 10,200 | 10,207 |
| Investment income | 132 | 124 | (462) | (437) | 2,653 | 2,566 |
| Other revenues | 616 | 671 | (15,251) | (14,837) | 2,016 | 2,062 |
| Total Revenue | 8,957 | 8,997 | (16,674) | (16,099) | 60,387 | 60,194 |
| Expenses by Input Type | | | | | | |
| Subsidies and transfer payments | - | - | - | - | 15,466 | 15,506 |
| Personnel expenses | 1,624 | 1,632 | (4) | (4) | 12,501 | 12,536 |
| Operating expenses | 6,377 | 6,398 | (16,206) | (15,657) | 22,662 | 22,890 |
| Finance costs | 298 | 307 | (183) | (220) | 2,602 | 2,576 |
| FX losses/(gains) | (59) | (88) | - | - | (29) | 80 |
| GSF and ACC liability revaluation movements | - | - | - | - | (145) | 822 |
| Total Expenses | 8,240 | 8,249 | (16,393) | (15,881) | 53,057 | 54,410 |
| Expenses by Functional Classification | | | | | | |
| Social security and welfare | - | - | (413) | (412) | 16,038 | 16,447 |
| Health | - | - | (7,101) | (6,917) | 7,623 | 7,892 |
| Education | - | - | (5,411) | (5,197) | 8,349 | 8,235 |
| Other functional classifications | 8,001 | 8,030 | (3,285) | (3,135) | 18,474 | 19,180 |
| Forecast for future new spending | - | - | - | - | - | - |
| Finance costs and FX losses/(gains) | 239 | 219 | (183) | (220) | 2,573 | 2,656 |
| Total expenses | 8,240 | 8,249 | (16,393) | (15,881) | 53,057 | 54,410 |
| Net surplus of TEIs | - | - | - | - | 139 | 151 |
| Minority interest | (45) | (60) | - | - | (45) | (60) |
| Operating balance | 672 | 688 | (281) | (218) | 7,424 | 5,875 |

Statement of Financial Position (institutional form)

as at 30 June 2004 (actual to forecast)

| | State-owned | | Inter-segment | | Total Crown | |
|--|---------------|---------------|-----------------|-----------------|----------------|----------------|
| | Actual | Forecast | Actual | Forecast | Actual | Forecast |
| | 2004 | 2004 | 2004 | 2004 | 2004 | 2004 |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Assets | | | | | | |
| Financial assets | 2,750 | 2,524 | (7,088) | (6,870) | 35,531 | 32,165 |
| Physical assets | 10,381 | 10,158 | - | - | 57,940 | 53,912 |
| Investment in SOEs & Crown entities (including TEIs) | - | - | (23,162) | (23,451) | 4,367 | 4,412 |
| Other assets | 2,147 | 2,692 | (990) | (805) | 12,834 | 12,104 |
| Total Assets | 15,278 | 15,374 | (31,240) | (31,126) | 110,672 | 102,593 |
| Liabilities | | | | | | |
| Borrowings | 5,437 | 5,802 | (7,088) | (6,870) | 36,825 | 35,640 |
| Other liabilities | 2,830 | 2,652 | (1,474) | (1,306) | 38,384 | 37,161 |
| Total Liabilities | 8,267 | 8,454 | (8,562) | (8,176) | 75,209 | 72,801 |
| Net Worth | 7,011 | 6,920 | (22,678) | (22,950) | 35,463 | 29,792 |
| Taxpayer funds | 5,412 | 5,468 | (22,678) | (22,950) | 15,486 | 13,956 |
| Revaluation reserves | 1,460 | 1,298 | - | - | 19,838 | 15,682 |
| Minority interest | 139 | 154 | - | - | 139 | 154 |
| Net Worth | 7,011 | 6,920 | (22,678) | (22,950) | 35,463 | 29,792 |
| Analysis of Financial Assets and Borrowings | | | | | | |
| Advances and cash | 2,305 | 2,174 | (2,123) | (2,173) | 10,895 | 9,943 |
| MSDs and equity investments | 445 | 350 | (4,965) | (4,697) | 24,636 | 22,222 |
| Total Financial Assets | 2,750 | 2,524 | (7,088) | (6,870) | 35,531 | 32,165 |
| Borrowings - sovereign guaranteed | - | - | (4,761) | (4,631) | 29,958 | 28,682 |
| Borrowings - non-sovereign guaranteed | 5,437 | 5,802 | (2,327) | (2,239) | 6,867 | 6,958 |
| Total Borrowings | 5,437 | 5,802 | (7,088) | (6,870) | 36,825 | 35,640 |
| Borrowings less Financial Assets | 2,687 | 3,278 | - | - | 1,294 | 3,475 |

Statement of Segments

(for the year ended 30 June 2004) – continued

Statement of Financial Performance (institutional form)

for the year ended 30 June 2004 (compared with actual 30 June 2003)

| | Current Year Actual vs Prior Year Actual | | | |
|--|--|-----------------------|-----------------------|-----------------------|
| | Core Crown | | Crown entities | |
| | Actual 2004 \$m | Actual 2003 \$m | Actual 2004 \$m | Actual 2003 \$m |
| Revenue | | | | |
| Taxation revenue | 43,008 | 40,168 | - | - |
| Other sovereign levied-income | 611 | 517 | 2,415 | 2,297 |
| Sales of goods and services | 736 | 730 | 1,700 | 1,245 |
| Investment income | 1,999 | 1,539 | 984 | 718 |
| Other revenues | 578 | 670 | 16,073 | 13,600 |
| Total Revenue | 46,932 | 43,624 | 21,172 | 17,860 |
| Expenses by Input Type | | | | |
| Subsidies and transfer payments | 14,058 | 13,798 | 1,408 | 1,309 |
| Personnel expenses | 4,315 | 4,011 | 6,566 | 6,054 |
| Operating expenses | 21,291 | 19,815 | 11,200 | 8,867 |
| Finance costs | 2,252 | 2,360 | 235 | 202 |
| FX losses/(gains) | 7 | 118 | 23 | 48 |
| GSF and ACC liability revaluation movements | (315) | 1,647 | 170 | 1,654 |
| Total Expenses | 41,608 | 41,749 | 19,602 | 18,134 |
| Expenses by Functional Classification | | | | |
| Social security and welfare | 14,252 | 13,907 | 2,199 | 3,587 |
| Health | 8,111 | 7,501 | 6,613 | 5,934 |
| Education | 7,585 | 7,016 | 6,175 | 4,724 |
| Other functional classifications | 9,401 | 10,847 | 4,357 | 3,639 |
| Forecast for future new spending | - | - | - | - |
| Finance costs and FX losses/(gains) | 2,259 | 2,478 | 258 | 250 |
| Total expenses | 41,608 | 41,749 | 19,602 | 18,134 |
| Net surplus of TEIs | - | - | 139 | 151 |
| Minority interest | - | - | - | - |
| Operating balance | 5,324 | 1,875 | 1,709 | (123) |

Statement of Financial Position (institutional form)

as at 30 June 2004 (compared with actual 30 June 2003)

| | Core Crown | | Crown entities | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | Actual 2004 \$m | Actual 2003 \$m | Actual 2004 \$m | Actual 2003 \$m |
| | Assets | | | |
| Financial assets | 26,752 | 23,029 | 13,117 | 10,947 |
| Physical assets | 18,675 | 17,450 | 28,884 | 25,253 |
| Investment in SOEs & Crown entities (including TEIs) | 23,162 | 23,166 | 4,367 | 4,212 |
| Other assets | 9,088 | 8,589 | 2,589 | 2,334 |
| Total Assets | 77,677 | 72,234 | 48,957 | 42,746 |
| Liabilities | | | | |
| Borrowings | 34,719 | 35,575 | 3,757 | 3,167 |
| Other liabilities | 23,489 | 23,661 | 13,539 | 12,753 |
| Total Liabilities | 58,208 | 59,236 | 17,296 | 15,920 |
| Net Worth | 19,469 | 12,998 | 31,661 | 26,826 |
| Taxpayer funds | 13,626 | 8,316 | 19,126 | 17,160 |
| Revaluation reserves | 5,843 | 4,682 | 12,535 | 9,666 |
| Minority interest | - | - | - | - |
| Net Worth | 19,469 | 12,998 | 31,661 | 26,826 |
| Analysis of Financial Assets and Borrowings | | | | |
| Advances and cash | 8,919 | 6,994 | 1,794 | 1,501 |
| MSDs and equity investments | 17,833 | 16,035 | 11,323 | 9,446 |
| Total Financial Assets | 26,752 | 23,029 | 13,117 | 10,947 |
| Borrowings - Sovereign guaranteed | 34,719 | 35,575 | - | - |
| Borrowings - Non-sovereign guaranteed | - | - | 3,757 | 3,167 |
| Total Borrowings | 34,719 | 35,575 | 3,757 | 3,167 |
| Borrowings less Financial Assets | 7,967 | 12,546 | (9,360) | (7,780) |
| Net Crown Debt | 15,204 | 17,577 | | |
| Gross Sovereign-Issued Debt | 35,527 | 36,086 | | |

Net Crown debt and gross sovereign-issued debt differ from the analysis above due to elimination of cross-holdings of Govt stock and adding back the NZS Fund and GSF assets.

Statement of Segments

(for the year ended 30 June 2004) – continued

Statement of Financial Performance (institutional form)

for the year ended 30 June 2004 (compared with actual 30 June 2003)

| | Current Year Actual vs Prior Year Actual | | | | | |
|--|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | State-owned | | Inter-segment | | Total Crown | |
| | Actual 2004 \$m | Actual 2003 \$m | Actual 2004 \$m | Actual 2003 \$m | Actual 2004 \$m | Actual 2003 \$m |
| Revenue | | | | | | |
| Taxation revenue | - | - | (476) | (383) | 42,532 | 39,785 |
| Other sovereign levied-income | - | - | (40) | (51) | 2,986 | 2,763 |
| Sales of goods and services | 8,209 | 8,797 | (445) | (387) | 10,200 | 10,385 |
| Investment income | 132 | 104 | (462) | (502) | 2,653 | 1,859 |
| Other revenues | 616 | 588 | (15,251) | (12,623) | 2,016 | 2,235 |
| Total Revenue | 8,957 | 9,489 | (16,674) | (13,946) | 60,387 | 57,027 |
| Expenses by Input Type | | | | | | |
| Subsidies and transfer payments | - | - | - | - | 15,466 | 15,107 |
| Personnel expenses | 1,624 | 1,557 | (4) | (2) | 12,501 | 11,620 |
| Operating expenses | 6,377 | 7,334 | (16,206) | (13,451) | 22,662 | 22,565 |
| Finance costs | 298 | 267 | (183) | (279) | 2,602 | 2,550 |
| FX losses/(gains) | (59) | (85) | - | - | (29) | 81 |
| GSF and ACC liability revaluation movements | - | - | - | - | (145) | 3,301 |
| Total Expenses | 8,240 | 9,073 | (16,393) | (13,732) | 53,057 | 55,224 |
| Expenses by Functional Classification | | | | | | |
| Social security and welfare | - | - | (413) | (410) | 16,038 | 17,084 |
| Health | - | - | (7,101) | (6,023) | 7,623 | 7,412 |
| Education | - | - | (5,411) | (3,952) | 8,349 | 7,788 |
| Other functional classifications | 8,001 | 8,891 | (3,285) | (3,068) | 18,474 | 20,309 |
| Forecast for future new spending | - | - | - | - | - | - |
| Finance costs and FX losses/(gains) | 239 | 182 | (183) | (279) | 2,573 | 2,631 |
| Total expenses | 8,240 | 9,073 | (16,393) | (13,732) | 53,057 | 55,224 |
| Net surplus of TEIs | - | - | - | - | 139 | 151 |
| Minority interest | (45) | 12 | - | - | (45) | 12 |
| Operating balance | 672 | 428 | (281) | (214) | 7,424 | 1,966 |

Statement of Financial Position (institutional form)

as at 30 June 2004 (compared with actual 30 June 2003)

| | State-owned | | Inter-segment | | Total Crown | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Actual 2004 \$m | Actual 2003 \$m | Actual 2004 \$m | Actual 2003 \$m | Actual 2004 \$m | Actual 2003 \$m |
| | Assets | | | | | |
| Financial assets | 2,750 | 2,016 | (7,088) | (5,654) | 35,531 | 30,338 |
| Physical assets | 10,381 | 9,964 | - | - | 57,940 | 52,667 |
| Investment in SOEs & Crown entities (including TEIs) | - | - | (23,162) | (23,166) | 4,367 | 4,212 |
| Other assets | 2,147 | 2,508 | (990) | (797) | 12,834 | 12,634 |
| Total Assets | 15,278 | 14,488 | (31,240) | (29,617) | 110,672 | 99,851 |
| Liabilities | | | | | | |
| Borrowings | 5,437 | 5,197 | (7,088) | (5,654) | 36,825 | 38,285 |
| Other liabilities | 2,830 | 2,663 | (1,474) | (1,292) | 38,384 | 37,785 |
| Total Liabilities | 8,267 | 7,860 | (8,562) | (6,946) | 75,209 | 76,070 |
| Net Worth | 7,011 | 6,628 | (22,678) | (22,671) | 35,463 | 23,781 |
| Taxpayer funds | 5,412 | 5,258 | (22,678) | (22,671) | 15,486 | 8,063 |
| Revaluation reserves | 1,460 | 1,276 | - | - | 19,838 | 15,624 |
| Minority interest | 139 | 94 | - | - | 139 | 94 |
| Net Worth | 7,011 | 6,628 | (22,678) | (22,671) | 35,463 | 23,781 |
| Analysis of Financial Assets and Borrowings | | | | | | |
| Advances and cash | 2,305 | 1,541 | (2,123) | (1,004) | 10,895 | 9,032 |
| MSDs and equity investments | 445 | 475 | (4,965) | (4,650) | 24,636 | 21,306 |
| Total Financial Assets | 2,750 | 2,016 | (7,088) | (5,654) | 35,531 | 30,338 |
| Borrowings - Sovereign guaranteed | - | - | (4,761) | (4,498) | 29,958 | 31,077 |
| Borrowings - Non-sovereign guaranteed | 5,437 | 5,197 | (2,327) | (1,156) | 6,867 | 7,208 |
| Total Borrowings | 5,437 | 5,197 | (7,088) | (5,654) | 36,825 | 38,285 |
| Borrowings less Financial Assets | 2,687 | 3,181 | - | - | 1,294 | 7,947 |

Statement of Segments

(for the year ended 30 June 2004) – continued

Statement of Financial Performance (functional classification) for the year ended 30 June 2004

| | <i>Actual 2004</i> | | | <i>Actual 2003</i> | | |
|---|----------------------|-----------------------|--------------------|----------------------|-----------------------|--------------------|
| | Total revenue \$m | Total expenses \$m | Net segment \$m | Total revenue \$m | Total expenses \$m | Net segment \$m |
| Total Crown by Functional Classification | | | | | | |
| Social security and welfare | 2,572 | 16,038 | (13,466) | 2,311 | 17,084 | (14,773) |
| GSF pension expenses | 492 | 660 | (168) | 262 | 2,625 | (2,363) |
| Health | 80 | 7,623 | (7,543) | 162 | 7,412 | (7,250) |
| Education | 777 | 8,349 | (7,572) | 543 | 7,788 | (7,245) |
| Core government services | 335 | 1,670 | (1,335) | 115 | 1,655 | (1,540) |
| Law and order | 363 | 2,022 | (1,659) | 383 | 1,911 | (1,528) |
| Defence | - | 1,259 | (1,259) | - | 1,154 | (1,154) |
| Transport and communications | 4,530 | 5,443 | (913) | 5,229 | 5,619 | (390) |
| Economic and industrial services | 4,367 | 4,070 | 297 | 4,259 | 4,280 | (21) |
| Primary services | 608 | 1,074 | (466) | 806 | 1,023 | (217) |
| Heritage, culture and recreation | 1,206 | 1,609 | (403) | 641 | 1,425 | (784) |
| Housing and community development | 699 | 615 | 84 | 636 | 542 | 94 |
| Other | - | 52 | (52) | - | 75 | (75) |
| Finance costs | 1,215 | 2,602 | (1,387) | 1,378 | 2,550 | (1,172) |
| Net foreign-exchange losses/(gains) | - | (29) | 29 | - | 81 | (81) |
| Unallocated revenues (tax revenue) | 43,143 | - | 43,143 | 40,302 | - | 40,302 |
| Net surplus of TEIs | - | - | 139 | - | - | 151 |
| Minority interest | - | - | (45) | - | - | 12 |
| Total Crown | 60,387 | 53,057 | 7,424 | 57,027 | 55,224 | 1,966 |

Statement of Financial Position (functional classification) as at 30 June 2004

| | <i>Actual 2004</i> | | | | <i>Actual 2003</i> | | | |
|---|------------------------|---------------------|-------------------------|--------------------------|------------------------|---------------------|-------------------------|--------------------------|
| | Physical assets \$m | Total assets \$m | Total borrowings \$m | Total liabilities \$m | Physical assets \$m | Total assets \$m | Total borrowings \$m | Total liabilities \$m |
| Total Crown by Functional Classification | | | | | | | | |
| Social security and welfare | 349 | 14,410 | 525 | 11,700 | 314 | 6,361 | 507 | 9,155 |
| GSF pension expenses | - | 3,125 | - | 13,543 | - | 2,636 | - | 13,857 |
| Health | 3,113 | 3,876 | 495 | 2,048 | 2,870 | 4,625 | 532 | 2,057 |
| Education | 8,505 | 14,085 | 43 | 969 | 7,923 | 13,462 | 40 | 952 |
| Core government services | 2,142 | 21,133 | 30,015 | 37,016 | 2,109 | 22,838 | 31,077 | 40,171 |
| Law and order | 1,748 | 3,111 | 19 | 493 | 1,626 | 3,377 | - | 475 |
| Defence | 3,388 | 3,940 | - | 284 | 3,313 | 3,851 | - | 226 |
| Transport and communications | 15,284 | 18,735 | 2,303 | 4,789 | 14,840 | 18,116 | 2,003 | 4,117 |
| Economic and industrial services | 7,609 | 10,883 | 2,696 | 2,757 | 7,086 | 10,384 | 3,198 | 3,463 |
| Primary services | 1,119 | 1,878 | 207 | 456 | 952 | 1,753 | 141 | 376 |
| Heritage, culture and recreation | 4,407 | 5,082 | 65 | 428 | 3,942 | 4,582 | - | 218 |
| Housing and community development | 10,120 | 10,249 | 457 | 639 | 7,561 | 7,715 | 787 | 934 |
| Other | 156 | 165 | - | 87 | 131 | 151 | - | 69 |
| Total Crown | 57,940 | 110,672 | 36,825 | 75,209 | 52,667 | 99,851 | 38,285 | 76,070 |

Statement of Accounting Policies

Reporting Entity

The Crown financial statements have been prepared in accordance with the requirements of the Public Finance Act 1989.

The Crown reporting entity as specified in Part III of the Public Finance Act 1989 comprises:

- Ministers of the Crown
- Reserve Bank of New Zealand
- State owned enterprises
- Crown entities
- Departments
- Government Superannuation Fund
- New Zealand Superannuation Fund
- Air New Zealand Limited

A more detailed listing of the components of the Crown reporting entity is set out in the supplementary information on pages 88 and 89.

Accounting Policies

These financial statements comply with generally accepted accounting practice. The measurement base applied is historical cost adjusted for revaluations of certain property, plant and equipment, state highways, commercial forests and marketable securities held for trading purposes. The accrual basis of accounting has been used unless otherwise stated.

Reporting and forecast period

The reporting and forecast period for these financial statements is the year ended 30 June 2004.

The Budget forecast is the original forecast for the financial year, as presented in the 2003 Budget on 15 May 2003. The estimated actual forecast, as presented in the 2004 Budget on 27 May 2004, has been prepared using actual data up to 31 March 2004, and forecast data for the remainder of the financial year.

