

Financial Statements of the Government of New Zealand

For the Three Months
Ended 30 September 2007



5 November 2007

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New Zealand Government

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The financial statements for the three months ended 30 September 2007 are the first set of interim financial statements published under NZ IFRS. All forecasts and comparatives, including the comparatives for June 2006/07, have been produced under NZ IFRS. The June 06/07 comparatives are provisional and have not yet been subject to audit. The results are compared against forecast tracks based on the 2007/08 annual forecast released in the 2007 *Budget Economic and Fiscal Update*.

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COMMENTARY

SUMMARY AND HIGHLIGHTS

September highlights

- The operating balance excluding gains and losses (OBEGAL) was \$363 million ahead of forecast for the period to 30 September 2007 at \$1,522 million (compared to the forecast of \$1,159 million). The main driver was total Crown tax revenue which was \$278 million (or 2.1%) higher than forecast. This variance is considered to be timing in nature and is not indicative of any structural change
- The operating balance was \$704 million ahead of forecast at \$2,143 million (compared to forecast of \$1,439 million). While OBEGAL contributed \$363 million to this, the additional \$341 million variance related to gains and losses in the main. This was due to higher investment returns from the Crown financial institutions and exchange rate movements
- Core Crown residual cash was \$98 million ahead of forecast with a deficit of \$347 million (compared to a forecast deficit of \$445 million)
- Gross sovereign-issued debt (GSID) was 23.0% of GDP compared to a forecast of 22.9%
- The NZ Superannuation Fund (NZS Fund) after-tax return was \$86 million compared to a forecast of \$220 million. Total assets at 30 September 2007 were \$14.0 billion compared to a forecast of \$13.9 billion.

Table 1 – Key indicators for the three months to 30 September 2007

	Year to date				Full Year
	September 2007 Actual	September 2007 Forecast	Variance \$m	Variance %	BEFU June 2008 Forecast
\$ million					
Core Crown					
Core Crown revenue (excl. NZS Fund)	14,886	14,553	333	2.3	59,304
Core Crown expenses	13,761	14,018	257	1.8	56,096
NZS Fund after-tax returns	86	220	(134)	(60.9)	855
Core Crown residual cash	(347)	(445)	98	(22.0)	(976)
GSID	38,273	38,124	(149)	(0.4)	40,400
<i>as a percentage of GDP</i>	23.0%	22.9%			23.3%
GSID (excl. settlement cash)	31,979	32,201	222	0.7	34,477
<i>as a percentage of GDP</i>	19.2%	19.3%			19.9%
Net Core Crown debt	4,186	4,794	608	12.7	4,655
Net Core Crown debt (incl. NZS Fund)	(9,101)	(8,336)	765	(9.2)	(10,784)
Total Crown					
OBEGAL	1,522	1,159	363	31.3	4,958
Operating Balance	2,143	1,439	704	48.9	6,431

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

Table 2 – Key indicators for the three months to 30 September 2007

Item/indicator	Variance	Key drivers
Core Crown		
Core Crown revenue (excl. NZS Fund)	+ \$0.3 billion (higher than forecast)	<ul style="list-style-type: none"> Higher than forecast positive reassessments of corporate tax relating to the previous tax year as well as unexpectedly large assessments of non-resident withholding tax in the September 2007 quarter. The latter should reverse out in the near future when the corresponding foreign-investor tax credits are utilised (+ \$0.2 billion) Changes in the seasonal pattern of GST assessments resulting from recent changes to tax filing dates (+ \$0.2 billion) Lower than forecast customs duty (- \$0.1 billion)
Core Crown expenses	+ \$0.3 billion (lower than forecast)	<ul style="list-style-type: none"> Core Crown expenses were lower than forecast across a number of departments. At this early stage it is anticipated that these variances will reverse by year end.
NZS Fund after-tax returns	- \$0.1 billion (lower than forecast)	<ul style="list-style-type: none"> Returns were lower than forecast in the first quarter.
Core Crown residual cash	+ \$0.1 billion (higher than forecast)	<ul style="list-style-type: none"> Forecast PAYE receipt growth in the early part of the year did not eventuate (- \$0.1 billion) Delays in departmental spending (+ \$0.3 billion) Delays in a number of capital projects (+ \$0.1 billion) Higher than forecast advances and capital injections (- \$0.2 billion)
GSID	+ \$0.1 billion (higher than forecast)	<ul style="list-style-type: none"> GSID was on target at 23% of GDP compared to a forecast of 22.9%.
Total Crown		
OBEGAL	+ \$0.4 billion (higher than forecast)	<ul style="list-style-type: none"> Higher than forecast core Crown revenue and lower than forecast core Crown expenses as above (+ \$0.6 billion) Lower than forecast NZS Fund after-tax returns (- \$0.1 billion) Higher than forecast costs in the SOE and CE sectors (- \$0.1 billion)
Operating balance	+ \$0.7 billion (higher than forecast)	<ul style="list-style-type: none"> Higher than forecast OBEGAL as above (+ \$0.4 billion) Higher than forecast investment returns and exchange rate movements (+ \$0.3 billion)