Basis of combination

Ministers of the Crown, departments, the Reserve Bank of New Zealand, the GSF, the NZS Fund, SOEs (including Air New Zealand Limited) and Crown entities (excluding TEIs) are combined using the purchase method of combination. Corresponding assets, liabilities, revenues and expenses are added together line by line. Transactions and balances between these sub-entities are eliminated on combination. Offices of Parliament are not included in the Crown financial statements.

TEIs are equity accounted, which recognises these entities' net assets, including asset revaluation movements and surpluses and deficits.

Note 13 outlines in more detail why there is a difference in the accounting treatment of TEIs and from other Crown entities and the exclusion of Offices of Parliament.

Revenue

Revenue levied through the Crown's sovereign power

The Crown provides many services and benefits that do not give rise to revenue. Further, payment of tax does not, of itself, entitle a taxpayer to an equivalent value of services or benefits, as there is no direct relationship between paying tax and receiving Crown services and transfers.

Such revenue is received through the exercise of the Crown's sovereign power. Where possible, revenue is recognised at the time the debt to the Crown arises.

| Revenue type | Revenue recognition point |
|--|---|
| Source deductions | When an individual earns income that is subject to PAYE |
| Residents' withholding tax ¹ | When an individual is paid interest or dividends subject to deduction at source |
| Fringe benefit tax (FBT) | When benefits are provided that give rise to FBT |
| Provisional tax ² | Payment due date |
| Terminal tax ² | Assessment filed date |
| Goods and services tax | When the liability to the Crown is incurred |
| Excise duty | When goods are subject to duty |
| Road user charges and motor vehicle fees | When payment for the fee or charge is made |
| Stamp, cheque and credit card duties | Assessment filed date |
| Other indirect taxes | When the debt to the Crown arises |
| Levies (eg, ACC levies) | When the obligation to pay the levy to the Crown is incurred |

¹ Corresponds to withholding taxes on residents' interest and dividend income in Note 1 to the financial statements.

² Provisional and terminal taxes are paid by "other persons" and companies (refer to Note 1 to the financial statements).

Revenue earned through operations

If revenue has been earned by the Crown in exchange for the provision of outputs (products or services) to third parties, the Crown receives its revenue through operations. Such revenue is recognised when it is earned.

Investment income

Investment income is recognised in the period in which it is earned.

Premiums and discounts

Premiums arising on the issue of a debt instrument are treated as a reduction in the cost of borrowing. Discounts arising on the purchase of a monetary asset are treated as an increase in investment income.

Premiums and discounts are recognised in the Statement of Financial Position on issue, and are amortised over the period of the instrument on a yield-to-maturity basis.

For floating rate debt instruments, the amortisation is over the first interest period. Discounts on monetary assets deemed short-term securities are amortised on a straight-line basis.

The forward margin associated with forward foreign-exchange contracts is amortised over the period of the contract on a straight-line basis.

Gains

Realised gains arising from sales of assets or the early repurchase of liabilities are recognised in the Statement of Financial Performance in the period in which the transaction occurs.

Unrealised foreign-exchange gains on monetary assets and liabilities, and unrealised gains on marketable securities held for trading purposes and listed equity investments, are recognised in the Statement of Financial Performance.

Unrealised and realised gains related to hedging activity are recognised in the Statement of Financial Performance in the same period in which losses on the underlying hedged position are recognised.

Unrealised gains arising from changes in the value of property, plant and equipment (including state highways) are recognised as at balance date. To the extent that a gain reverses a loss previously charged to the Statement of Financial Performance, the gain is credited to the Statement of Financial Performance. Otherwise, gains are credited to an asset revaluation reserve for that class of asset.

Unrealised gains arising from changes in the value of commercial forests are credited to the Statement of Financial Performance.

Unrealised gains (excluding foreign-exchange gains) arising from changes in the value of investments and marketable securities held for investment and unlisted equity investments are recognised as at balance date only to the extent that they reverse a loss previously charged to the Statement of Financial Performance. Gains effecting such a reversal are credited to the Statement of Financial Performance.

Expenses

General

Expenses are recognised in the period to which they relate.

Welfare benefits

Welfare benefits are recognised in the period when an application for a benefit has been received and the eligibility criteria met.

Grants and subsidies

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown.

Discounts and premiums

Discounts arising on the issue of a debt instrument are treated as an increase in the cost of borrowing. Premiums arising on the purchase of a monetary asset are treated as a reduction in investment income.

Discounts and premiums are recognised in the Statement of Financial Position on issue, and are amortised over the period of the instrument on a yield-to-maturity basis.

For floating rate debt instruments, the amortisation is over the first interest period. Premiums on monetary assets deemed short-term securities are amortised on a straight-line basis.

The forward margin associated with forward foreign-exchange contracts is amortised over the period of the contract on a straight-line basis.

Losses

Realised losses arising from sales of assets or the early repurchase of liabilities are recognised in the Statement of Financial Performance in the period in which the transaction occurs.

Unrealised foreign-exchange losses on monetary assets and liabilities, and unrealised losses on marketable securities held for trading purposes and listed equity investments, are recognised in the Statement of Financial Performance.

Unrealised and realised losses related to hedging activity are recognised in the Statement of Financial Performance in the same period in which gains on the underlying hedged position are recognised.

Unrealised losses (excluding foreign-exchange losses) arising from changes in the value of property, plant and equipment (including state highways), and investments and marketable securities held for investment and unlisted equity investments are recognised at balance date. Unrealised losses are first applied against any revaluation reserve for that class of asset. The balance, if any, is charged to the Statement of Financial Performance.

Unrealised losses arising from changes in the value of commercial forests are charged to the Statement of Financial Performance.

Foreign-currency transactions

Short-term transactions covered by forward exchange contracts are translated into New Zealand dollars using the forward rates specified in those contracts.

Other transactions in foreign currencies are translated into New Zealand dollars using the exchange rate on the date of the transaction. Exchange differences arising on settlement of these transactions are recognised in the Statement of Financial Performance.

Outstanding foreign-exchange contracts are translated at the closing exchange rate. Exchange gains and losses are included in the Statement of Financial Performance in the period in which they arise.

Depreciation

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its estimated useful life. Typically, the estimated useful lives of different classes of property, plant and equipment are as follows:

| Classes | |
|---|-----------------|
| Freehold buildings | 25 to 60 years |
| Specialist military equipment | 5 to 25 years |
| Other plant and equipment | 3 to 25 years |
| State highways: | |
| Pavement (surfacing) | 7 years |
| Pavement (other) | 36 years |
| Bridges | 90 to 100 years |
| Aircraft (ex specialist military equipment) | 10 to 20 years |
| Electricity distribution network | 2 to 80 years |
| Electricity generation assets | 25 to 55 years |

Assets

Foreign monetary assets

Where short-term foreign monetary assets are subject to forward exchange contracts, they are translated into New Zealand dollars at the contract rate. Otherwise, foreign monetary assets are translated at the closing exchange rate.

Exchange gains and losses are included in the Statement of Financial Performance in the period in which they arise.

Receivables and advances

Receivables and advances are recorded at the amounts expected to be ultimately collected in cash.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Where inventories acquired are recorded at cost, the weighted average cost method is used. Appropriate allowance has been made for obsolescence.

*Investments***Marketable securities held for trading purposes**

Marketable securities held for trading purposes are recorded at fair value.

Equity investments

Listed equity investments (other than those forming part of the reporting entity) are recorded at fair value.

Other equity investments (other than those forming part of the reporting entity) are recorded at lower of cost and fair value.

Other investments and marketable securities held for investment purposes

Other investments, including marketable securities held for investment purposes, are recorded at the lower of cost and fair value.

Investments held for hedging purposes are recorded on the same basis as the item being hedged.

Items of property, plant and equipment

Items of property, plant and equipment are initially recorded at cost.

Revaluations are carried out for most classes of property, plant and equipment to reflect the service potential or economic benefit obtained through control of the asset. Revaluation is based on the fair value of the asset. Where an asset is recorded using depreciated replacement cost, depreciated replacement cost is based on the estimated present cost of construction, reduced by factors for age and deterioration of the asset.

Classes of property, plant and equipment assets that are revalued, are revalued at least every five years.

For each property, plant and equipment asset project, borrowing costs incurred during the period required to complete and prepare the asset for its intended use are expensed.

Land and buildings

Land and buildings are recorded at fair value less accumulated depreciation on buildings. In cases where valuations conducted in accordance with the New Zealand Property Institute's standards are not available, valuations conducted in accordance with the Rating Valuation Act 1998, which have been confirmed as appropriate by an independent valuer, have been used.

Specialist military equipment

Specialist military equipment is recorded at depreciated replacement cost (fair value) less accumulated depreciation. Valuations have been obtained through specialist assessment by New Zealand Defence Force advisers, and the basis of these valuations have been confirmed as appropriate by an independent valuer.

State highways

State highways are recorded at depreciated replacement cost based on the estimated present cost of constructing the existing asset by the most appropriate method of construction. Land associated with the state highways is valued using an opportunity cost based on adjacent use, as an approximation to fair value.

Aircraft (excluding specialist military equipment)

Aircraft (excluding SME) are recorded at fair value less any accumulated depreciation.

Electricity distribution network

Electricity distribution network assets are recorded at fair value, adjusted for subsequent additions, disposals and accumulated depreciation.

Electricity generation assets

Electricity generation assets are recorded at cost less accumulated depreciation.

Other items of property, plant and equipment – at cost

Other property, plant and equipment, which include motor vehicles and office equipment, are recorded at cost less accumulated depreciation.

Other physical assets for which an objective estimate of market value is difficult to obtain

Such physical assets (national parks, for example) are recorded at fair value less any accumulated depreciation.

Commercial forests

Commercial forests are recorded at fair value less estimated point-of-sale costs. This takes into account age, quality of timber and the forest management plan.

Goodwill and intangible assets

The excess of cost over the fair value of the net assets of entities acquired (subsidiaries) at the date of acquisition is recognised as goodwill. The balance of goodwill is assessed annually for evidence of impairment in excess of annual amortisation.

Identifiable intangible assets which have been purchased are initially recorded at cost and thereafter either at cost less accumulated amortisation and any accumulated impairment losses or, where an active market exists, at a revalued amount being fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.

Revaluations are determined by reference to an active market. An active market is one in which a willing buyer and seller can normally be found at any time, items traded within the market are homogenous and prices are readily available to the public.

Goodwill and identifiable intangible assets are amortised on a systematic basis to the Statement of Financial Performance over their period of expected benefit. The maximum period of amortisation is 20 years.

Liabilities

Borrowings

In the Statement of Financial Position, borrowings (including currency swaps) are recorded at nominal value adjusted for the unamortised portion of the premium or discount on issue.

Foreign monetary liabilities

Where short-term foreign monetary liabilities are subject to forward exchange contracts, they are translated into New Zealand dollars at the contract rate. Otherwise, foreign monetary liabilities are translated at the closing exchange rate.

Exchange gains and losses are recognised in the Statement of Financial Performance in the period in which they arise.

Pension liabilities

Pension liabilities in respect of the contributory service of superannuation scheme members are recorded at the latest actuarial value of the Crown's liability for pension payments. Movements of the liability are reflected in the Statement of Financial Performance.

ACC claims liabilities

The future cost of ACC claims liabilities is revalued annually based on the latest actuarial information. Movements of the liability are reflected in the Statement of Financial Performance.

Currency issued

Currency issued represents a liability in favour of the holder. Currency issued for circulation, including an amount to cover expected future redemption of demonetised currency, is recognised at face value.

Leases

Finance leases transfer to the Crown as lessee substantially all the risks and rewards incident on the ownership of a leased asset. The obligations under such leases are capitalised at the present value of the minimum lease payments. The capitalised values are amortised over the period in which the Crown expects to receive benefits from their use.

Operating leases, where the lessors substantially retain the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease.

Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter.

Employee entitlements

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave and other similar benefits are recognised when they accrue to employees. The liability for employee entitlements is carried as the present value of the estimated future cash outflows.

Other liabilities

All other liabilities are recorded at the estimated obligation to pay.

Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at balance date. Commitments include those operating and capital commitments arising from non-cancellable contractual or statutory obligations. Interest commitments on debts and commitments relating to employment contracts are not included in the Statement of Commitments.

Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are recorded in the Statement of Contingent Liabilities and Contingent Assets at the point at which the contingency is evident.

Changes in Accounting Policies

There have been no changes in accounting policies. All policies have been applied on a basis consistent with the previous year.

Comparatives

To ensure consistency with the current period, comparative figures have been restated where appropriate.

Notes to the Financial Statements

Note 1: Revenue Collected Through the Crown's Sovereign Power

| <i>Forecast</i> | | | <i>Actual</i> | |
|---|----------------------------|--|------------------------|------------------------|
| 2003 Budget \$m | Estimated Actual \$m | | 30 June 2004 \$m | 30 June 2003 \$m |
| Income Tax Revenue (accrual) | | | | |
| Individuals | | | | |
| 16,396 | 16,855 | Source deductions | 16,908 | 15,933 |
| 4,328 | 3,997 | Other persons | 4,027 | 4,195 |
| (834) | (874) | Refunds | (860) | (834) |
| 373 | 412 | Fringe benefit tax | 410 | 375 |
| 20,263 | 20,390 | Total Individuals | 20,485 | 19,669 |
| Corporate Tax | | | | |
| 5,190 | 6,134 | Gross companies tax | 6,099 | 5,245 |
| (138) | (174) | Refunds | (180) | (191) |
| 702 | 803 | Non-resident withholding tax | 800 | 732 |
| 126 | 140 | Foreign-source dividend withholding payments | 139 | 154 |
| 5,880 | 6,903 | Total Corporate Tax | 6,858 | 5,940 |
| Other Income Tax | | | | |
| 1,074 | 1,189 | Resident withholding tax on interest income | 1,188 | 1,111 |
| 52 | 58 | Resident withholding tax on dividend income | 49 | 57 |
| 1 | 2 | Estate and gift duties | 2 | 1 |
| 1,127 | 1,249 | Total Other Income Tax | 1,239 | 1,169 |
| 27,270 | 28,542 | Total Direct Income Tax | 28,582 | 26,778 |
| Goods and Services Tax | | | | |
| 15,579 | 16,487 | Gross goods and services tax | 16,603 | 14,959 |
| (6,465) | (6,915) | Refunds | (6,885) | (6,221) |
| 9,114 | 9,572 | Total Goods and Services Tax | 9,718 | 8,738 |
| Other Indirect Taxation | | | | |
| 918 | 950 | Petroleum fuels excise | 947 | 995 |
| 876 | 826 | Tobacco excise | 819 | 850 |
| 745 | 725 | Customs duty | 720 | 750 |
| 631 | 658 | Road user charges | 667 | 621 |
| 492 | 473 | Alcohol excise | 476 | 465 |
| 281 | 268 | Gaming duties | 261 | 248 |
| 193 | 203 | Motor vehicle fees | 211 | 197 |
| 86 | 82 | Energy resources levies | 75 | 94 |
| 45 | 54 | Approved issuer levy and cheque duty | 56 | 49 |
| 4,267 | 4,239 | Total Other Indirect Taxation | 4,232 | 4,269 |
| 13,381 | 13,811 | Total Indirect Taxation | 13,950 | 13,007 |
| 40,651 | 42,353 | Total Tax Revenue Collected | 42,532 | 39,785 |
| Other Sovereign Revenues (accrual) | | | | |
| 1,897 | 1,984 | ACC levies | 1,989 | 1,854 |
| 224 | 231 | Fire Service levies | 233 | 228 |
| 78 | 78 | EQC levies | 78 | 77 |
| 627 | 713 | Other | 686 | 604 |
| 2,826 | 3,006 | Total Other Sovereign Revenues | 2,986 | 2,763 |
| 43,477 | 45,359 | Total Sovereign Revenue | 45,518 | 42,548 |

Note 1 (continued): Receipts Collected through the Crown's Sovereign Power

| <i>Forecast</i> | | | <i>Actual</i> | |
|--|----------------------------|--|------------------------|------------------------|
| 2003 Budget \$m | Estimated Actual \$m | | 30 June 2004 \$m | 30 June 2003 \$m |
| Income Tax Receipts (cash) | | | | |
| Individuals | | | | |
| 16,396 | 16,856 | Source deductions | 17,012 | 15,623 |
| 4,734 | 4,376 | Other persons | 4,352 | 4,499 |
| (1,240) | (1,388) | Refunds | (1,406) | (1,287) |
| 373 | 409 | Fringe benefit tax | 410 | 374 |
| 20,263 | 20,253 | Total Individuals | 20,368 | 19,209 |
| Corporate Tax | | | | |
| 5,775 | 7,056 | Gross companies tax | 7,169 | 6,021 |
| (722) | (1,137) | Refunds | (1,088) | (821) |
| 710 | 806 | Non-resident withholding tax | 776 | 740 |
| 126 | 137 | Foreign-source dividend withholding payments | 128 | 160 |
| 5,889 | 6,862 | Total Corporate Tax | 6,985 | 6,100 |
| Other Income Tax | | | | |
| 1,074 | 1,199 | Resident withholding tax on interest income | 1,217 | 1,104 |
| 52 | 58 | Resident withholding tax on dividend income | 53 | 56 |
| 1 | 2 | Estate and gift duties | 2 | 2 |
| 1,127 | 1,259 | Total Other Income Tax | 1,272 | 1,162 |
| 27,279 | 28,374 | Total Direct Income Tax | 28,625 | 26,471 |
| Goods and Services Tax | | | | |
| 15,229 | 15,897 | Gross goods and services tax | 15,768 | 14,489 |
| (6,165) | (6,325) | Refunds | (6,313) | (5,718) |
| 9,064 | 9,572 | Total Goods and Services Tax | 9,455 | 8,771 |
| Other Indirect Taxation | | | | |
| 918 | 950 | Petroleum fuels excise | 944 | 971 |
| 876 | 826 | Tobacco excise | 800 | 867 |
| 745 | 740 | Customs duty | 726 | 712 |
| 629 | 656 | Road user charges | 668 | 620 |
| 492 | 473 | Alcohol excise | 476 | 461 |
| 281 | 268 | Gaming duties | 260 | 277 |
| 193 | 203 | Motor vehicle fees | 223 | 201 |
| 87 | 83 | Energy resources levies | 75 | 97 |
| 45 | 54 | Approved issuer levy and cheque duty | 56 | 51 |
| 4,266 | 4,253 | Total Other Indirect Taxation | 4,228 | 4,257 |
| 13,330 | 13,825 | Total Indirect Taxation | 13,683 | 13,028 |
| 40,609 | 42,199 | Total Tax Receipts Collected | 42,308 | 39,499 |
| Other Sovereign Receipts (cash) | | | | |
| 1,931 | 1,902 | ACC levies | 2,008 | 1,638 |
| 226 | 232 | Fire Service levies | 233 | 227 |
| 79 | 79 | EQC levies | 79 | 77 |
| 488 | 560 | Other | 532 | 589 |
| 2,724 | 2,773 | Total Other Sovereign Receipts | 2,852 | 2,531 |
| 43,333 | 44,972 | Total Sovereign Receipts | 45,160 | 42,030 |

Note 2: Sale of Goods and Services

The Statement of Segments shows the sale of goods and services as a total for each area of the Crown (ie, total sales for core Crown, Crown entities and SOEs). The total for Crown entities includes such items as lottery sales, housing rental and Crown research institutes (CRI) sales. The total sales of SOEs (including Air NZ) represents the majority of their income from electricity generation and distribution services, postal services, advertising and air travel sales.

Note 3: Investment Income

| <i>Forecast</i> | | | <i>Actual</i> | |
|--------------------------|----------------------------|---|------------------------|------------------------|
| 2003 Budget \$m | Estimated Actual \$m | | 30 June 2004 \$m | 30 June 2003 \$m |
| Investment Income | | | | |
| 998 | 1,296 | Interest income | 1,428 | 1,086 |
| 447 | 455 | Student loans | 447 | 393 |
| 58 | 59 | Dividends | 76 | 50 |
| 133 | 752 | Gains/(losses) on marketable securities, deposits and equity investments | 701 | 304 |
| 195 | 4 | Other | 1 | 26 |
| 1,831 | 2,566 | Total Investment Income | 2,653 | 1,859 |

Note 4: Other Revenue

| | | | | |
|--------------|--------------|--|--------------|--------------|
| - | - | Unrealised (losses)/gains arising from changes in the value of commercial forests | (40) | (20) |
| 103 | 113 | GSF contributions | 110 | 130 |
| 30 | 35 | Petroleum royalties | 18 | 44 |
| 33 | 23 | Cost recovery income from fisheries | 22 | 31 |
| 1,515 | 1,891 | Other | 1,906 | 2,050 |
| 1,681 | 2,062 | Total Other Operational Revenue | 2,016 | 2,235 |

Note 5: Subsidies and Transfer Payments

| | | | | |
|---------------------------------|---------------|--|---------------|---------------|
| Social Assistance Grants | | | | |
| 5,894 | 5,889 | New Zealand Superannuation | 5,889 | 5,642 |
| 1,567 | 1,567 | Domestic purposes benefit | 1,569 | 1,520 |
| 1,383 | 1,420 | ACC payments | 1,407 | 1,309 |
| 1,317 | 1,086 | Unemployment benefit | 1,084 | 1,274 |
| 999 | 977 | Invalids benefit | 976 | 914 |
| 815 | 819 | Family support | 833 | 862 |
| 741 | 702 | Accommodation supplement | 702 | 706 |
| 454 | 470 | Sickness benefit | 470 | 421 |
| 433 | 387 | Student allowances | 380 | 387 |
| 259 | 257 | Disability allowances | 257 | 241 |
| 1,512 | 1,530 | Other social assistance grants | 1,526 | 1,460 |
| 135 | 125 | Subsidies | 110 | 113 |
| Other Transfer Payments | | | | |
| 246 | 250 | Official development assistance | 238 | 230 |
| 32 | 27 | Other | 25 | 28 |
| 15,787 | 15,506 | Total Subsidies and Transfer Payments | 15,466 | 15,107 |

Note 6: Personnel Expenses

| <i>Forecast</i> | | | <i>Actual</i> | |
|-----------------|---------------------|---------------------------------|-----------------|-----------------|
| 2003 Budget | Estimated Actual | | 30 June 2004 | 30 June 2003 |
| \$m | \$m | | \$m | \$m |
| 1,010 | 987 | GSF pension costs | 975 | 978 |
| 81 | 80 | Other pension expenses | 90 | 78 |
| 11,008 | 11,469 | Other personnel expenses | 11,436 | 10,564 |
| 12,099 | 12,536 | Total Personnel Expenses | 12,501 | 11,620 |

The Statement of Segments shows the personnel expenses as a total for each area of total Crown (ie, total personnel expenses for core Crown, Crown entities and SOEs).

Personnel expenses include salaries and allowances to Ministers of the Crown totalling \$5.7 million (30 June 2003: \$5.1 million). In addition, Ministers are provided with ministerial accommodation in Wellington and receive allowances when travelling in New Zealand.

Note 7: Operating Expenses

Operating expenses relate to those expenses incurred in the course of undertaking the functions and activities of entities included in the Crown financial statements, excluding those expenses separately identified in the Statement of Financial Performance and other notes. Items disclosed separately below are those required by accounting standards.

Other operating costs are the large residual. Most of them represent payments made for services provided by third parties (roading maintenance for example) or for raw materials (fuel, medicines or inventory for example). They also include other day-to-day operating costs.

| <i>Forecast</i> | | | <i>Actual</i> | |
|---------------------------------|---------------------|--|-----------------|-----------------|
| 2003 Budget | Estimated Actual | | 30 June 2004 | 30 June 2003 |
| \$m | \$m | | \$m | \$m |
| Depreciation Expenses | | | | |
| 550 | 777 | Buildings | 749 | 701 |
| 110 | 116 | Electricity distribution networks | 103 | 86 |
| 155 | 166 | Electricity generation assets | 146 | 143 |
| 178 | 179 | Specialist military equipment (SME) | 180 | 168 |
| 223 | 211 | State highways | 219 | 199 |
| 84 | 137 | Aircraft (excluding SME) | 91 | 105 |
| 762 | 729 | Other plant and equipment | 789 | 676 |
| 278 | 83 | Other assets | 70 | 99 |
| 2,340 | 2,398 | Total Depreciation Costs | 2,347 | 2,177 |
| Other Operating Expenses | | | | |
| 797 | 697 | Rental and leasing costs | 775 | 712 |
| 338 | 411 | Change in provision for doubtful debts | 459 | 265 |
| 41 | 78 | Write-off of bad debts | 84 | 188 |
| 47 | 47 | Goodwill amortised | 78 | 84 |
| 11 | 11 | Audit fees | 21 | 20 |
| 4 | 3 | Fees paid to auditors for other services | 7 | 5 |
| 75 | 27 | Asset impairment losses | 61 | 19 |
| 293 | 296 | Grants paid | 309 | 306 |
| 313 | 304 | Lottery prize payments | 347 | 301 |
| - | - | (Gain)/loss on sale of assets | (15) | 19 |
| - | - | Net revaluation losses | 137 | 447 |
| 18,591 | 18,618 | Other operating costs | 18,052 | 18,022 |
| 22,850 | 22,890 | Total Operating Expenses | 22,662 | 22,565 |

Note 8: Cash and Marketable Securities, Deposits and Equity Investments

| <i>Forecast</i> | | | <i>Actual</i> | |
|-----------------------|----------------------------|---|------------------------|------------------------|
| 2003 Budget \$m | Estimated Actual \$m | | 30 June 2004 \$m | 30 June 2003 \$m |
| 2,073 | 2,341 | By Category: | | |
| 13,632 | 13,311 | Total Cash | 3,450 | 2,732 |
| 4,747 | 8,062 | Marketable securities and deposits | 15,178 | 15,505 |
| 1,074 | 849 | Equity investments (eg, shares) | 8,446 | 4,734 |
| | | Reserve position at the IMF | 1,012 | 1,067 |
| 19,453 | 22,222 | Total MSDs and Equity Investments | 24,636 | 21,306 |
| 21,526 | 24,563 | Cash and MSDs and Equity Investments | 28,086 | 24,038 |
| | | By Portfolio Management: | | |
| 7,506 | 9,546 | Reserve Bank and NZDMO managed funds | 11,313 | 11,348 |
| 3,950 | 3,496 | NZS Fund | 3,410 | 1,884 |
| 2,727 | 2,955 | Government Superannuation Fund | 3,019 | 2,636 |
| 1,384 | 1,469 | EQC portfolio | 1,589 | 1,224 |
| 2,829 | 3,862 | ACC portfolio | 4,276 | 3,403 |
| 1,057 | 894 | Other holdings | 1,029 | 811 |
| 19,453 | 22,222 | Total MSDs and Equity Investments | 24,636 | 21,306 |

The asset values above are net of any cross-holdings. For example, the asset portfolios of the NZS Fund, GSF, EQC and ACC currently all hold amounts of New Zealand Government stock. For financial reporting purposes these amounts are eliminated within the combined financial statements. The total portfolios, including cross-holdings of New Zealand Government stock, are shown below, along with commentary on the restricted nature of some of the assets (for example the GSF assets are only available for the payment of GSF benefits – because of the restricted nature of these assets they are excluded from the definition of net core Crown debt).

Nature of financial assets – some are restricted in their purpose

Within the financial assets above, several portfolios are restricted in their nature in that they are only available to meet very specified purposes and are not available (by statute or other reasons) for general use by the Crown. It is for this reason that such assets are excluded from the definition of net debt – one of the Crown's key fiscal policy indicators.

New Zealand Superannuation Fund

The assets of the NZS Fund is the Government's means of building up assets to partially pre-fund future New Zealand superannuation expenses and may only be used for New Zealand Superannuation. The assets in this fund total \$4.0 billion. The Government's contributions to the NZS Fund are calculated over a 40-year rolling horizon to ensure superannuation entitlements over the next 40 years can be met.

Government Superannuation Fund

The GSF Authority administers the portfolio of the GSF totalling \$3.4 billion. These assets result from contributions by beneficiaries built up through time and can only be applied to the ongoing payment of GSF benefits (as provided by the GSF Act). Also refer Note 16.

EQC – Natural Disaster Fund (NDF)

The EQC is New Zealand's primary provider of seismic disaster insurance to residential property owners. The EQC administers the NDF, comprising capital and reserves. The EQC draws on the NDF money to pay out claims for damage caused by natural disasters.

ACC portfolio

ACC manages the ACC scheme. At present there is a substantial outstanding claims liability associated with past claims of around \$9.3 billion. To manage the payment of these claims in the future, ACC is building up a matching portfolio of assets. The target is to have the residual claims fully funded by 2014. Also refer Note 17.

Individual Portfolio Information (including cross-holdings of New Zealand Government stock)

| | | | | |
|-------|-------|----------------|-------|-------|
| 3,950 | 3,885 | NZS Fund | 3,956 | 1,884 |
| 3,026 | 3,313 | GSF net assets | 3,375 | 3,182 |
| 4,981 | 5,587 | ACC portfolio | 6,176 | 4,922 |
| 4,303 | 4,286 | EQC portfolio | 4,367 | 4,062 |

Note 9: Advances

| <i>Forecast</i> | | | <i>Actual</i> | |
|-----------------|------------------|------------------------------------|----------------|----------------|
| 2003 | Estimated | | 30 June | 30 June |
| Budget | Actual | | 2004 | 2003 |
| \$m | \$m | | \$m | \$m |
| 5,926 | 6,095 | Student loans (see analysis below) | 5,995 | 5,370 |
| 857 | 1,069 | Kiwibank mortgages | 1,038 | 501 |
| 80 | 71 | Residential care loans | 72 | 68 |
| 45 | 48 | Māori development rural lending | 48 | 43 |
| 29 | 28 | Forestry encouragement loans | 25 | 28 |
| 6 | 4 | Catchment authorities | 6 | 6 |
| 279 | 287 | Other | 261 | 284 |
| 7,222 | 7,602 | Total Advances | 7,445 | 6,300 |

Analysis of Student Loans**Outstanding balance**

| | | | | |
|--------------|--------------|--|--------------|--------------|
| 6,942 | 6,911 | Total loans outstanding (including interest) | 6,821 | 6,094 |
| (1,016) | (816) | Total provisions (capital and interest) | (826) | (724) |
| 5,926 | 6,095 | Total Student Loans | 5,995 | 5,370 |

Movement during the year

| | | | | |
|--------------|--------------|--|--------------|--------------|
| 5,322 | 5,370 | Opening balance | 5,370 | 4,749 |
| 996 | 1,021 | Amount advanced in current year | 999 | 952 |
| 447 | 455 | Interest accrued on outstanding loan balances | 447 | 393 |
| (301) | (289) | Repayment of base capital | (294) | (252) |
| (189) | (203) | Repayment of accrued interest | (216) | (186) |
| | | Interest written off and movement in provision | | |
| (357) | (267) | for interest write-offs and doubtful debts | (319) | (291) |
| 8 | 8 | Other movements | 8 | 5 |
| 5,926 | 6,095 | Closing Balance | 5,995 | 5,370 |

Provision for student loans

The methodology used to provide for student loans contains a capital and an interest component. These provisions are periodically reviewed for appropriateness and the methodologies updated where necessary.

Capital provision

The provision on the outstanding capital issued is 11.4% (2003: 11.4%). The key variables that impact on the expected level of write-off relate to death and bankruptcy write-offs as well as debt that will not be collected because of retirement, child-rearing or disability because these borrowers do not meet the repayment threshold obligation. The underlying assumptions regarding the borrowing characteristics and income growth profiles of borrowers and the expected level of defaulters are based on the most current information. The provision is sensitive to the assumptions on borrowing characteristics and income growth profiles, and so will be regularly reassessed as new information becomes available. A 1% shift will impact on the provision level by around \$56 million.

Interest write-off provision

The provision for interest write-offs on interest accrued after 31 December 1999 was reviewed in light of changes to Government policy, resulting in a substantial increase in the provision level to 70% (from 17%). This reflected changes to the student loan scheme allowing the full write-off of interest while students continue to study along with the increased income thresholds used to determine repayments through the income tax system. The effective provision for interest write-offs from 1 January 2003 was around 46.5% and from 1 January 2004 it was approximately 50%. The interest rate provision is reviewed annually.

Fair value

The fair value of the student loan debt as at 30 June 2004 has been determined to be approximately \$5,734 million (\$5,592 million at 30 June 2003). The fair value is less than the book value, but this is not considered an impairment. This change is largely the result of the change to the discount rate used in the fair value calculation (i.e. higher discount rate equates to lower value). The fair value has been calculated using a model constructed for the Ministry of Education in 2003 which integrates students' educational and demographic information with data on loans and income that is held securely by Statistics New Zealand. A critical assumption is the discount rate which is based on the after-tax risk-free rate plus a risk premium (total discount rate around 6%). A 1% shift in the discount rate alters the value by approximately \$300 million. The 2004 *Student Loan Annual Report* will contain more information on the student loan scheme. The accuracy of the fair value determination is expected to improve as the fair value model is further developed.

Note 10: Receivables

| <i>Forecast</i> | | | <i>Actual</i> | |
|-----------------|------------------|--|----------------|----------------|
| 2003 | Estimated | | 30 June | 30 June |
| Budget | Actual | | 2004 | 2003 |
| \$m | \$m | | \$m | \$m |
| 4,533 | 5,471 | Taxes receivable | 5,843 | 5,375 |
| 3,453 | 3,628 | Accounts receivable | 4,294 | 4,262 |
| 166 | 183 | Receivable from the sale and purchase of Maui gas | 156 | 200 |
| 173 | 271 | Prepayments | 294 | 306 |
| 8,325 | 9,553 | Total Receivables | 10,587 | 10,143 |

Included in accounts receivable at nominal value less provision for doubtful debts are the debtor portfolios held by the Ministries of Social Development and Justice. Due to the nature of these portfolios the collectability of outstanding amounts can take place over a significant period of time.

The debtor portfolio held by the Ministry of Justice largely relates to outstanding court costs, fines and enforcement fees. The gross value of the debtor portfolio was \$482 million, \$161 million has been provided for as a provision reflecting the nature of the collectability of the debtors.

The debtor portfolio held by the Ministry of Social Development largely relates to benefit overpayments, advances on benefits and recoverable special needs grants. Due to the long period of time it takes to collect outstanding amounts the provision for doubtful debtors is around 40% of the total debtor portfolio.

Note 11: Other Investments

| <i>Forecast</i> | | | <i>Actual</i> | |
|-----------------|------------------|--|----------------|----------------|
| 2003 | Estimated | | 30 June | 30 June |
| Budget | Actual | | 2004 | 2003 |
| \$m | \$m | | \$m | \$m |
| 99 | 79 | International Bank for Reconstruction and Development | 82 | 89 |
| 96 | 81 | Asian Development Bank | 89 | 92 |
| 201 | 81 | Other | 88 | 83 |
| 396 | 241 | Total Other Investments | 259 | 264 |

Note 12: Property, Plant and Equipment

| <i>Forecast</i> | | | <i>Actual</i> | |
|---------------------------------|-------------------------|---|---------------------|---------------------|
| 2003 Budget | Estimated Actual | | 30 June 2004 | 30 June 2003 |
| \$m | \$m | | \$m | \$m |
| By Type | | | | |
| Gross Carrying Value | | | | |
| 5,224 | 6,634 | Land (valuation) | 9,509 | 6,748 |
| 423 | 459 | Properties intended for sale (lower of book value or NRV) | 464 | 454 |
| 15,890 | 17,625 | Buildings (valuation) | 18,138 | 15,956 |
| 2,370 | 2,293 | Electricity distribution network (valuation) | 2,409 | 2,178 |
| 7,879 | 5,311 | Electricity generation assets (cost) | 4,915 | 5,236 |
| 2,024 | 1,180 | Aircraft (ex SME) (valuation) | 1,149 | 1,234 |
| 12,466 | 12,980 | State highways (valuation) | 13,082 | 12,556 |
| 3,576 | 2,872 | Specialist Military Equipment (valuation) | 2,780 | 3,098 |
| 7,939 | 8,658 | Other plant and equipment (cost) | 8,402 | 7,737 |
| 5,365 | 5,298 | Other assets (valuation) | 5,262 | 5,331 |
| 63,156 | 63,310 | Total Gross Carrying Value | 66,110 | 60,528 |
| Accumulated Depreciation | | | | |
| 2,688 | 2,114 | Buildings | 1,356 | 1,228 |
| 326 | 293 | Electricity distribution network | 451 | 198 |
| 722 | 616 | Electricity generation assets | 416 | 557 |
| 170 | 77 | Aircraft (ex SME) | - | - |
| 432 | 211 | State highways | - | - |
| 934 | 483 | Specialist military equipment | 482 | 756 |
| 5,139 | 5,160 | Other plant and equipment | 5,141 | 4,668 |
| 640 | 444 | Other assets | 324 | 454 |
| 11,051 | 9,398 | Total Accumulated Depreciation | 8,170 | 7,861 |
| Net Carrying Value | | | | |
| 5,224 | 6,634 | Land (valuation) | 9,509 | 6,748 |
| 423 | 459 | Properties intended for sale (lower of book value or NRV) | 464 | 454 |
| 13,202 | 15,511 | Buildings (valuation) | 16,782 | 14,728 |
| 2,044 | 2,000 | Electricity distribution network (valuation) | 1,958 | 1,980 |
| 7,157 | 4,695 | Electricity generation assets (cost) | 4,499 | 4,679 |
| 1,854 | 1,103 | Aircraft (ex SME) (valuation) | 1,149 | 1,234 |
| 12,034 | 12,769 | State highways (valuation) | 13,082 | 12,556 |
| 2,642 | 2,389 | Specialist military equipment (valuation) | 2,298 | 2,342 |
| 2,800 | 3,498 | Other plant and equipment (cost) | 3,261 | 3,069 |
| 4,725 | 4,854 | Other assets (valuation) | 4,938 | 4,877 |
| 52,105 | 53,912 | Total Net Carrying Value | 57,940 | 52,667 |
| By holding | | | | |
| 51,383 | 53,502 | Freehold assets | 57,357 | 52,167 |
| 722 | 410 | Leasehold assets | 583 | 500 |
| 52,105 | 53,912 | Total Net Carrying Value | 57,940 | 52,667 |

Note 12: Property, Plant and Equipment Assets (continued)

State highways

State highways comprise the land, formation works, road structure, drainage works and traffic facilities of the roads, plus bridges, culverts, tunnels, stock and pedestrian underpasses, protection works and retaining structures. The land was valued on a fair value basis while other elements of the state highways were valued on the basis of depreciated replacement cost. After allowing for new works and depreciation during the year to 30 June 2004, the depreciated replacement cost is assessed at \$13,082 million (\$12,556 million as at 30 June 2003).

Replacement costs were determined by estimating the costs of new construction of the network by the most appropriate method of construction. The methodology applied used information from the road assessment and maintenance management (RAMM) database and the bridge inventory held by Transit New Zealand. This information was supplemented by local knowledge and expertise of the valuers: (Opus International Consultants).