The results for the three months to September will inform the Half Year Economic and Fiscal Update due to be published in December.

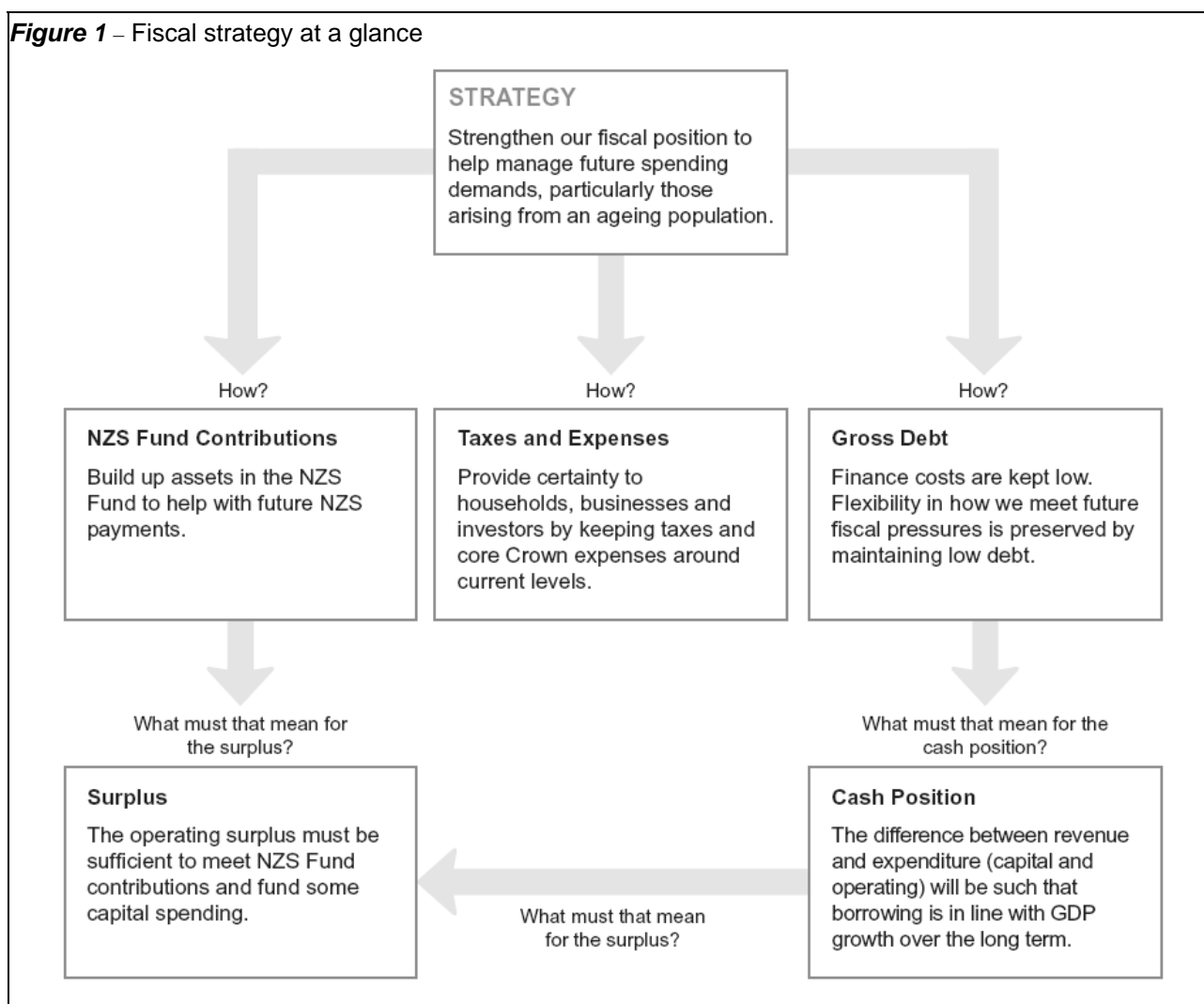
FISCAL STRATEGY PERSPECTIVE

The Government's fiscal strategy (outlined in more detail in the *2007 Fiscal Strategy Report*) is to strengthen its fiscal position so that it is well placed to respond to future challenges such as those associated with population ageing. The strategy is summarised in Figure 1.

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

The Financial Statements of the Government provide a record of the Government's financial performance over the 2007/08 financial year and its financial position as at 30 