Other assets

There are difficulties associated with obtaining an objective valuation for some of the Crown's assets. These are discussed below:

National Archives Holdings

Archives in the possession of Archives New Zealand have been valued and recorded at a best estimate of fair value as at 30 June 2004. Determination of the fair value of \$537 million at 30 June 2004 (\$527 million as at 30 June 2003) was based on the application of indicative benchmark values to relevant categories of archives, plus individual valuation of exceptional items (for example the Treaty of Waitangi). The indicative benchmark values were based on an independent valuation of samples from each category of recent sales of items that reflect the type of archive held. If no recent sales have occurred, an assessment of value compared with other categories has been used. The values of the exceptional items are based on a valuation supplied by an international auction house.

National library collections

The Heritage Collections are valued at fair value. The valuation was performed by National Library staff at 30 June 2003, with the valuation methodology reviewed by an independent valuer. The carrying value of \$853 million as at 30 June 2004 (\$850 million as at 30 June 2003) includes the value of purchases for the collections since the last revaluation and the value of material received through donation and legal deposit. Section 11 of the National Library of New Zealand (Te Puna Mātauranga o Aotearoa) Act 2003 requires the Crown to own the collections of the Alexander Turnbull Library in perpetuity. The Heritage Collections are not depreciated.

The General and Schools Collections are recorded at historical cost of \$20 million as at 30 June 2004 (\$20 million as at 30 June 2003).

National parks, forest parks, conservation areas and recreational facilities

The Conservation Estate was recorded at its valuation of \$1,855 million as at 30 June 2004 (\$1,645 million as at 30 June 2003). The valuation of the Conservation Estate was based on rateable valuations prepared by Quotable Value New Zealand and was independently reviewed by valuersnet.nz.

The Department of Conservation recreational facilities were recorded at their fair valuation of \$258 million as at 30 June 2004 (\$267 million as at 30 June 2003). The recreational facilities are subject to an asset management plan and are recorded in the Visitor Assets Management System (VAMS).

The fences that border Conservation Estate areas or form part of the recreational facilities have been fair valued and recorded at \$66 million as at 30 June 2004 (\$94 million as at 30 June 2003). Over the two years to 30 June 2004, 43 of the 49 Department's areas were sampled and valued by an independent valuer. This was extrapolated to provide a national value. Inventorying the remaining Areas will be completed next financial year.

The use and disposal of all the Crown land managed by the Department of Conservation is determined by legislation, in particular the Reserves Act 1977, the National Parks Act 1980 and the Conservation Act 1987.

The Crown land managed by the Department is not subject to mortgages or other charges or treaty claims. Specific areas may, however, be included in the Treaty settlements if the Crown decides to offer those areas to claimants. Some areas may be subject to leases, licences or permits issued by the Department under concession provisions of the relevant legislation.

Parliamentary Library

The Parliamentary Library has been valued and recorded at \$28 million (\$28 million as at 30 June 2003). The reference collection is valued at historical cost and the heritage collection at current market value.

Crown Research Institutes "collection type" asset values

The Crown, when establishing Crown Research Institutes in 1992, transferred various national databases and reference collections to individual Institutes at nil value. No reliable valuation is able to be obtained for these assets, and so they remain at nil value. Many of the databases and collections were specifically identified by the Foundation of Research, Science and Technology as being of significant importance and as such have covenants attached to them restricting an Institute's ability to deal with them.

Rail Assets

During the year, the Crown purchased Wellington Railway Station for \$8 million, and commenced upgrading the building to current earthquake and engineering standards.

At the end of the year, the Crown purchased the national rail infrastructure and some related assets. The rail assets have been included as other plant and equipment.

The Crown has committed a total of \$200 million of capital expenditure on upgrading the national rail infrastructure over the next five years, of which \$15 million had been spent at 30 June 2004.

Note 13: Accounting Treatment of TEIs and Non-Combination of Offices of Parliament

Section 27 (2) of the Public Finance Act 1989 (the Act) requires the Crown to prepare financial statements in accordance with generally accepted accounting practice. Section 27 (3) of the Act also requires the Crown to record its interest in entities such as Offices of Parliament and Crown entities within its financial statements.

The applicable financial reporting standards (FRSs) that determine the basis of combination of entities that make up the Crown reporting entity are FRS 37: *Consolidating Investments in Subsidiaries* and FRS 38: *Accounting for Investments in Associates*.

FRS 37 provides the basis for establishing whether the Crown's interest in an entity should be line-by-line combined. The control test in FRS 37 requires consideration of both the Crown's level of power and the benefit in relation to entities.

FRS 37 is not clear about how the definition of control in FRS 37 should be applied in some circumstances in the public sector, particularly where legislation provides certain public sector entities with statutory autonomy and independence. Treasury's view is that line-by-line combination of such entities would provide a more conceptually complete and consistent picture of the Government's financial activities and position. However, given the lack of clarity in applying FRS 37, the 2004 Crown financial statements:

- exclude Offices of Parliament as the Crown cannot unilaterally determine these entities operating and financing policies, nor significantly influence these entities. In addition the relationship of these entities is primarily with Parliament. As at 30 June 2004 these entities had total expenses of \$47 million, total assets of \$12 million and liabilities of \$8 million (ie, net worth of \$4 million)
- equity account the TEIs as the Crown cannot unilaterally determine their operating and financing policies, but does have a number of powers in relation to these entities.

The following table shows the financial effect if the revenue, expenses, assets and liabilities of TEIs were line-by-line combined and contrasts this with the treatment in the financial statements of equity accounting TEIs' net surpluses and net assets. If TEIs were line-by-line combined there would be an increase in total revenues and expenses, total Crown debt and total assets and liabilities. The operating balance and net worth are the same under both accounting treatments.

Note that the following table indicates the total revenues and expenses of TEIs in the second column. However, the impact on the total Crown results from combining TEIs line by line would be to increase revenues and expenses, but only to the extent the TEI totals were not funded by the Crown (ie, by the amount in the third column). The balance sheet would alter as indicated in the following table.

| TEIs as at 30 June 2004 \$ millions | Equity accounting (current treatment) | Full line-by-line combination | Impact on total Crown results |
|--|--|----------------------------------|----------------------------------|
| Operating Results | | | () = reduce item |
| Revenues | | 3,265 | (1,569) |
| Expenses | - | (3,126) | (1,430) |
| Net surplus of TEIs | 139 | - | 139 |
| Operating Balance (no change) | 139 | 139 | - |
| Assets and Liabilities | | | |
| Financial assets | - | 832 | (832) |
| Property, plant and equipment | | 4,413 | (4,413) |
| Other assets | | 224 | (224) |
| Net investment in TEIs | 4,367 | - | 4,367 |
| Gross debt | | (226) | (226) |
| Other liabilities | | (876) | (876) |
| Net Worth (no change) | 4,367 | 4,367 | - |

Note 14: Intangible Assets (including goodwill)

Goodwill and intangible assets as at 30 June 2004 total \$849 million (\$1,075 million as at 30 June 2003). Intangible assets (including goodwill) comprise:

| \$ millions | 30 June 2004 | 30 June 2003 |
|--------------------------------|---------------------|---------------------|
| Intangible assets | 302 | 465 |
| Goodwill | 547 | 610 |
| Total Intangible Assets | 849 | 1,075 |

Intangible assets primary relate to licences and derivatives that Meridian Energy acquired on purchasing Southern Hydro Pty Limited in 2003.

Goodwill is primarily made up of:

- remaining goodwill on acquisition of Air New Zealand of \$352 million (\$399 million as at 30 June 2003). It is amortised over a 10-year period. This results in an expense of \$47 million per year
- goodwill on acquisitions by SOEs.

The following table reconciles the movements in goodwill during the year.

| Description | | \$m |
|---|-------|------------|
| Opening balance as at 1 July 2003 | | |
| Gross goodwill | 694 | |
| Accumulated amortisation | (84) | |
| Net opening balance | | 610 |
| Goodwill acquired during the period | | 15 |
| Goodwill amortised during the period | | (78) |
| Closing balance as at 30 June 2004 | | |
| Gross goodwill | 709 | |
| Accumulated amortisation | (162) | |
| Net closing balance | | 547 |

Note 15: Payables and Provisions

| <i>Forecast</i> | | | <i>Actual</i> | |
|-----------------|------------------|--------------------------------------|----------------|----------------|
| 2003 | Estimated | | 30 June | 30 June |
| Budget | Actual | | 2004 | 2003 |
| \$m | \$m | | \$m | \$m |
| 5,716 | 5,527 | Accounts payable and accruals | 7,493 | 7,054 |
| 1,919 | 2,139 | Taxes repayable | 2,355 | 2,154 |
| 242 | 539 | Provisions | 485 | 588 |
| 685 | 882 | National Provident Fund guarantee | 891 | 882 |
| 1,144 | 1,168 | Provision for employee entitlements | 1,262 | 1,200 |
| 9,706 | 10,255 | Total Payables and Provisions | 12,486 | 11,878 |

The Crown guarantees the payment of benefits by the Board of Trustees of the National Provident Fund. The actuarial valuation report on these schemes as at 31 March 2004, prepared in June 2004 by PriceWaterhouseCoopers, has indicated the DBP Annuitants Scheme, which contains pensioners only, has an actuarial deficit of \$891 million, an increase of \$9 million from 30 June 2003.

| | | Analysis of Provisions | | |
|------------|------------|--|------------|------------|
| 402 | 588 | Opening balance | 588 | 650 |
| (33) | 172 | Additional provisions made in the year | 96 | 245 |
| (124) | (152) | Provisions used in period | (87) | (175) |
| (3) | (69) | Reversal of previous provision | (112) | (132) |
| 242 | 539 | Closing Balance | 485 | 588 |

Note 16: GSF Liability

The GSF liabilities have been calculated by the Government Actuary as at 30 June 2004. The liabilities arise from closed schemes for past and present public sector employees (set out in the GSF Act 1956). A Projected Aggregate Funding Method, based on balance-date membership data, is used for the valuation. This method requires the benefits payable from the GSF in respect of past service to be estimated and then discounted back to the valuation date.

The GSF net unfunded liability included in the 30 June 2004 Crown financial statements was \$10,167 million. This was a decrease of \$508 million compared with 30 June 2003. The primary reason for the decrease in the gross liability has been the movements in valuation assumptions of around \$480 million.

A significant change in valuation assumptions was the increase in the average after-tax discount rate to 4.4% (4.0% at 30 June 2003). The other principal long-term financial assumptions used in the calculation remained unchanged, which were an inflation rate of 2.0% and an annual salary increases rate, before any promotional effects, of 3.0%. The remainder of the decrease in the unfunded past service liability is due to actual Fund experience (\$243 million) offset by changes in data (\$215 million).

The GSF net unfunded liability is \$591 million lower than what was forecast at the 2004 Budget. The decrease was largely due to a change in the average after-tax discount rate to 4.4% (4.1% at the 2004 Budget).

| <i>Forecast</i> | | | <i>Actual</i> | |
|--|------------------|---------------------------------------|----------------|----------------|
| 2003 | Estimated | | 30 June | 30 June |
| Budget | Actual | | 2004 | 2003 |
| \$m | \$m | | \$m | \$m |
| GSF Liability and Asset Information | | | | |
| Gross GSF Liability | | | | |
| 13,422 | 13,857 | Opening gross liability | 13,857 | 12,210 |
| (87) | 214 | Net projected change | (315) | 1,647 |
| 13,335 | 14,071 | Closing Gross Liability | 13,542 | 13,857 |
| Less Net Assets Available to the GSF Scheme | | | | |
| 2,993 | 3,182 | Opening asset value | 3,182 | 3,287 |
| 211 | 287 | Net projected change: | | |
| | | - Investment valuation changes | 315 | 82 |
| (178) | (156) | - Contributions and other income less | (122) | (187) |
| 33 | 131 | membership payments | | |
| | | Total projected change | 193 | (105) |
| 3,026 | 3,313 | Closing Net Asset Values | 3,375 | 3,182 |
| Net Unfunded Liability of the GSF Schemes | | | | |
| 10,429 | 10,675 | Opening unfunded liability | 10,675 | 8,923 |
| (120) | 83 | Net projected change | (508) | 1,752 |
| 10,309 | 10,758 | Net Unfunded Liability | 10,167 | 10,675 |

Reconciliation of the movement in Unfunded Liability between years

| | <i>Actual</i> | |
|--|----------------|----------------|
| | 30 June | 30 June |
| | 2004 | 2003 |
| | \$m | \$m |
| Opening balance | 10,675 | 8,923 |
| Expected service cost | 215 | 193 |
| Expected interest cost | 452 | 469 |
| Change in underlying valuation assumptions | (480) | 1,396 |
| Experience losses and asset losses | (109) | 153 |
| Expected return on assets | (186) | (193) |
| Change in data | 215 | 325 |
| Expected contributions | (615) | (591) |
| Closing Balance | 10,167 | 10,675 |

Note 16 (continued): GSF Liability

| | 30 June 2004 \$m | 30 June 2003 \$m |
|--|------------------------|------------------------|
| Liabilities to Pensioners | | |
| Pensioners | 7,949 | 8,038 |
| Deferred pensioners | 713 | 757 |
| Liabilities to Contributors | | |
| General Government Superannuation Fund members | 3,528 | 3,655 |
| Police | 794 | 801 |
| Armed Forces | 409 | 454 |
| Judges | 58 | 59 |
| Prison Services | 40 | 44 |
| Islands | 37 | 37 |
| Members of Parliament | 14 | 12 |
| Total Liabilities in respect of Past Services | 13,542 | 13,857 |
| Less Assets available to schemes | 3,375 | 3,182 |
| Total Net Pension Liabilities | 10,167 | 10,675 |

Note 17: ACC Claims Liability**Claims Obligation**

The ACC claims liability is the amount of funds required to be invested now, so that together with the future investment earnings on those funds ACC has enough funding to meet the estimated future payment obligations on its current claims.

Liability Calculation

PricewaterhouseCoopers Actuarial Pty Limited have prepared the independent actuarial estimate of the ACC claims liability as at 30 June 2004. This estimate includes the expected future payments relating to accidents that occurred prior to balance date (whether or not the associated claims have been reported to, or accepted by, ACC) and also the expected administrative expenses of managing these claims.

The estimate of the claims liability as at 30 June 2004 was \$9,347 million. This is an increase of \$192 million compared with 30 June 2003 (a \$170 million change and \$22 million transferred from other insurers). The primary drivers of the increase in the claims liability were changes in economic assumptions and scheme experience.

Changes in economic assumptions have decreased the claims liability by around \$670 million. Within the economic assumptions the two significant drivers are an increase in discount rates to 6.5% (5.5% at 30 June 2003) offset by an increase in the long-term Labour Cost Index (LCI) to 2.5% (2.3% at 30 June 2003). The decrease in the liability has been offset by the future costs of claims incurred during the year, scheme experience and changes to claims valuation bases.

Valuation Movement Due to Experience and Assumption Changes

If the assumptions underlying the 30 June 2003 valuation were used, the estimated 30 June 2004 valuation would be \$9,656 million. The actual valuation for 30 June 2004 was \$9,347 million. The difference in the two numbers was \$309 million. This is shown in the following table:

| | As at 30 June 2004 \$m | As at 30 June 2003 \$m | Variance 2004 \$m |
|----------------------------|---------------------------------|---------------------------------|-------------------------|
| 30 June 2003 liability | 9,155 | 9,155 | - |
| 30 June 2004 liability | 9,347 | 9,656 | 309 |
| Change in Liability | 192 | 501 | 309 |

The \$309 million movement reflects changes in underlying assumptions and actual experience of the scheme. The main changes in the experience and assumptions between years have been outlined above.

Note 17 (continued): ACC Claims Liability

| <i>Forecast</i> | | <i>Actual</i> | |
|--|----------------------------|------------------------|------------------------|
| 2003 Budget \$m | Estimated Actual \$m | 30 June 2004 \$m | 30 June 2003 \$m |
| ACC Liability and Asset Information | | | |
| Gross ACC Liability | | | |
| 8,701 | 9,155 | 9,155 | 7,501 |
| 499 | 608 | 170 | 1,654 |
| - | - | 22 | - |
| 9,200 | 9,763 | 9,347 | 9,155 |
| Less Net Assets Available to ACC | | | |
| 4,527 | 4,901 | 4,901 | 3,865 |
| 766 | 1,042 | 1,068 | 1,036 |
| 5,293 | 5,943 | 5,969 | 4,901 |
| Net ACC Reserves (net liability) | | | |
| (4,174) | (4,254) | (4,254) | (3,636) |
| 267 | 434 | 898 | (618) |
| (3,907) | (3,820) | (3,356) | (4,254) |
| ACC Reserves by Account | | | |
| | | (1,414) | (1,443) |
| | | (1,557) | (1,777) |
| | | (958) | (1,122) |
| | | (229) | (198) |
| | | 449 | 180 |
| | | 14 | (2) |
| | | 317 | 108 |
| | | (3,378) | (4,254) |

The ACC reserves disclosed above represent the net assets and liabilities for each of the various accounts operated by ACC. Details on how the unfunded liability of each account will be managed in the future are contained in the 2004 ACC *Annual Report* (broadly the policy is to fully fund the major accounts)

Note 18: Revaluation Reserves

| <i>Forecast</i> | | <i>Actual</i> | |
|---|----------------------------|------------------------|------------------------|
| 2003 Budget \$m | Estimated Actual \$m | 30 June 2004 \$m | 30 June 2003 \$m |
| Movement in Asset Revaluation Reserves | | | |
| 12,786 | 15,624 | 15,624 | 12,672 |
| Net Revaluations | | | |
| - | 57 | 3,855 | 2,078 |
| - | - | 308 | 444 |
| - | - | - | 275 |
| - | 19 | 50 | 198 |
| - | 76 | 4,213 | 2,995 |
| - | (18) | 1 | (43) |
| 12,786 | 15,682 | 19,838 | 15,624 |
| Asset Revaluation Reserve (by component) | | | |
| 7,100 | 9,060 | 12,873 | 9,021 |
| 709 | 709 | 709 | 709 |
| 2,514 | 2,958 | 3,266 | 2,958 |
| 699 | 974 | 974 | 974 |
| 1,764 | 1,981 | 2,016 | 1,962 |
| 12,786 | 15,682 | 19,838 | 15,624 |

Note 19: Foreign Currencies

All monetary amounts in these financial statements are expressed in New Zealand dollars. The New Zealand dollar closing rates for major currencies were:

| | 30 June 2004 | 30 June 2003 |
|----------------------|--------------|--------------|
| United States dollar | 0.62760 | 0.58200 |
| Japanese yen | 68.09000 | 69.76500 |
| British pound | 0.34700 | 0.35185 |
| Euro | 0.51890 | 0.50895 |

Note 20: Risk Management

The Crown is subject to a number of financial risks which arise as a result of its debt portfolios, investment funds and transactions with foreign suppliers that are undertaken by the entities that make up the Crown reporting entity.

Individual entities that form the Crown reporting entity are responsible for ensuring appropriate risk management strategies and policies are in place within any mandate provided by legislation. Information and risk disclosures for individual entities are disclosed in the relevant entity's annual report. Key risk management strategies across the Crown include:

Core Crown

The core Crown is risk adverse and seeks to minimise net finance costs associated with its debt and maximise returns on its specific investment funds. Key strategies of material entities forming the core Crown segment include:

- New Zealand Debt Management Office (NZDMO) is responsible for the efficient management of Crown debt and associated assets. NZDMO's strategic objective is to maximise the long-term economic return on the Crown's financial assets and debt in the context of the Government's fiscal strategy, particularly its aversion to risk.
- The Crown has a foreign-reserve policy that requires the Reserve Bank to manage sufficient levels of foreign currency reserves to intervene in New Zealand's currency markets.
- The Government Superannuation Fund and New Zealand Superannuation Fund are required to invest assets on a prudent commercial basis. In doing so they manage and administer the assets in a manner consistent with best practice portfolio management and maximising return without undue risk to the respective fund as a whole.

SOEs and Crown entities

- The State-Owned Enterprises Act 1986 requires SOEs to operate commercially. With the varying nature of the activities of SOEs, each individual entity has its own risk management strategies (eg, the electricity industry is exposed to electricity spot rate movements).
- As with SOEs, individual Crown entities are responsible for ensuring that they have risk management strategies appropriate to their operations. For example, ACC and the EQC will have specific policies in relation to the investment portfolios they manage.

Detailed risk management policy disclosure of Crown reporting entities can be found in an individual entity's Annual Report.

Credit risk

Credit risk refers to the risk of a loss due to the non-performance by counterparties to discharge an obligation.

Financial instruments which subject the Crown to credit risk include bank balances, receivables, advances, investments, interest rate options, forward rate agreements, foreign exchange forward contracts, foreign exchange swaps, interest rate swaps and foreign currency options.

The entities within the Crown reporting entity manage their exposure to credit risk by:

- maintaining credit exposure only with highly rated institutions, for which the probability of default is low. The creditworthiness of counterparties is continuously monitored
- ensuring diversification of credit exposure by limiting the exposure to any one financial institution
- in some instances requiring a form of collateral from certain counterparties.

Since there is no significant concentration of credit risk exposure on receivables and advances they have been excluded from the tables below.

Concentration risk of credit exposure

As at 30 June 2004 the concentrations of credit exposure by industry type were as follows:

| \$ millions | 30 June 2004 | 30 June 2003 |
|--|---------------|---------------|
| Sovereign issuers (excluding New Zealand sovereign-guaranteed) | 5,487 | 6,979 |
| Supranational financial institutions | 1,397 | 1,319 |
| Foreign banks | 6,103 | 4,623 |
| Other | 15,099 | 11,117 |
| Total Credit Exposure | 28,086 | 24,038 |

As at 30 June 2004 the concentrations of credit exposure by geographical area were as follows:

| \$ millions | 30 June 2004 | 30 June 2003 |
|------------------------------|---------------|---------------|
| USA | 5,555 | 5,250 |
| Europe | 7,316 | 5,276 |
| Japan | 868 | 274 |
| Australia | 1,239 | 1,532 |
| New Zealand | 9,859 | 10,306 |
| Supranational | 1,397 | 1,319 |
| Other | 1,852 | 81 |
| Total Credit Exposure | 28,086 | 24,038 |

As at 30 June 2004 the concentrations of credit exposure by credit rating using the lower rating of Standard & Poors or Moody's were as follows:

| | | 30 June 2004 \$m | % of 2004 credit exposure | 30 June 2003 \$m | % of 2003 credit exposure |
|--|----------------------------------|---------------------|---------------------------------|---------------------|---------------------------------|
| | AAA | 7,866 | 28.0% | 8,944 | 37.2% |
| | AA | 9,071 | 32.3% | 7,029 | 29.2% |
| | A | 1,127 | 4.0% | 2,377 | 9.9% |
| | IMF reserve position | 916 | 3.3% | 1,067 | 4.4% |
| | Non-rated and other ² | 9,106 | 32.4% | 4,621 | 19.2% |
| | Total Credit Exposure | 28,086 | 100.0% | 24,038 | 100.0% |

Interest rate risk

Interest rate risk refers to the risk of loss due to adverse movement in interest rates. In general interest rate risk is managed strategically by issuing a mix of fixed and floating rate debt, including interest rate swaps. Derivative transactions outstanding as at 30 June 2004 are disclosed on page 65.

Foreign exchange risk

Foreign exchange risk refers to the risk of loss due to adverse movements in foreign exchange rates. The range of instruments currently being used to minimise the Crown's exposure to foreign exchange risk includes currency and interest rate swaps, foreign-exchange contracts and futures contracts.

Refinancing/repricing risk

As at 30 June 2004 assets and liabilities will mature or reprice within the following periods:

| \$ millions | Effective interest rate ³ | Total 30 June 2004 | 0-12 months | 1-2 years | 2-5 years | 5-10 years | >10 years |
|-----------------------------|--|--------------------------|----------------|-----------|-----------|---------------|--------------|
| Domestic Assets | | | | | | | |
| Cash and deposits | | 3,004 | 3,004 | - | - | - | - |
| Marketable securities | 4.1-7.3 | 6,853 | 6,048 | 103 | 305 | 224 | 173 |
| Others | | 1,969 | 1,817 | 7 | 26 | 41 | 78 |
| Foreign Assets | | | | | | | |
| Cash and deposits | | 596 | 596 | - | - | - | - |
| Marketable securities | 1.5-4.6 | 9,185 | 6,263 | 696 | 1,121 | 886 | 219 |
| Others | | 6,479 | 6,468 | - | - | - | 11 |
| Total Assets | | 28,086 | 24,196 | 806 | 1,452 | 1,151 | 481 |
| Domestic Liabilities | | | | | | | |
| Government stock | 6.2 | 17,351 | 2,677 | 2,442 | 2,702 | 7,087 | 2,443 |
| Treasury bills | 5.6 | 5,525 | 5,525 | - | - | - | - |
| Retail stock | 5.0 | 654 | 486 | 95 | 73 | - | - |
| Other | 5-10.3 | 3,186 | 5,111 | 51 | (416) | (1,659) | 99 |
| Foreign Liabilities | | | | | | | |
| Foreign currency debt | 2-8 | 10,109 | 5,179 | 1,349 | 2,309 | 855 | 417 |
| Total Liabilities | | 36,825 | 18,978 | 3,937 | 4,668 | 6,283 | 2,959 |

² The non-rated and other credit rating amount largely relate to equity investments held by the NZS Fund, GSF, ACC and EQC.

³ Where ranges of effective interest rates are provided above these are based on the weighted average rates provided by reporting entities.

Liquidity risk

Liquidity risk refers to the loss due to the lack of liquidity preventing quick or cost-effective liquidation of products, positions or portfolios.

Liquidity risk is managed on an individual entity basis, which generally requires entities to hold assets of appropriate quantity and quality to meet all their obligations as they fall due.

Derivatives

The Crown's involvement in derivatives comprises currency and interest rate swaps, foreign exchange and futures contracts, foreign exchange and interest rate options outstanding.

| \$ millions | 30 June 2004 Book value | 30 June 2004 Fair value | 30 June 2004 Notional value |
|---|----------------------------|----------------------------|--------------------------------|
| Foreign exchange contracts | 224 | 300 | 13,311 |
| Foreign exchange options | (1) | 5 | 208 |
| <i>Currency swaps in gain position</i> | 360 | 388 | 3,625 |
| <i>Currency swaps in loss position</i> | (409) | (401) | 1,805 |
| Net currency swaps | (49) | (13) | 5,430 |
| Interest rate options | 11 | 11 | 255 |
| <i>Interest rate swaps in gain position</i> | 205 | 421 | 8,276 |
| <i>Interest rate swaps in loss position</i> | (5) | (228) | 7,000 |
| Net interest rate swaps | 200 | 193 | 15,276 |
| <i>Futures in gain position</i> | (7) | 55 | 1,111 |
| <i>Futures in loss position</i> | (1) | 1 | 336 |
| Net futures | (8) | 56 | 1,447 |
| Net Derivative Instruments | 376 | 552 | 35,927 |

| \$ millions | 30 June 2003 Book value | 30 June 2003 Fair value | 30 June 2003 Notional value |
|---|----------------------------|----------------------------|--------------------------------|
| Foreign exchange contracts | 104 | 100 | 6,302 |
| Foreign exchange options | 2 | 10 | 75 |
| <i>Currency swaps in gain position</i> | 232 | 406 | 4,582 |
| <i>Currency swaps in loss position</i> | (376) | (376) | 2,307 |
| Net currency swaps | (144) | 30 | 6,889 |
| Interest rate options | 20 | 20 | 140 |
| <i>Interest rate swaps in gain position</i> | 277 | 844 | 7,907 |
| <i>Interest rate swaps in loss position</i> | (20) | (476) | 7,155 |
| Net interest rate swaps | 257 | 368 | 15,063 |
| <i>Futures in gain position</i> | 26 | 34 | 1,747 |
| <i>Futures in loss position</i> | (2) | (2) | 169 |
| Net futures | 24 | 32 | 1,916 |
| Net Derivative Instruments | 263 | 560 | 30,384 |

Fair value of financial instruments

As at 30 June 2004 the fair values of assets and liabilities were as follows:

| \$ millions | 30 June 2004 Book value | 30 June 2004 Fair value | 30 June 2003 Book value | 30 June 2003 Fair value |
|-----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Domestic Assets | | | | |
| Cash and deposits | 3,004 | 3,004 | 2,533 | 2,564 |
| Marketable securities | 6,853 | 6,569 | 7,128 | 7,298 |
| Others | 1,969 | 2,221 | 2,574 | 2,598 |
| Foreign Assets | | | | |
| Cash and deposits | 596 | 931 | 686 | 686 |
| Marketable securities | 9,185 | 8,483 | 4,786 | 5,124 |
| Others | 6,479 | 7,003 | 6,331 | 6,320 |
| Total Assets | 28,086 | 28,211 | 24,038 | 24,590 |
| Domestic Liabilities | | | | |
| Government stock | 17,351 | 17,782 | 18,745 | 20,339 |
| Treasury bills | 5,525 | 5,517 | 5,317 | 5,325 |
| Retail stock | 654 | 653 | 818 | 820 |
| Other | 3,186 | 3,053 | 5,239 | 4,518 |
| Foreign Liabilities | | | | |
| Foreign currency debt | 10,109 | 10,585 | 8,166 | 9,407 |
| Total Liabilities | 36,825 | 37,590 | 38,285 | 40,409 |

The carrying amount of receivables and advances is similar to their fair values. Refer to note 9 (student loans) and note 10 (accounts receivable) for discussion on carrying amounts compared to estimated fair values.

Note 21: Contingent Liabilities and Contingent Assets

| \$ millions | 30 June 2004 | 30 June 2003 |
|--|---------------------|---------------------|
| Guarantees and indemnities | 292 | 425 |
| Uncalled capital | 2,528 | 2,641 |
| Legal proceedings and disputes | 794 | 242 |
| Other contingent liabilities | 1,371 | 1,309 |
| Total Quantifiable Contingent Liabilities | 4,985 | 4,617 |
| Total Quantifiable Contingent Assets | 157 | 129 |

Only contingent liabilities involving amounts of over \$10 million are separately disclosed. Contingent liabilities below \$10 million are included in the “other quantifiable contingent liabilities” total. Comparatives have been adjusted where appropriate to align with the disclosure of new “material” contingent liabilities. The total amount of prior years’ contingent liabilities remains unchanged.

Contingent liabilities are costs that the Crown will have to face if a particular event occurs. Typically, contingent liabilities consist of guarantees and indemnities, legal disputes and claims, and uncalled capital. The contingent liabilities facing the Crown are a mixture of operating and balance sheet risks, and they can vary greatly in magnitude and likelihood of realisation. In general, if a contingent liability were realised it would have a negative impact on reduce the operating balance and net worth, and increase Crown debt and net worth. However, in the case of contingencies for uncalled capital, the negative impact would be restricted to Crown debt.

Contingent assets are potential assets dependent on a particular event occurring. As at 30 June 2004, the Crown had quantifiable contingent assets totalling \$157 million (\$129 million at 30 June 2003). \$110 million relates to suspensory loans issued by the Ministry of Education to integrated schools and \$36 million relates to potential gains arising from cross border leases held by Transpower NZ Limited.

Guarantees and indemnities

Guarantees and indemnities are disclosed in accordance with FRS 15 Provisions, Contingent Liabilities and Contingent Assets. In addition, guarantees given under Section 56 of the Public Finance Act 1989 are disclosed in accordance with Section 27(f) of the same act.

Cook Islands – Asian Development Bank (ADB) loans

Before 1992, the New Zealand Government guaranteed the Cook Islands’ borrowing from the ADB. These guarantees have first call on New Zealand’s Official Development Assistance.

\$18 million at 30 June 2004 (\$18 million at 30 June 2003).

Indemnification of receivers and managers – Terralink Limited

The Crown has issued a Deed of Receivership indemnity to the appointed receivers of Terralink Limited against claims arising from the conduct of the receivership.

\$10 million at 30 June 2004 (\$10 million at 30 June 2003).

Indemnification of touring exhibitions

The Crown has a contingent liability for damages and losses under the scheme for indemnifying touring exhibitions.

\$36 million at 30 June 2004 (\$243 million at 30 June 2003).

Ministry of Justice – Treaty settlements, tax liabilities

Under Deeds of Settlement completed in the Treaty settlement process the Crown has indemnified the appropriate governance entity against any goods and services tax or income tax liability arising from the payment of tangible redress.

\$92 million at 30 June 2004 (\$32 million at 30 June 2003).

Mighty River Power Limited – guaranteed payment obligations

Mighty River Power Limited have guaranteed payment obligations under letters of credit in relation to bank borrowings under a standby and cash advances facility and revolving advances facility.

\$30 million at 30 June 2004 (\$50 million at 30 June 2003).

Solid Energy New Zealand Limited

The Crown has indemnified Solid Energy New Zealand Limited for rehabilitation liabilities arising from coal mining operations carried out by the State Coal Mines prior to 1 April 1987.

\$42 million at 30 June 2004 (\$7 million at 30 June 2003).

Ministry of Transport – funding guarantee

The Minister of Finance has issued a guarantee of \$10 million to the Transport Accident Investigation Commission. The guarantee allows the Commission to assure payment to suppliers of specialist salvage equipment in the event of the Commission initiating an urgent investigation of any future significant transport accident.

\$10 million at 30 June 2004 (\$10 million at 30 June 2003).

Post Office Bank (PostBank) – guaranteed deposits

In the sale of PostBank to ANZ Banking Group Limited (ANZ), the Crown agreed to continue its guarantee, under the Post Office Bank Act 1987, of certain PostBank deposits lodged with the Bank before 1 July 1988. ANZ agreed to indemnify the Crown for the cost of any liability that may arise from the Crown guarantee. The amount guaranteed reduces as deposits mature.

\$12 million at 30 June 2004 (\$14 million at 30 June 2003).

Guarantees and indemnities of SOEs and Crown entities

\$42 million at 30 June 2004 (\$40 million at 30 June 2003).

Other guarantees and indemnities

\$1 million at 30 June 2004 (\$1 million at 30 June 2003).

Uncalled capital

The Crown's uncalled capital subscriptions are as follows:

| \$ millions | Uncalled capital at 30 June 2004 | Uncalled capital at 30 June 2003 |
|---|---|---|
| Asian Development Bank | 1,181 | 1,216 |
| European Bank for Reconstruction and Development | 13 | 14 |
| International Bank for Reconstruction and Development | 1,308 | 1,411 |

Legal proceedings and disputes

The amounts under quantifiable contingent liabilities for legal proceedings and disputes are shown exclusive of any interest and costs that may be claimed if these cases were decided against the Crown.

Where contingent liabilities have arisen as a consequence of legal action being taken against the Crown, the amount shown is the amount claimed and thus the maximum potential cost. It does not represent either an admission that the claim is valid or an estimation of the possible amount of any award against the Crown.

Air New Zealand Limited – legal claim

New Zealand International Airlines Limited (NZIA), a wholly owned subsidiary of Air New Zealand Limited, received an income taxation notice of assessment from the Hong Kong Inland Revenue Department (the IRD) after 31 December 2003, covering the years ended 30 June 1989 to 30 June 2002. If the IRD's assessment position is extrapolated to 31 December 2004 a possible liability of \$107 million could result. NZIA considers the assessments can be challenged, and will contest them.

\$107 million at 30 June 2004 (nil at 30 June 2003).

Health – legal claims

Claims against the Crown in respect of people allegedly contracting hepatitis C through contaminated blood and blood products.

\$104 million at 30 June 2004 (\$104 million at 30 June 2003).

Tax in dispute

Represents the outstanding debt of those tax assessments raised, against which an objection has been lodged and legal action is proceeding.

\$469 million at 30 June 2004 (\$35 million at 30 June 2003).

Transpower New Zealand Limited

A claim has commenced against both Transpower and Powerco Limited alleging breaches of the Commerce Act. Transpower has filed a statement of defence.

\$20 million at 30 June 2004 (nil million at 30 June 2003).

Other legal claims against SOEs and Crown entities

\$7 million at 30 June 2004 (\$17 million at 30 June 2003).

Other legal claims

\$77 million at 30 June 2004 (\$86 million at 30 June 2003).

Other quantifiable contingent liabilities

International finance organisations

The Crown has lodged promissory notes with the following international finance organisation:

| \$ millions | 30 June 2004 | 30 June 2003 |
|-------------|--------------|--------------|
| IMF | 1,213 | 1,131 |

Payment of the notes depends upon the operation of the rules of the organisation.

Reserve Bank – demonetised currency

The Crown has a contingent liability for the face value of the demonetised \$1 and \$2 notes issued which have yet to be repatriated.

\$23 million at 30 June 2004 (\$23 million at 30 June 2003).

Social Development – claim for judicial review

A claim for judicial review of the Crown's interpretation and application of Special Benefit direction. The claim seeks representation order for all applicants for the Special Benefit from December 2000 to date.

\$43 million at 30 June 2004 (\$32 million at 30 June 2003).

Other quantified contingent liabilities of SOEs and Crown entities

\$45 million at 30 June 2004 (\$91 million at 30 June 2003).

Other quantifiable contingent liabilities

\$30 million at 30 June 2004 (\$32 million at 30 June 2003).

Unquantifiable Contingent Liabilities

This part of the Statement provides details of those contingent liabilities of the Crown which cannot be quantified.

Accident Compensation Corporation (ACC) litigations

There are several legal actions against ACC in existence, arising in the main from challenges to operational decisions made by ACC. No accrual has been made for such contingent liabilities as ACC will be vigorously defending these claims.

A particular issue before the courts is access of ACC claimants to lump sum compensation for asbestos related illnesses. On 6 August 2004, the District Court upheld an interpretation that a lump sum payment was required to be paid in respect of one claimant.

At this stage, the potential implications of the decision are uncertain, but could expose ACC to substantial future liability in respect of other illnesses listed under Schedule 2 of the Injury Prevention Rehabilitation and Compensation Act 2001.

Asure New Zealand Limited

The Crown has indemnified the directors of Asure New Zealand Limited in the event that they incur any personal liability for redundancies arising from any agreement by international trading partners that allows post-mortem meat inspection by parties other than the Ministry of Agriculture and Forestry, or its sub-contractor.

At Work Insurance Limited

The Crown has indemnified the liquidators of At Work Insurance Limited (Deloitte Touche Tohmatsu) against various employment-related claims.

Auckland Rail Lease

The Crown has indemnified Tranz Rail Limited against any losses arising from breaches of the Sale and Purchase Agreement with the Crown relating to the purchase of the Auckland rail lease and infrastructure assets.

Bona Vacantia property

P&O NZ Ltd sought a declaratory judgement that property disclaimed by a liquidator is bona vacantia. A settlement has been reached, which includes a Crown indemnity in favour of New Zealand Aluminium Smelters and Comalco in relation to aluminium dross disposed of in their landfill, for costs that may be incurred in removing the dross and disposing of it at another site if they are required to do so by an appropriate authority. The Minister of Finance signed the indemnity on 24 November 2003. In February 2004, a similar indemnity was signed in respect of aluminium dross currently stored at another site in Invercargill.

Building Industry Authority litigation

The Building Industry Authority is one of a number of defendants in lawsuits alleging negligence on the part of the Authority regarding its performance on weathertightness issues. The Authority considers that other proceedings are likely to be brought against it both in the High Court and under the Weathertight Homes Resolution Services Act.

The Authority had no direct involvement with any of the buildings concerned. The outcome of the claims essentially depends on questions of law relating to the Authority's performance of its statutory duties. The Authority considers that it has at all times performed those duties properly. In the absence of decided cases on the relevant questions of law there is no certainty as to the outcome of the claims. Notwithstanding the outcomes of the claims, should the Authority be found to be liable, the amounts payable will depend on the amounts paid by other defendants who are also held to be liable.