September 2007. They provide a comparison with the fiscal forecasts in the *2007 Budget Economic and Fiscal Update*. They also provide the public with a snapshot of the progress the Government has made in implementing its fiscal strategy as set out in its *Short Term Fiscal Intentions* and *Long Term Fiscal Objectives*.

Figure 1 – Fiscal strategy at a glance



Fiscal Strategy Perspective on the financial results to September

The following table shows how the fiscal strategy is represented in the financial results by analysing the movement from the total Crown operating balance to residual cash in the core Crown.

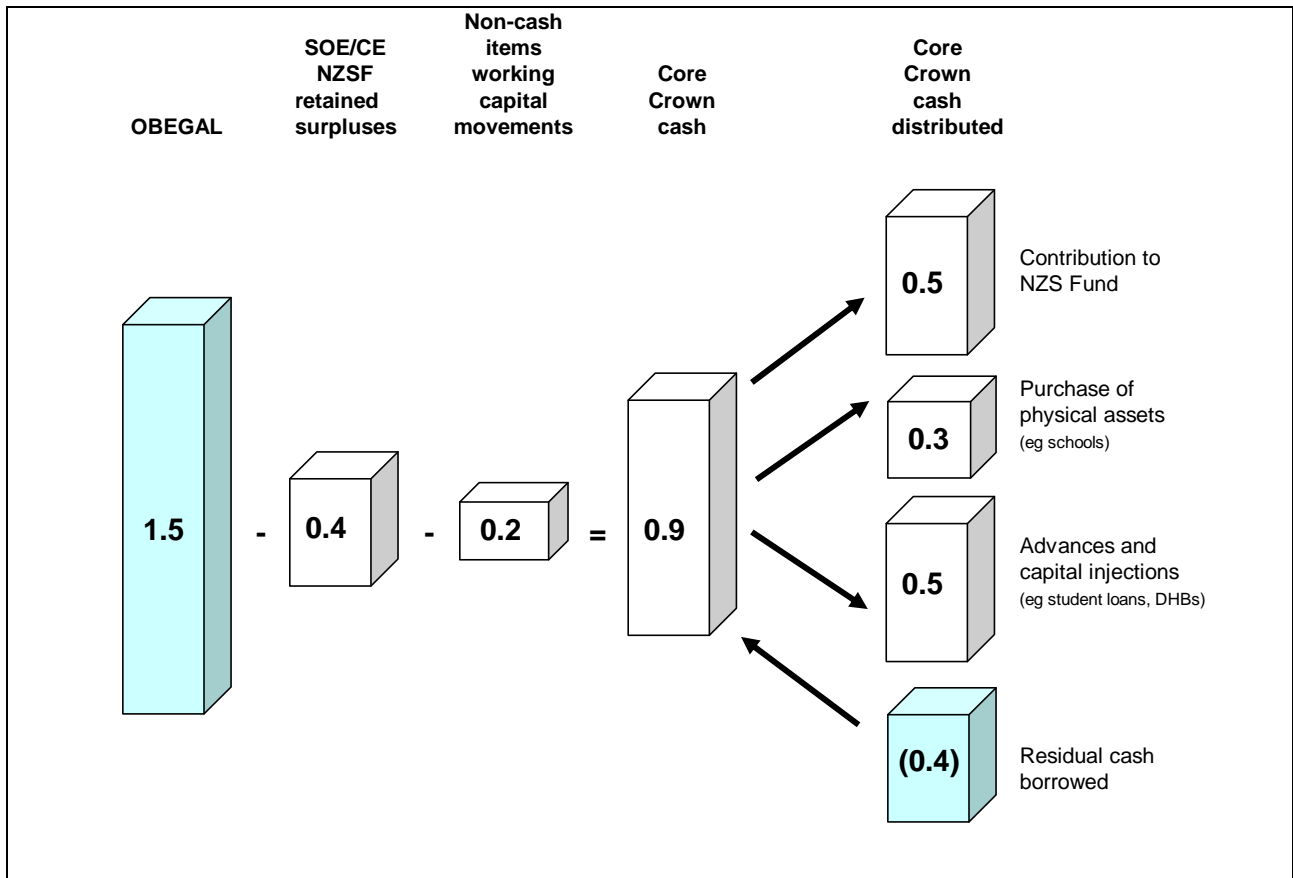
Table 3 – Reconciliation of residual cash