It is therefore not currently possible to quantify the Authority's contingent liabilities.

CRIs

The Crown has indemnified the CRIs for any costs arising from certain third-party claims that are the result of acts or omissions prior to the transfer date, for costs of complying with statutes, ordinances and bylaws which relate to or affect certain buildings, and (subject to certain limitations) for the costs of obtaining title to land.

Ministry of Defence - Litigation

The Ministry of Defence was advised on 2 August 2004 that the Crown Law Office had been served with legal proceedings against the Ministry by Schelde Marinebouw BV.

Schelde, an unsuccessful respondent to the Project Protector RFP, is suing for damages arising out of its failure to secure the contract for the supply of the Project Protector ships for the RNZN. An estimate of its financial effect is unable to be made.

District health boards (DHBs)

The Crown has provided transitional indemnities to directors and officers of some DHBs, for liabilities arising from inherited assets and business practices under the Building Act 1991 and the Health and Safety in Employment Act 1992.

District health boards (DHBs) – Auckland DHB

A class of employees has claimed that Auckland District health board (ADHB) has incorrectly interpreted a clause in the contract governing their employment. The hearing process is proceeding and the document exchanges are to be completed by 17 September 2004 with the Employment Relations Authority (ERA), which will rule on the interpretation of the contract. The view of the Board is that, depending on the ruling of the ERA, a settlement may be made with the employees.

There are a number of uncertainties that affect the possible exposure that ADHB faces. The uncertainties include the outcome, identifying the employees affected and the extent of any back-dating.

This issue may have impacts for other DHB's, but at this stage the impact can not be quantified.

District Court Judges, Justices of the Peace, Coroners and Disputes Tribunals

Section 119 of the District Courts Act 1947 indemnifies District Court Judges acting in their civil jurisdiction. Section 196A of the Summary Proceedings Act 1957 also indemnifies District Court Judges for any liabilities arising as a result of an act done by a Judge in excess of, or without, jurisdiction.

Section 35 of the Coroners Act 1988 confers on Coroners acting within the Coroner Act 1988 the same privileges and immunities as District Court Judges under the Summary Proceedings Act 1957.

Under section 197 of the Summary Proceedings Act 1957, Justices of the Peace are similarly covered as long as a High Court Judge certifies that they have acted in good faith and ought to be indemnified.

Section 58 of the Disputes Tribunal Act 1988 confers on Disputes Tribunal referees acting within the Disputes Tribunal Act 1988 the same protection as Justices of the Peace under the Summary Proceedings Act 1957.

EQC

The Crown is liable to meet any deficiency in the EQC's assets in meeting the Commission's financial liabilities (section 16 of the Earthquake Commission Act 1993).

Electricity Corporation of New Zealand Limited (ECNZ)

The ECNZ Sale and Purchase Agreement provides for compensation to ECNZ for any tax, levy, or royalty imposed on ECNZ for the use of water or geothermal energy for plants in existence or under construction at the date of the Sale and Purchase Agreement. The Agreement also provides for compensation for any net costs to ECNZ arising from resumption of assets pursuant to the Treaty of Waitangi (State Enterprises) Act 1988.

The Deed of Assumption and Release between ECNZ, Contact Energy Limited and the Crown provides that the Crown is no longer liable to ECNZ in respect of those assets transferred to Contact Energy. As a result of the split of ECNZ in 1999, Ministers have transferred the benefits of the Deed to ECNZ's successors – Meridian Energy Limited, Mighty River Power Limited and Genesis Power Limited.

Under the Transpower New Zealand Limited (Transpower) Sale and Purchase and Debt Assumption Agreements, the Crown has indemnified ECNZ for any losses resulting from changes in tax rules applicable to transactions listed in the Agreements. Additionally, the Crown has indemnified the directors and officers of ECNZ for any liability they may incur in their personal capacities as a result of the Transpower separation process.

Following the split of ECNZ in 1999 into three new companies, the Crown has indemnified ECNZ in relation to all ECNZ's pre-split liabilities, including:

- existing debt and swap obligations
- hedge contracts and obligations
- any liabilities that arise out of the split itself.

Fletcher Challenge Limited (FCL)

Under the Sale and Purchase Agreement with FCL for the sale of the Forestry Corporation of New Zealand Limited, the Crown has indemnified FCL for the costs of cleaning up environmental contamination. In respect of on-site environmental costs and losses incurred up to settlement date (27 September 1996), FCL will pay the first \$30 million of any clean-up and half of the next \$20 million.

The Crown will pay for half of any cost over \$30 million and for all costs over \$50 million. The on-site indemnity runs until 1 January 2020.

The Crown has also indemnified FCL in respect of off-site environmental costs and losses incurred up until settlement date. The off-site indemnity is unlimited as to amount and time.

Ministry of Fisheries – indemnity provided for delivery of registry services

The Crown has indemnified Commercial Fisheries Services Limited against claims made by third parties arising from Commercial Fisheries Services undertaking registry services under contract to the Chief Executive of the Ministry of Fisheries. This indemnity, provided under the Fisheries Acts 1983 and 1996, expires on 30 September 2006 unless the contract with Commercial Fisheries Services is extended, in which case it will expire on 30 September 2009.

Housing New Zealand Corporation (HNZC)

The Crown has indemnified Westpac Banking Corporation in respect of the accuracy of information provided on the sale of various parcels of HNZC (formerly Housing Corporation of New Zealand) mortgages.

Under the sale of mortgages to Westpac, HNZC has insured the purchaser against certain credit losses with the Crown standing behind this obligation.

HCNZ Lender's Mortgage Insurance Indemnity: The Minister of Finance is deemed under section 24(2) of the Housing Corporation Act 1974 to have guaranteed HCNZ in respect of Homebuy first mortgages insured by HCNZ through contracted insurance agents.

Legal proceedings have been initiated against a number of defendants, including the Crown, alleging breach of fiduciary duties in respect of the transfer of the Agreement for Sale and Purchase and mortgage agreements to HNZC under the Housing Assets Transfer Act 1993.

In addition, the Crown has provided a warranty in respect of title to the assets transferred to HNZC (formerly Housing New Zealand) and has indemnified the company against any breach of this warranty. The Crown has indemnified the company against any third-party claims that are a result of acts or omissions prior to 1 November 1992. It has also indemnified the directors and officers of the company against any liability consequent upon the assets not complying with statutory requirements, provided it is taking steps to rectify any non-compliance.

Indemnities against acts of war and terrorism

The Crown has indemnified Air New Zealand against claims arising from acts of war and terrorism, that cannot be met from insurance, up to a limit of US\$1 billion in respect of any one claim.

Kyoto Protocol

The Kyoto Protocol is a protocol to the United Nations Framework Convention on Climate Change (UNFCCC). The Protocol addresses climate change by committing developed countries to reduce their combined greenhouse gas emissions by at least 5% compared to 1990 levels by the period 2008-2012.

The New Zealand Government ratified the Kyoto Protocol in December 2002. The Protocol will come into force 90 days after countries responsible for 55% of the developed world's 1990 carbon dioxide (CO₂) emissions have ratified the Protocol. As at April 2004, 120 countries accounting for 44.2% of developed countries CO₂ emissions in 1990 have ratified.

If the Protocol does come into force New Zealand will have a binding international commitment to initially reduce its greenhouse gas emissions to the levels they were in 1990, on average, over the period 2008-2012 or take responsibility for any emissions above this level if it cannot meet this target.

New Zealand's emission obligations under the Protocol do not extend beyond the first commitment period of 2008-2012. New Zealand's obligation beyond 2012 will need to be negotiated. The structure and rules (e.g. the role of forest sinks) around post-2012 commitments will also need to be negotiated.

The position of each country for the first commitment period is calculated in an agreed manner. Countries may sell any surplus units to countries that need to purchase units to make up a deficit in meeting their Kyoto obligations through domestic action. Alternatively, they could choose to hold onto any surplus emission units to count against emission obligations in future commitment periods. At this stage there is no reliable measure of New Zealand's likely position over the first commitment period.

As the fiscal implications become clearer, particularly any implications beyond the 2012 period, further information and quantification will be provided.

Maui Partners

The Crown has entered into confidentiality agreements with the Maui Partners in relation to the provision of gas reserves information. The deed contains an indemnity against any losses arising from a breach of the deed.

National Provident Fund

The National Provident Fund (NPF) has been indemnified for certain potential tax liabilities. Under the NPF Restructuring Act 1990, the Crown guarantees:

- the benefits payable by all NPF schemes (section 60)
- investments and interest thereon deposited with the NPF Board prior to 1 April 1991 (section 61)
- payment to certain NPF defined contribution schemes where application of the 4% minimum earnings rate causes any deficiency or increased deficiencies in reserves to arise (section 72).

A provision has been made in these financial statements in respect of the actuarially assessed deficit in the DBP (Annuitants') Scheme (refer Note 15 of the financial statements).

New Zealand Railways Corporation

The Crown has indemnified the directors of the New Zealand Railways Corporation against any liability arising from the surrender of the licence and lease of the Auckland rail corridor.

Persons exercising investigating powers

Section 63 of the Corporations (Investigation and Management) Act 1989 indemnifies the Securities Commission, the Registrar and Deputy Registrar of Companies, members of advising committees within the Act, every statutory manager of a corporation, and persons appointed pursuant to sections 17 to 19 of the Act, in the exercise of investigating powers, unless the power has been exercised in bad faith.

Ports of Auckland

The Crown has entered into a confidentiality agreement with Ports of Auckland in relation to the purchase of two marinas. The agreement contains an indemnity against any losses arising from a breach of the agreement.

Public Trust

The Crown is liable to meet any deficiency in the Public Trust's Common Fund (section 52 of the Public Trust Act 2001).

Purchasers of Crown operations

The Crown has indemnified the purchasers of various Crown operations for losses owing to changes in legislation which uniquely and adversely affect those purchases.

Reserve Bank of New Zealand (the Reserve Bank)

The Crown pays to the Reserve Bank any exchange losses incurred by the Reserve Bank as a result of dealing in foreign exchange under sections 17, 18 and 21(2) of the Act.

State Insurance and Rural Bank – Tax liabilities

The Crown has granted to the purchasers of the State Insurance Office Limited and the Rural Banking and Finance Corporation Limited an indemnity for certain potential tax liabilities.

Synfuels-Waitara Outfall Indemnity

As part of the 1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI), the Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site.

The Crown has the benefit of a counter indemnity from NZLFI which has since been transferred to Methanex Motunui Limited.

Tainui Corporation

Several leases of Tainui land at Huntly and Meremere have been transferred from ECNZ to Genesis Power. The Crown has provided guarantees to Tainui Corporation relating to Genesis Power's obligations under the lease agreements.

Toll NZ Ltd – purchase of rail network assets

The agreement between the Crown and Toll NZ Ltd for the Crown's purchase of the rail network and associated assets on 30 June 2004 contains the following provisions:

- the Crown has indemnified Toll against any liability arising from the assigned contracts, leases, etc after their assignment dates
- the Crown has indemnified Toll against certain potential claims by employees
- the Crown has an option to purchase the Tranz Scenic Stations from Toll for a period of three years (to 30 June 2007).

Transpower New Zealand

The Crown has provided a temporary indemnity to Transpower against actions taken under tort by electricity market participants, which could arise from being system operator under the Electricity Governance Regulations 2003. The Crown is liable for expenses over \$200,000 per event and \$2 million per annum.

Tranz Rail

The Crown has entered into a confidentiality deed with Tranz Rail in relation to confidential information provided in relation to the transaction set out in a Heads of Agreement dated 6 June 2003. The deed contains an indemnity against any losses arising from a breach of the deed.

Works Civil Construction

The Crown has provided an indemnity to the purchasers of Works Civil Construction in relation to the activities of the Ministry of Works and Development prior to 1 April 1989. In addition, an indemnity has

been provided against certain costs, claims or damages in relation to the Clyde and Ohaaki power projects.

Works Consultancy Services

The Crown has provided an indemnity to the purchasers of Works Consultancy Services in relation to the activities of the Ministry of Works and Development prior to 1 April 1989.

Other unquantifiable contingent liabilities

Environmental Liabilities

Under common law and various statutes, the Crown may have responsibility to remedy adverse effects on the environment arising from Crown activities.

During 2002/03 departments managing significant Crown properties undertook exercises to establish the nature and quantity of any contaminated sites. These exercises continued into the 2003/04 year. Where appropriate, departmental systems have been implemented to identify, monitor and assess potential contaminated sites.

In accordance with FRS 15: Provisions, Contingent Liabilities and Contingent Assets any contaminated sites for which costs can be reliably measured have been included in the Statement of Financial Position as provisions.

Genesis Power Limited

Carter Holt Harvey (CCH) commenced proceedings against Genesis Power Limited in May 2001 in connection with a co-generation agreement with ECNZ.

Source Distribution Limited commenced proceedings against Genesis Power Limited in December 2002 for alleged breach of agreement to acquire customers for Genesis.

New Zealand Educational Institute

The Ministry of Education is appealing a decision of the Employment Court in favour of the New Zealand Educational Institute regarding recognition of partial degree qualifications of primary teachers for salary purposes.

New Zealand Post Primary Teachers' Association

The New Zealand Post Primary Teachers' Association has filed legal proceedings against the Crown in respect of the Ministry of Education's proposed handling of the pay status of some secondary teachers who do not hold degrees within the terms of settlement of the Secondary Teachers' Collective Agreement.

Sale of Crown assets

On the sale of Crown assets and the corporatisation of Crown assets into SOEs and Crown entities, the Crown has generally provided a warranty that the Crown was the rightful owner of the assets transferred, and that the assets were free of encumbrances.

Treaty of Waitangi claims

Under the Treaty of Waitangi Act 1975, any Māori may lodge claims relating to land or actions counter to the principles of the Treaty with the Waitangi Tribunal. Where the Tribunal finds a claim is well founded, it may recommend to the Crown that action be taken to compensate those affected. The Tribunal can make recommendations that are binding on the Crown with respect to land which has been transferred by the Crown to an SOE or tertiary institution, or is subject to the Crown Forest Assets Act 1989.

Settlement relativity payments

The Deeds of Settlement negotiated with Waikato-Tainui and Ngai Tahu include a relativity mechanism. The mechanism provides that, where the total redress amount for all historical Treaty settlements exceeds \$1 billion in 1994 present-value terms, the Crown is liable to make payments to maintain the real value of Ngai Tahu's and Waikato-Tainui's settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17% for Waikato-Tainui and approximately 16% for Ngai Tahu. The non-quantifiable contingent liability relates to the risk that total settlement redress, including binding recommendations from the Waitangi Tribunal, will trigger these relativity payments.

Contingent Liability Movements

Of the contingent liabilities detailed above, the following are movements this year:

- Solid Energy New Zealand Limited – rehabilitation liabilities
- Ministry of Justice – treaty settlement tax liabilities
- Air New Zealand – legal claims
- Transpower New Zealand Limited – legal claims
- Accident Compensation Corporation (ACC) litigation - unquantified
- Bona vacantia property – unquantified
- Building Industry Authority Institute – unquantified
- Ministry of Defence – unquantified
- District health board (Auckland DHB) - unquantified
- Kyoto Protocol – unquantified
- New Zealand Educational Institute – unquantified
- Ports of Auckland – unquantified
- Solid Energy – Ralph Estate – unquantified
- Synfuels-Waitara Outfall indemnity – unquantified
- Tainui Corporation – unquantified
- Toll NZ Limited – unquantified
- Transpower – unquantified
- Tranz Rail – unquantified

The following items were resolved or expired over the year:

- Transpower New Zealand Limited – other quantifiable contingent liabilities
- Air New Zealand (Ansett Group) – unquantified
- DFC tax liability – unquantified
- Reserve Bank (S.146 of the Reserve Bank Act) – unquantified



ADDITIONAL STATEMENTS

ON

CORE CROWN

Core Crown Cash Flow Reconciliation to Government Stock Issues

(for the year ended 30 June 2004)

| <i>Forecast</i> | | <i>Actual</i> | |
|---|----------------------------|------------------------|------------------------|
| 2003 Budget \$m | Estimated Actual \$m | 30 June 2004 \$m | 30 June 2003 \$m |
| Core Crown Cash Flows from Operations | | | |
| 41,056 | 42,620 | 42,777 | 39,842 |
| 384 | 443 | 428 | 399 |
| 953 | 1,439 | 1,129 | 1,310 |
| 1,119 | 702 | 534 | 1,185 |
| (14,510) | (14,295) | (14,250) | (14,071) |
| (23,297) | (23,135) | (23,198) | (21,703) |
| (2,058) | (2,054) | (1,977) | (2,106) |
| (175) | - | - | - |
| 3,472 | 5,720 | 5,443 | 4,856 |
| Net Cash Flows from Operations | | | |
| Investing Flows | | | |
| <i>Net advances</i> | | | |
| (667) | (733) | (701) | (698) |
| (355) | (535) | (503) | (107) |
| (595) | (609) | (614) | (114) |
| - | - | 44 | (44) |
| - | - | - | 48 |
| (2) | 47 | 49 | 19 |
| (1,619) | (1,830) | (1,725) | (896) |
| (1,285) | (1,593) | (1,299) | (1,059) |
| Net Purchase of Physical Assets | | | |
| <i>Net investments</i> | | | |
| (252) | (157) | (28) | (275) |
| (185) | (20) | 78 | (69) |
| (222) | (106) | (70) | (140) |
| (1,879) | (1,879) | (1,879) | (1,200) |
| (180) | - | - | - |
| (2,718) | (2,162) | (1,899) | (1,684) |
| Net (Purchase)/Sale of Investments | | | |
| (2,150) | 135 | 520 | 1,217 |
| Available for Debt Repayment/(Required to be Financed) | | | |
| Financing Activity | | | |
| 2,483 | (353) | 541 | (1,944) |
| (238) | 1,001 | 2 | (417) |
| (105) | (573) | (216) | 1,658 |
| 16 | 374 | (250) | 69 |
| - | 177 | 114 | 147 |
| 6 | 761 | 711 | 730 |
| Net Cash Inflows/(Outflows) to be Offset by Domestic Bonds | | | |
| Gross Cash Proceeds from Domestic Bonds | | | |
| 3,234 | 2,216 | 2,212 | 2,551 |
| 357 | 424 | 478 | 279 |
| 3,591 | 2,640 | 2,690 | 2,830 |
| Total Gross Cash Proceeds from Domestic Bonds | | | |
| (3,044) | (3,044) | (3,044) | (2,823) |
| (553) | (357) | (357) | (737) |
| (6) | (761) | (711) | (730) |
| Net (Repayments of)/Cash Proceeds from Domestic Bonds | | | |

Statement of Unappropriated Expenditure, Expenses or Liabilities (for the year ended 30 June 2004)

An appropriation is a statutory authorisation by Parliament for the expenditure of public money or the incurring of expenses or liabilities. This Statement reports expenditure, expenses or liabilities spent or incurred in excess of or without appropriation by Parliament.

Section 12 (1) of the Public Finance Act 1989 authorises the Minister of Finance to approve limited amounts of expenditure, expenses or liabilities in excess of or without appropriation. Unappropriated amounts spent or incurred in terms of such an approval are shown separately in this Statement.

Unappropriated expenditure, expenses or liabilities in excess of the limits which the Minister of Finance can approve require validating legislation.

Amounts in this Statement are expressed in thousands of dollars, reflecting the level at which appropriations are made.

| Department Vote – <i>Appropriation</i> | Unappropriated expenditure, expenses or liabilities approved by the Minister of Finance under section 12 (\$000) | Unappropriated expenditure, expenses or liabilities requiring validating legislation (\$000) | Amount appropriated (\$000) |
|---|---|---|-----------------------------------|
| Department of Conservation | | | |
| Conservation – | | | |
| <i>Outputs Supplied by the Department</i> | | | |
| Management of Natural Heritage | 1,276 | | 117,992 |
| <i>Outputs Supplied by the Department</i> | | | |
| Conservation with the Community | 842 | | 29,483 |
| <i>Outputs Supplied by the Department</i> | | | |
| Policy Advice, Servicing the Minister and Statutory Bodies, and Statutory Planning | 535 | | 5,680 |
| <i>Outputs Supplied by the Crown</i> | | | |
| Management Services - Natural and Historic Places | 74 | | 1,487 |
| Biosecurity – Conservation – | | | |
| <i>Outputs Supplied by the Department</i> | | | |
| Indigenous Forest Biosecurity Protection | 8 | | 28 |
| Department of Corrections | | | |
| Corrections – | | | |
| <i>Other Expenses to be Incurred by the Department</i> | | | |
| Revaluation Losses | 5,197 | | 2,500 |
| Ministry for Culture and Heritage | | | |
| Arts, Culture and Heritage – | | | |
| <i>Outputs Supplied by the Crown</i> | | | |
| Public Broadcasting Funding | 495 | | 121,546 |
| Ministry of Economic Development | | | |
| Commerce – | | | |
| <i>Other Expenses to be Incurred by the Crown</i> | | | |
| Commerce Commission Litigation Fund | 818 | 500 | 1,688 |
| Ministry of Education | | | |
| Education – | | | |
| <i>Outputs Supplied by the Department</i> | | | |
| Provision of Information | 1,664 | | 42,081 |
| <i>Outputs Supplied by the Department</i> | | | |
| Provision of School Sector Property | 1,192 | | 1,013,779 |
| <i>Outputs Supplied by the Department</i> | | | |
| Provision of Teacher and Caretaker Housing | 139 | | 26,548 |
| <i>Other Expenses to be Incurred by the Crown</i> | | | |
| Secondary Education | 2,207 | | 1,479,865 |
| <i>Other Expenses to be Incurred by the Crown</i> | | | |
| Tertiary Education and Training | 1,014 | | 1,778,870 |

Statement of Unappropriated Expenditure, Expenses or Liabilities (for the year ended 30 June 2004) – continued

| Department Vote – <i>Appropriation</i> | Unappropriated expenditure, expenses or liabilities approved by the Minister of Finance under section 12 (\$000) | Unappropriated expenditure, expenses or liabilities requiring validating legislation (\$000) | Amount appropriated (\$000) |
|--|---|---|-----------------------------------|
| Ministry of Foreign Affairs and Trade | | | |
| Foreign Affairs and Trade – | | | |
| <i>Outputs Supplied by the Department</i> | | | |
| Policy Advice and Representation - International Institutions | 862 | | 35,335 |
| Ministry of Justice | | | |
| Courts – | | | |
| <i>Other Expenses to be Incurred by the Crown</i> | | | |
| Abortion Supervisory Committee - Certifying Consultants Fees | 166 | | 3,700 |
| <i>Other Expenses to be Incurred by the Crown</i> | | | |
| Personal Property Protection Rights Costs | 51 | | 1,200 |
| <i>Other Expenses to be Incurred by the Crown</i> | | | |
| Youth Court Professional Fees | 445 | | 4,600 |
| Justice – | | | |
| <i>Outputs Supplied by the Crown</i> | | | |
| Policy Advice ¹ | 130 | | 3,217 |
| New Zealand Defence Force | | | |
| Defence Force – | | | |
| <i>Outputs Supplied by the Department</i> | | | |
| Naval Combat Forces | 5,737 | | 559,006 |
| <i>Outputs Supplied by the Department</i> | | | |
| Naval Support Forces | 320 | | 30,222 |
| <i>Outputs Supplied by the Department</i> | | | |
| Hydrographic Data Collection and Processing for LINZ and Third Parties ² | 428 | | 8,266 |
| <i>Outputs Supplied by the Department</i> | | | |
| Land Combat Forces | 1,663 | | 233,265 |
| <i>Outputs Supplied by the Department</i> | | | |
| Land Combat Support Forces ³ | 497 | | 151,770 |
| <i>Outputs Supplied by the Department</i> | | | |
| Land Combat Service Support Forces ⁴ | 1,370 | | 125,626 |
| <i>Outputs Supplied by the Department</i> | | | |
| Rotary Wing Transport Services | 881 | | 78,866 |
| <i>Other Expenses Incurred by the Department</i> | | | |
| Exchange Rate Movements | | 72,000 | - |
| Veterans Affairs – Defence Force – | | | |
| <i>Outputs Supplied by the Department</i> | | | |
| Policy and Administration | 9 | | 1,619 |
| <i>Outputs Supplied by the Crown</i> | | | |
| Development and Maintenance of Service Cemeteries | 3 | | 804 |

¹ Excludes \$130,000 transferred out of this Output Class by the Public Finance (Transfers between Outputs) Order 2004 (SR 2004/198).

² Includes \$350,000 transferred into this Output Class by the Public Finance (Transfers between Outputs) Order 2004 (SR 2004/198).

³ Includes \$500,000 transferred into this Output Class by the Public Finance (Transfers between Outputs) Order 2004 (SR 2004/198).

⁴ Includes \$500,000 transferred into this Output Class by the Public Finance (Transfers between Outputs) Order 2004 (SR 2004/198).

Statement of Unappropriated Expenditure, Expenses or Liabilities (for the year ended 30 June 2004) – continued

| Department Vote – Appropriation | Unappropriated expenditure, expenses or liabilities approved by the Minister of Finance under section 12 (\$000) | Unappropriated expenditure, expenses or liabilities requiring validating legislation (\$000) | Amount appropriated (\$000) |
|--|---|---|-----------------------------------|
| Pacific Island Affairs | | | |
| Pacific Island Affairs – | | | |
| <i>Outputs Supplied by the Department</i> | | | |
| Communications | 36 | | 757 |
| <i>Outputs Supplied by the Crown</i> | | | |
| Promotions - Business Development | 25 | | 1,321 |
| Police | | | |
| Police – | | | |
| <i>Outputs Supplied by the Department</i> | | | |
| Investigations ⁵ | 244 | | 270,441 |
| <i>Outputs Supplied by the Department</i> | | | |
| Case Resolution and Support to Judicial Process ⁶ | 901 | | 61,602 |
| <i>Outputs Supplied by the Department</i> | | | |
| Road Safety Programme | 708 | | 228,225 |
| Ministry of Social Development | | | |
| Social Development – | | | |
| <i>Benefits and Other Unrequited Expenses</i> | | | |
| Assistance for People Requiring Care | 66 | | 5,000 |
| <i>Benefits and Other Unrequited Expenses</i> | | | |
| Child Disability Allowance | 59 | | 57,117 |
| <i>Benefits and Other Unrequited Expenses</i> | | | |
| Domestic Purposes Benefit | 1,237 | | 1,567,450 |
| <i>Benefits and Other Unrequited Expenses</i> | | | |
| New Zealand Superannuation | 165 | | 5,888,574 |
| <i>Benefits and Other Unrequited Expenses</i> | | | |
| Orphan's/Unsupported Child's Benefit | 137 | | 50,583 |
| <i>Benefits and Other Unrequited Expenses</i> | | | |
| Special Benefit | 60 | | 139,637 |
| <i>Capital Contributions to Other Persons or Organisations</i> | | | |
| Community Services Card Reimbursements | 6 | | 312 |
| Veterans' Affairs – Social Development – | | | |
| <i>Benefits and Other Unrequited Expenses</i> | | | |
| Interest Concessions Land and Buildings | 1 | | 119 |
| <i>Benefits and Other Unrequited Expenses</i> | | | |
| Medical Treatment | 271 | | 12,241 |
| Treasury | | | |
| Finance – | | | |
| <i>Other Expenses to be Incurred by the Crown</i> | | | |
| Loss on sale of Auckland Marinas | 5,688 | | 0 |
| <i>Purchase or Development of Capital Assets by the Crown</i> | | | |
| Track Co - Purchase of rail network Assets | 7,728 | | 47,250 |
| | 45,356 | 72,499 | 14,189,672 |

⁵ Includes \$1,361,000 transferred into this Output Class by the Public Finance (Transfers between Outputs) Order 2004 (SR 2004/198).

⁶ Includes \$2,933,000 transferred into this Output Class by the Public Finance (Transfers between Outputs) Order 2004 (SR 2004/198).

Statement of Emergency Expenditure, Expenses or Liabilities (for the year ended 30 June 2004)

Under section 13 of the Public Finance Act 1989, if a state of national emergency is declared under the Civil Defence Act 1983 or if the Government declares an emergency because of any situation that affects the public health or safety of New Zealand, the Minister of Finance may approve expenditure of public money or incurrence of expenses or liabilities to meet such emergency or disaster whether or not an appropriation by Parliament is available for the purpose. Once expenditure, expenses or liabilities have been incurred, the amounts that have not been appropriated must be disclosed in the annual financial statements of the Crown for the financial year and sanctioned by Parliament in an Appropriation Act.

During the year, no such emergency expenditure, expenses or liabilities were incurred.

Statement of Trust Money (as at 30 June 2004)

| Department Trust Account | As at 30 June 2003 (\$000) | Transfers (\$000) | Contributions (\$000) | Distributions (\$000) | Revenue (\$000) | Expenses (\$000) | As at 30 June 2004 (\$000) |
|---|----------------------------------|----------------------|--------------------------|--------------------------|--------------------|---------------------|----------------------------------|
| Agriculture and Forestry | | | | | | | |
| Meat Board Levies Trust | - | | 66,993 | (67,000) | 13 | - | 6 |
| Audit | | | | | | | |
| South Pacific Association of Supreme Audit Institutions Trust | 19 | | 1,044 | (759) | - | - | 304 |
| Child, Youth and Family Services | | | | | | | |
| Children and Young Persons and Their Families Agency Trust | 337 | | - | - | 10 | - | 347 |
| Conservation | | | | | | | |
| Bonds/Deposits Trust | 959 | | 154 | (270) | 26 | (3) | 866 |
| Conservation Project Trust | 1,124 | | 735 | (680) | 41 | (3) | 1,217 |
| National Parks Trust | 44 | | 60 | (69) | 2 | - | 37 |
| Walkways Trust | 5 | | - | - | - | - | 5 |
| Wildlife and Reserves Trusts | 662 | | - | (227) | 23 | - | 458 |
| Corrections | | | | | | | |
| Prisons Trust | 395 | | - | - | 8,224 | (8,150) | 469 |
| Courts ¹ | | | | | | | |
| Courts Trust | 9,774 | (7,725) | 4,133 | (6,182) | - | - | - |
| Fines Trust | 11,727 | (21,132) | 47,369 | (37,964) | - | - | - |
| Maori Land Court Trust | 43 | (43) | - | - | - | - | - |
| Foreign Currency Trust | 5 | (5) | - | - | - | - | - |
| Crown Law Office | | | | | | | |
| Legal Claims Trust | 33 | | - | - | 764 | (788) | 9 |
| Culture and Heritage | | | | | | | |
| Australian Trust for Oral History Archives Trust | 1,414 | | - | (43) | 70 | (2) | 1,439 |
| Dictionary of New Zealand Biography Trust | 414 | | - | - | 48 | (30) | 432 |
| New Zealand Encyclopaedia Trust | 1 | | - | - | - | - | 1 |
| New Zealand Historical Atlas Trust | 34 | | - | - | 41 | (3) | 72 |
| New Zealand History Research Trust | 1,495 | | - | (93) | 28 | - | 1,430 |
| Customs | | | | | | | |
| Alcohol Liquor Advisory Council Trust | 534 | | 6,971 | (6,965) | 6 | - | 546 |
| Customs Regional Deposit/Bonds Trust | 4,182 | | 4,510 | (5,023) | 133 | (32) | 3,770 |
| Heavy Engineering Research Association Trust | 56 | | 748 | (734) | - | - | 70 |
| Maritime Safety Authority Trust | 10 | | 13,722 | (13,733) | 11 | - | 10 |
| Economic Development | | | | | | | |
| Coal and Minerals Deposits Trust | 304 | | 6 | (21) | 2 | - | 291 |
| Official Assignee's Office Trust | 9,247 | | 12,266 | (8,868) | 558 | (4,129) | 9,074 |
| Patent Co-operation Treaty Fees Trust | 84 | | 913 | (909) | 11 | (7) | 92 |
| Petroleum Deposits Trust | 1,134 | | - | (116) | 58 | - | 1,076 |
| Proceeds of Crime Trust | 1,453 | | 3,133 | (2,627) | 51 | (729) | 1,281 |
| Radio Frequencies Tender Trust | 121 | | 3,152 | (3,028) | 9 | (105) | 149 |
| Education | | | | | | | |
| Code of Practice for Providers who Enrol International Students Trust | 884 | | - | - | 5,870 | (4,114) | 2,640 |
| Conferences Trust | 72 | | - | - | 376 | (445) | 3 |
| Scholarship for Agricultural and Engineering Students from the Opotiki District Trust | 13 | | - | (13) | - | - | - |
| Subtotal (carried forward) | 46,579 | (28,905) | 165,909 | (155,324) | 16,375 | (18,540) | 26,094 |

Statement of Trust Money (as at 30 June 2004) – continued

| Department Trust Account | As at 30 June 2003 (\$000) | Transfers (\$000) | Contributions (\$000) | Distributions (\$000) | Revenue (\$000) | Expenses (\$000) | As at 30 June 2004 (\$000) |
|---|----------------------------------|----------------------|--------------------------|--------------------------|--------------------|---------------------|----------------------------------|
| Subtotal (brought forward) | 46,579 | (28,905) | 165,909 | (155,324) | 16,375 | (18,540) | 26,094 |
| Fisheries | | | | | | | |
| MAF Overfishing Account Trust | 6,321 | | 5,918 | (6,293) | 202 | - | 6,148 |
| MAFFish Forfeit Property Trust | 1,835 | | 3,367 | (2,949) | 79 | (26) | 2,306 |
| Foreign Affairs and Trade | | | | | | | |
| British Government/Tongan Parliamentary Services Trust ² | - | | 26 | (8) | - | - | 18 |
| Cape Roberts Project Trust | 1 | | - | (1) | - | - | - |
| New Zealand/France Friendship Trust | 13 | | 53 | (67) | 1 | - | - |
| Niue Trust ² | - | | 9,379 | - | - | - | 9,379 |
| Health | | | | | | | |
| Health Benefits Offices Trust | 1,254 | | - | - | 2,776,725 | (2,777,401) | 578 |
| Housing | | | | | | | |
| Housing Tenancy Bonds Trust | 147,354 | | 102,671 | (82,305) | - | - | 167,720 |
| Inland Revenue | | | | | | | |
| Child Support Agency Trust Account Reciprocal Child Support Agreement Trust | 4,608 | | 186,955 | (190,472) | - | - | 1,091 |
| | 38 | | 3,264 | (3,204) | - | - | 98 |
| Internal Affairs | | | | | | | |
| New Zealand 1990 Scholarship Trust | 386 | | - | (20) | 25 | - | 391 |
| Problem Gambling Trust | - | | 8,087 | (8,087) | 28 | - | 28 |
| Vogel House Trust | 1 | | 3 | (4) | - | - | - |
| Justice | | | | | | | |
| Chief Electoral Trust | - | - | 2 | - | - | - | 2 |
| Courts Trust ¹ | - | 7,725 | 17,656 | (14,407) | - | - | 10,974 |
| Fines Trust ¹ | - | 21,132 | 148,170 | (131,269) | - | - | 38,033 |
| Foreign Currency Trust ¹ | - | 5 | - | - | - | - | 5 |
| Maori Land Court Trust ¹ | - | 43 | - | (12) | - | - | 31 |
| Labour | | | | | | | |
| Employment Relations Service Trust ³ Industrial Relations Act Security of Costs Trust ³ | 19 | | 182 | (196) | - | - | 5 |
| | 268 | | 165 | (214) | - | - | 219 |
| New Zealand Immigration Service Trust | 4,634 | | 5,332 | (4,592) | - | - | 5,374 |
| Land Information New Zealand | | | | | | | |
| Crown Forestry Licences Trust | 21,523 | | 34,539 | (24,813) | 1,133 | - | 32,382 |
| Deposits Trust | 630 | | 1,525 | (1,405) | 2 | - | 752 |
| Endowment Rentals Trust | 6 | | - | (105) | 130 | (6) | 25 |
| Hunter Gift for the Settlement of Discharged Soldiers Trust | 48 | | - | - | 1 | - | 49 |
| National Library | | | | | | | |
| Macklin Bequest Fund Trust ² | - | | 213 | - | 11 | (18) | 206 |
| New Zealand Defence Force | | | | | | | |
| New Zealand Defence Force Trust | - | | - | - | 12,078 | (12,078) | - |
| Police | | | | | | | |
| Bequests, Donations and Appeals Trust | 81 | | 145 | (30) | - | - | 196 |
| Found Money Trust | 68 | | 40 | (52) | - | - | 56 |
| Money in Custody Trust | 1,484 | | 300 | (499) | - | - | 1,285 |
| Reparation Trust | 14 | | 44 | (42) | - | - | 16 |
| Social Development | | | | | | | |
| Australian Recovery Debt Trust ² | - | | 222 | (215) | - | - | 7 |
| Australian Dollar Reciprocal Trust | 96 | | 1,898 | (1,857) | - | - | 137 |
| Maintenance Trust | 192 | | 1,773 | (1,839) | - | - | 126 |
| Netherlands Recovery Debt Trust ² | - | | 41 | (32) | - | - | 9 |
| United Kingdom Reciprocal Pension Trust | 38 | | - | (38) | - | - | - |
| Treasury | | | | | | | |
| Trustee Act 1956 Trust | 934 | | 60 | (130) | 48 | - | 912 |
| Total | 238,425 | - | 697,939 | (630,481) | 2,806,838 | (2,808,069) | 304,652 |

¹ Trust Account transferred from Department of Courts to the Ministry of Justice² New Trust account³ Trust account title amended



SUPPLEMENTARY INFORMATION

Crown Reporting Entity as at 30 June 2004

These financial statements are for the Crown reporting entity as specified in Part III of the Public Finance Act 1989. This comprises Ministers of the Crown and the following entities:

Departments

Agriculture and Forestry
 Archives New Zealand
 Child, Youth and Family Services
 Conservation
 Corrections
 Crown Law
 Culture and Heritage
 Customs
 Defence
 Economic Development
 Education
 Education Review Office
 Environment
 Fisheries
 Foreign Affairs and Trade
 Government Communications Security Bureau
 Health
 Housing
 Inland Revenue
 Internal Affairs
 Justice
 Labour
 Land Information New Zealand
 Māori Development
 National Library
 New Zealand Defence Force
 Office of the Clerk
 Pacific Island Affairs
 Parliamentary Counsel Office
 Parliamentary Service
 Police
 Prime Minister and Cabinet
 Research, Science and Technology
 Security Intelligence Service
 Serious Fraud Office
 Social Development
 State Services Commission
 Statistics
 Transport
 Treasury
 Women's Affairs

State-owned enterprises

Agriquality Limited
 Airways Corporation of
 New Zealand Limited
 Asure New Zealand Limited
 Electricity Corporation of
 New Zealand Limited
 Genesis Power Limited
 Landcorp Farming Limited
 Meridian Energy Limited
 Meteorological Service of
 New Zealand Limited
 Mighty River Power Limited
 New Zealand Post Limited
 New Zealand Railways Corporation
 Solid Energy New Zealand Limited
 Terralink Limited (in liquidation)
 Timberlands West Coast Limited
 Transmission Holdings Limited
 Transpower New Zealand Limited

Air New Zealand Limited (included for disclosure
 purposes as if it were a SOE)

Others

Government Superannuation Fund
 New Zealand Superannuation Fund
 Reserve Bank of New Zealand