Amounts in \$ millions	Fiscal Indicators/Financial Statements	Year to date				Full Year
		September	September	Variance	Variance	BEFU
		2007	2007			June 2008
Fiscal Strategy		Actual	Forecast	\$m	%	Forecast
	Taxation as a percentage of GDP ¹	31.9%	31.3%			31.3%
Taxes, kept stable and maintained at current levels ...	Taxation	13,553	13,275	278	2.1	54,173
... combined with other revenue ...	Core Crown other revenue, gains and losses	1,679	1,622.0	57	3.5	6,387
... fund core crown expenses ...	Core Crown expenses	13,761	14,018	(257)	(1.8)	56,096
... and with the results of entities outside the budget process ...	Net surpluses/(deficits) of SOEs and Crown entities	672	560	112	20.0	1,967
... results in a net operating balance (surplus or deficit)...	Operating balance	2,143	1,439	704	48.9	6,431
... part of which is due to gains or losses set aside for fiscal purposes...	Other gains and losses	621	280	341	121.8	1,473
... and so we have developed an operating indicator excluding these items.	OBEGAL	1,522	1,159	363	31.3	4,958
Some of this is income retained that is not available for fiscal purposes	Net return on NZS Fund (excl. revaluations)	(4)	93	(97)	(104.3)	98
" " " " " "	Net retained surpluses of SOEs and Crown entities	401	527	(126)	(23.9)	1,649
and some is income and expenses not impacting cash	Non-cash items and working capital movements	242	(67)	309	(460.7)	(1,827)
The Operating cash flow that results, needs to provide sufficient funds for	Core Crown Cash flow from Operations	883	606	277	45.7	5,038
- building up assets in NZ Superannuation	Contribution to NZS Fund	484	481	3	0.6	2,103
- meeting the capital expenditure budget, and	Purchase of physical assets	293	383	(90)	(23.5)	1,803
- making advances (e.g. to students and DHBs)	Advances and Capital injections	453	187	266	142.2	2,108
with a residual impact on debt that allows it to remain at prudent levels	Residual Cash	(347)	(445)	98	(22.0)	(976)
	... and as a percentage of GDP	-0.8%	-1.1%			-0.6%

1 GDP for the three months ended 30 September (actual and forecast) is actual data for the quarter ended 30 June 2007. GDP for the 2008 full year forecast has been extracted from the 2007 Budget Economic and Fiscal Update.