Crown Entities

| | |
|--|---|
| Accident Compensation Corporation | New Zealand Film Commission |
| Accounting Standards Review Board | New Zealand Fire Service Commission |
| Agriculture and Marketing Research and Development Trust | New Zealand Fish and Game Council |
| Alcohol Advisory Council of New Zealand | New Zealand Game Bird Habitat Trust Board |
| Animal Control Products Limited | New Zealand Government Property Corporation |
| Arts Council of New Zealand Toi Aotearoa | New Zealand Lotteries Commission |
| Asia 2000 Foundation of New Zealand | New Zealand Lottery Grants Board |
| Broadcasting Commission | New Zealand Qualifications Authority |
| Broadcasting Standards Authority | New Zealand Sports Drug Agency |
| Building Industry Authority | New Zealand Symphony Orchestra |
| Career Services | New Zealand Teacher's Council |
| Casino Control Authority | New Zealand Tourism Board |
| Children's Commissioner | New Zealand Trade and Enterprise |
| Civil Aviation Authority of New Zealand | New Zealand Venture Investment Fund Limited |
| Commerce Commission | Ngai Tahu Ancillary Claims Trust |
| Crown research institutes (9) | Office of Film and Literature Classification |
| District health boards (21) | Pacific Islands Business Development Trust |
| Earthquake Commission | Pharmaceutical Management Agency |
| Electoral Commission | Police Complaints Authority |
| Electricity Governance Board | Privacy Commissioner |
| Energy Efficiency and Conservation Authority | Public Trust |
| Environmental Risk Management Authority | Quotable Value Limited |
| Fish and game councils (12) | Radio New Zealand Limited |
| Foundation for Research, Science and Technology | Reserve boards (26) |
| Government Superannuation Fund Authority | Residual Health Management Unit |
| The Guardians of New Zealand Superannuation | Retirement Commissioner |
| Health and Disability Commissioner | Road Safety Trust |
| Health Research Council of New Zealand | School boards of trustees (2,533) |
| Health Sponsorship Council | Securities Commission |
| Housing New Zealand Corporation | Social Workers Registration Board |
| Human Rights Commission | Sport and Recreation New Zealand |
| Land Transport Safety Authority of New Zealand | Standards Council |
| Law Commission | Takeovers Panel |
| Leadership Development Centre Trust | Te Reo Whakapuaki Irirangi (Te Mangai Paho) |
| Learning Media Limited | Te Taura Whiri I Te Reo Māori (Māori Language Commission) |
| Legal Services Agency | Television New Zealand Limited |
| Maritime Safety Authority of New Zealand | Tertiary Education Commission |
| Mental Health Commission | Tertiary education institutions (35) |
| Museum of New Zealand Te Papa Tongarewa | Testing Laboratory Registration Council |
| New Zealand Antarctic Institute | Transfund New Zealand |
| New Zealand Artificial Limb Board | Transit New Zealand |
| New Zealand Blood Service | Transport Accident Investigation Commission |

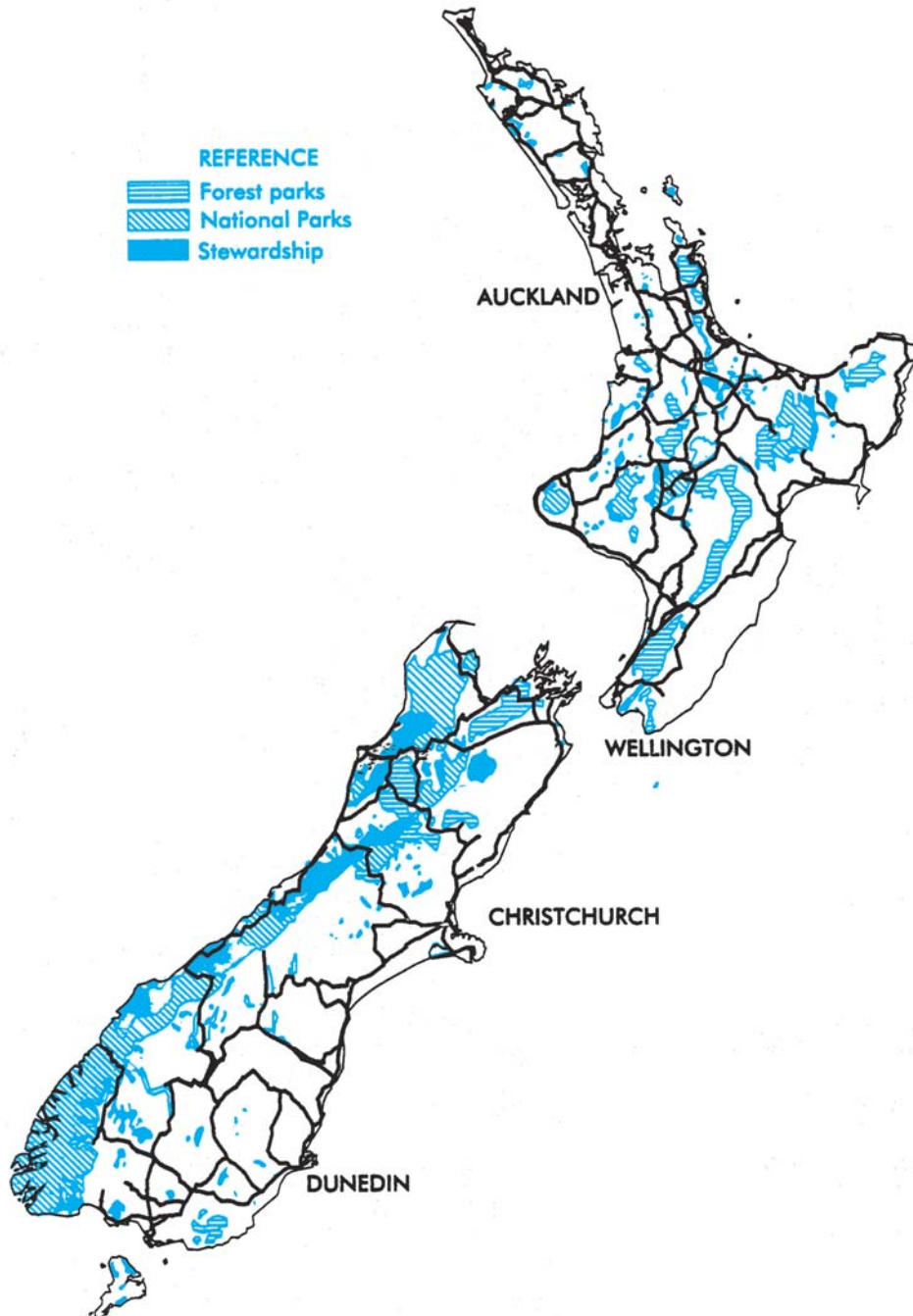
Information on Property, Plant and Equipment

This section provides supplementary information on certain assets that are contained in the Statement of Financial Position.

State Highway Network

The following map shows the state highway network. Of the total length of 10,790 kilometres, 5,889 kilometres are in the North Island and the remaining 4,901 kilometres are in the South Island.

The Crown recognises 100% (by value) of the network in the Statement of Financial Position.



National Parks, Forest Parks and Conservation Areas

The previous map shows the area covered by national parks, forest parks, conservation areas and reserves. The areas of each are:

| | Hectares |
|--------------------|------------------|
| National parks | 1,825,768 |
| Forest parks | 1,141,954 |
| Conservation areas | 2,180,475 |
| Reserves | 1,876,513 |
| Total Area | 7,024,710 |

Fiordland National Park covers 1,054,446 hectares (15 % of the total area).

National Archives

The National Archives, administered by Archives New Zealand, contains historically important archives, both textual and non-textual (including maps and plans, photographic prints and negatives and artworks). The collections held in Auckland, Wellington, Christchurch and Dunedin were completely revalued in December 2003.

Items of exceptional value held by Archives include the Declaration of Independence of the Northern Chiefs (1835), the Treaty of Waitangi (1840), the Letters Patent constituting New Zealand as a separate colony (1840), the proclamation of the Constitution Act (1853) and the Women's Suffrage Petition (1893).

National Library Collections

The National Library's Heritage Collections are mainly in the Alexander Turnbull Library and provide a documentary record of New Zealand's economic, social and cultural history. The collections, containing both published and unpublished material, include books, newspapers, manuscripts and archives, drawings and prints, scores and sound recordings and cartographic and photographic items.

The General and Schools Collections provide a knowledge base for reference and lending. The major collections are lending and reference, microform, schools and serials.

Specialist Military Equipment

The major items of specialist military equipment included in the Statement of Financial Position are:

- two ANZAC class frigates, including electronic sensors for surface and air surveillance
- one Leander-class frigate, including electronic sensors for surface and air surveillance
- a fleet tanker
- other ships, including a hydrographic/oceanographic surveying ship, a diving tender and five inshore patrol craft
- six P3K Orion aircraft, equipped with sensors for conducting maritime air operations
- a fixed wing transport force consisting of five C130 Hercules and two Boeing 757s
- other aircraft, 14 Iroquois helicopters, five Sioux helicopters, and four Seasprite helicopters
- 24 light gun howitzers
- 12 Matra Mistral firing stations with Very Low Level Air Defence (VLLAD) capability
- 22 Light Armoured Vehicles (NZ LAV) out of 105 to be purchased have been capitalised, and a further 29 are undergoing acceptance trials.

There are major items of specialist military equipment held by the Crown, which are included in the Statement of Financial Position at zero value as they have been devalued. These include:

- the air combat force, comprising the fleet of A4 Skyhawk and Air Macchi MB339 aircraft including all associated rotables, inventory and munitions
- one Leander-class frigate (HMNZS Wellington)
- 77 armoured personnel carrier (APC) variants.

Information on State-Owned Enterprises and Crown Entities

Accounting Policies

The Crown's financial interest in SOEs and Crown entities is reported in accordance with the Crown's accounting policies. Adjustments have been made to restate the financial position and financial performance of certain entities, as reported in their own financial statements, to a basis consistent with the Crown's accounting policies.

The Crown has line-by-line combined all SOEs and Crown entities (except TEIs).

The Crown has equity accounted 100% of the net assets of TEIs on the basis that, in the event of disestablishment of a TEI (which is subject to a resolution of the House), 100% of the net assets revert to the Crown in the absence of a decision to transfer the assets to a new or existing institution and, in the meantime, the Crown enjoys the benefits of the provision of a higher education to the public of New Zealand. Refer Note 13 for an explanation as to why TEIs are equity accounted.

Minority Interests

The ownership interest in Air New Zealand Limited is 80.5%. The interest in Air New Zealand Limited is included within the total SOE information.

Balance Dates

Except for those entities listed below, all SOEs and significant Crown entities have a balance date of 30 June, and the information reported in these financial statements is for the period ended 30 June 2004:

| | Balance date | Information reported to |
|--------------------------------|--------------|-------------------------|
| SOEs | | |
| Asure New Zealand Limited | 30 September | 30 June 2004 |
| Timberlands West Coast Limited | 31 March | 31 March 2004 |
| Crown entities | | |
| School boards of trustees | 31 December | 31 December 2003 |
| TEIs | 31 December | 30 June 2004 |

Financial interest in SOEs, Crown entities and Air New Zealand Limited

| | 30 June 2004 | | | 30 June 2003 | |
|---|-------------------------|--|----------------------------------|--|----------------------------------|
| | Total revenue \$m | Attributable surplus/ (deficit) \$m | Distributions to Crown \$m | Attributable surplus/ (deficit) \$m | Distributions to Crown \$m |
| SOEs | | | | | |
| Agriquality New Zealand Limited | 92 | 3 | (2) | 2 | - |
| Airways Corporation of New Zealand Limited | 125 | 9 | (12) | 8 | (6) |
| Asure New Zealand Limited | 48 | 2 | - | 1 | - |
| Electricity Corporation of New Zealand Limited | 6 | - | (10) | 12 | (5) |
| Genesis Power Limited | 1,333 | 80 | (25) | 62 | (20) |
| Landcorp Farming Limited | 111 | 15 | (34) | 34 | (20) |
| Meridian Energy Limited | 1,308 | 133 | (17) | 111 | (77) |
| Meteorological Service of New Zealand Limited | 26 | 3 | (1) | 3 | (3) |
| Mighty River Power Limited | 599 | 100 | (75) | 116 | (12) |
| New Zealand Post Limited | 1,051 | 37 | (18) | 27 | (15) |
| New Zealand Railways Corporation | 4 | 1 | (4) | 4 | - |
| Solid Energy New Zealand Limited | 300 | 34 | (10) | 56 | - |
| Television New Zealand Limited | - | - | - | 22 | (3) |
| Timberlands West Coast Limited | 22 | (5) | - | 3 | (1) |
| Transmission Holdings Limited | 124 | 14 | (10) | - | - |
| Transpower New Zealand Limited | 541 | 59 | (17) | 23 | (34) |
| Total State-owned Enterprises | 5,690 | 485 | (235) | 484 | (196) |
| Air New Zealand Limited ¹ | 3,529 | 187 | (16) | (56) | - |
| Total SOEs and Air New Zealand Limited | 9,219 | 672 | (251) | 428 | (196) |
| Intra-segmental eliminations | (262) | - | - | - | - |
| Total per statement of segments | 8,957 | 672 | (251) | 428 | (196) |
| Crown Entities | | | | | |
| Accident Compensation Corporation | 3,096 | 876 | - | (615) | - |
| Crown research institutes | 535 | 13 | - | 9 | (2) |
| District health boards (including the Residual Health Management Unit) | 6,617 | (71) | - | (189) | - |
| Earthquake Commission | 473 | 300 | - | 121 | - |
| Housing New Zealand Corporation | 651 | 44 | (26) | 26 | (4) |
| Museum of New Zealand Te Papa Tongarewa | 38 | (13) | - | (11) | - |
| New Zealand Fire Service Commission | 247 | 13 | - | 10 | - |
| Public Trust | 68 | - | - | - | - |
| School boards of trustees | 3,830 | 58 | - | 47 | - |
| Tertiary education commission | 2,335 | 12 | - | 12 | - |
| Tertiary education institutions | - | 139 | - | 151 | - |
| Transit New Zealand | 669 | 222 | - | 166 | - |
| Other | 4,055 | 116 | (4) | 150 | (12) |
| Total Crown Entities | 22,614 | 1,709 | (30) | (123) | (18) |
| Intra-segmental eliminations | (1,611) | - | - | - | - |
| Total per statement of segments | 21,003 | 1,709 | (30) | (123) | (18) |
| Total Financial Interest in SOEs, Crown Entities and Air New Zealand Limited | 29,960 | 2,381 | (281) | 305 | (214) |

¹ As outlined on page 81 of the 2002 Crown financial statements, on acquisition of Air New Zealand Limited, aircraft assets were recorded at fair value. Crown accounting policy is to revalue the aircraft assets annually, whereas the treatment adopted in Air New Zealand Limited's financial statements is to record aircraft values at the lower of carrying value or recoverable amount, the latter being defined as the higher of market value or value-in-use. Ongoing revaluation movements will impact on the result as presented under Crown accounting policies which is largely the reason the result included in the Crown financial statements differs from that published in the financial statements of Air New Zealand Limited.

Financial interest in SOEs, Crown entities and Air New Zealand Limited – continued

| | Cashflow net purchase of assets \$m | Property, plant and equipment \$m | Total assets \$m | Total borrowings \$m | Total liabilities \$m | Equity at 30 June 2004 \$m | Equity at 30 June 2003 \$m |
|---|--|--|------------------------|----------------------------|-----------------------------|-------------------------------------|-------------------------------------|
| SOEs | | | | | | | |
| Agriquality New Zealand Limited | 6 | 12 | 29 | - | 9 | 20 | 19 |
| Airways Corporation of New Zealand Limited | 16 | 98 | 119 | 21 | 78 | 41 | 44 |
| Asure New Zealand Limited | - | 1 | 18 | - | 10 | 8 | 7 |
| Electricity Corporation of New Zealand Limited | - | - | 60 | 43 | 54 | 6 | 15 |
| Genesis Power Limited | 109 | 782 | 1,269 | 88 | 277 | 992 | 937 |
| Landcorp Farming Limited | 48 | 671 | 841 | 165 | 175 | 666 | 594 |
| Meridian Energy Limited | 195 | 2,981 | 3,545 | 1,335 | 1,744 | 1,801 | 1,721 |
| Limited | 3 | 8 | 15 | 1 | 4 | 11 | 8 |
| Mighty River Power Limited | 47 | 1,369 | 1,513 | 428 | 627 | 886 | 861 |
| New Zealand Post Limited | 36 | 327 | 1,858 | 1,298 | 1,508 | 350 | 320 |
| New Zealand Railways Corporation | - | - | 12 | - | 4 | 8 | 11 |
| Solid Energy New Zealand Limited | 51 | 130 | 233 | - | 72 | 161 | 137 |
| Television New Zealand Limited | - | - | - | - | - | - | 375 |
| Timberlands West Coast Limited | 2 | 59 | 71 | 4 | 6 | 65 | 70 |
| Transmission Holdings Ltd | 23 | 134 | 189 | 65 | 94 | 95 | - |
| Transpower New Zealand Limited | 92 | 2,092 | 2,214 | 1,049 | 1,170 | 1,044 | 1,001 |
| Total State-owned Enterprises | 628 | 8,664 | 11,986 | 4,497 | 5,832 | 6,154 | 6,120 |
| Air New Zealand Limited | 174 | 1,717 | 3,349 | 983 | 2,631 | 718 | 414 |
| Total SOEs and Air New Zealand Limited | 802 | 10,381 | 15,335 | 5,480 | 8,463 | 6,872 | 6,534 |
| Minority Interest | - | - | - | - | - | 139 | 94 |
| Intra-segmental eliminations | - | - | (57) | (43) | (196) | - | - |
| Total per statement of segments | 802 | 10,381 | 15,278 | 5,437 | 8,267 | 7,011 | 6,628 |
| Crown Entities | | | | | | | |
| Accident Compensation Corporation | 41 | 101 | 7,228 | - | 10,603 | (3,375) | (4,253) |
| Crown research institutes | 46 | 310 | 454 | 41 | 136 | 318 | 299 |
| District health boards (including the Residual Health Management Unit) | 384 | 3,082 | 3,718 | 1,246 | 2,354 | 1,364 | 1,360 |
| Earthquake Commission | 3 | 8 | 4,453 | - | 63 | 4,390 | 4,088 |
| Housing New Zealand Corporation | 271 | 10,089 | 10,235 | 1,724 | 1,866 | 8,369 | 5,991 |
| Museum of New Zealand Te Papa Tongarewa | 7 | 862 | 885 | - | 6 | 879 | 859 |
| New Zealand Fire Service Commission | 23 | 354 | 379 | 19 | 76 | 303 | 242 |
| Public Trust | - | 6 | 628 | 581 | 589 | 39 | 39 |
| School boards of trustees | 165 | 890 | 1,788 | 43 | 671 | 1,117 | 1,031 |
| Television New Zealand Limited | 18 | 114 | 363 | - | 59 | 304 | - |
| Tertiary education commission | - | 8 | 112 | - | 96 | 16 | 14 |
| Tertiary education institutions | - | - | 4,367 | - | - | 4,367 | 4,212 |
| Transit New Zealand | 440 | 13,096 | 13,221 | - | 121 | 13,100 | 12,504 |
| Other | 54 | 136 | 2,088 | 990 | 1,618 | 470 | 440 |
| Total Crown Entities | 1,452 | 29,056 | 49,919 | 4,644 | 18,258 | 31,661 | 26,826 |
| Intra-segmental eliminations | - | (172) | (962) | (887) | (962) | - | - |
| Total per statement of segments | 1,452 | 28,884 | 48,957 | 3,757 | 17,296 | 31,661 | 26,826 |
| Total Financial Interest in SOEs, Crown Entities and Air New Zealand Limited | 2,254 | 39,265 | 64,235 | 9,194 | 25,563 | 38,672 | 33,454 |