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

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



YEAR-ON-YEAR PERSPECTIVE

Table 4 – Comparison with previous year

	30 September 2007 Actual \$m	30 September 2006 Actual \$m	Change ¹ \$m	Change %
Statement of Financial Performance				
Core Crown revenue				
Taxation revenue	13,703	12,591	1,112	8.8
Other revenue	1,179	1,061	118	11.1
Total core Crown Revenue	14,882	13,652	1,230	9.0
Core Crown expenses				
Social security and welfare	4,653	4,308	345	8.0
GSF pension expenses (excl valuation)	157	174	(17)	(9.8)
Health	2,769	2,517	252	10.0
Education	2,427	2,279	148	6.5
Core government services	501	522	(21)	(4.0)
Law and order	699	709	(10)	(1.4)
Defence	348	248	100	40.3
Transport and communications	624	483	141	29.2
Economic and industrial services	614	404	210	52.0
Primary services	103	106	(3)	(2.8)
Heritage, culture and recreation	196	128	68	53.1
Housing and community development	75	55	20	36.4
Other	6	48	(42)	(87.5)
Finance costs	589	570	19	3.3
Total Core Crown Expenses	13,761	12,551	1,210	9.6
Net surplus of SOE/CE's	401	414	(13)	(3.1)
OBEGAL	1,522	1,515	7	0.5
Gains/(losses)	614	74	540	-
Other operating items	7	6	1	16.7
Operating Balance	2,143	1,595	548	34.4
Core Crown residual cash	(347)	(369)	22	6.0
Debt indicators				
Gross sovereign-issued debt	38,273	38,290	(17)	-
Net core Crown debt	4,186	8,780	(4,594)	(52.3)

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

Revenue and Expenses

Total **tax revenue** for the three months ending 30 September 2007 has increased by 9.0% from the same period last year. The increase was primarily PAYE, GST and corporate tax. Driving this increase is recent high wage and employment growth and increases in consumption volumes and prices of goods and services.

Total **core Crown expenses** were \$1.2 billion higher than the comparable period from the previous financial year (growth of 9.6%). Significant movements within core Crown functional expenses were as follows:

Functional expense	Movement from Previous year	Main drivers of the change
Social security and welfare	+ 0.3 billion	<ul style="list-style-type: none"> • Indexation of welfare benefits • Funding provided in the 2007 Budget primarily as an initiative to guarantee NZ Superannuation at 66% of the average wage • Offset by lower unemployment benefits due to an improvement in labour market conditions
Health	+ 0.3 billion	<ul style="list-style-type: none"> • Funding provided in the 2007 Budget to maintain and improve existing service levels
Education	+ 0.2 billion	<ul style="list-style-type: none"> • Funding provided in the 2007 Budget for new initiatives • Higher demand driven expenses from roll growth
Transport and communications	+ 0.1 billion	<ul style="list-style-type: none"> • Funding provided in the 2007 Budget • Timing of funding payments earlier than last year
Economic and industrial services	+ 0.2 billion	<ul style="list-style-type: none"> • Introduction of the Kiwisaver Kick Start initiative
Other	+ 0.1 billion	<ul style="list-style-type: none"> • Mainly due to policy initiatives from the 2007 Budget
Total	+ 1.2 billion	

Other gains and losses were \$0.5 billion higher than the comparable period from the previous financial year. This was due to higher investment returns and exchange rate movements.

Gross sovereign-issued debt (GSID) has hardly changed in the past year.

Net core Crown debt has reduced by \$4.6 billion mainly due to an increase in financial assets, reflecting the residual cash built up since September 2006 and the valuation movements in financial instruments.



FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

1 Reporting Entity

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

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

A schedule of entities included in the Government reporting entity was set out on pages 102 and 103 of the Financial Statements of the Government of New Zealand for the year ended 30 June 2007.

Since that date there have been no changes.

2 General Accounting Policies

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

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

3 Specific Accounting Policies

The specific accounting policies of the Crown are detailed at Treasury's website:

www.treasury.govt.nz/instructions/03.asp#3.

4 Forecast Results and Assumptions

The forecast results in these Financial Statements have been derived from the forecasts released in the Budget Update, on 17 May 2007.

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

www.treasury.govt.nz/forecasts/befu/2007

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

5 Comparative Figures

Comparative figures for the previous financial year to 30 June 2007 and comparative year-to-date period are presented in these Financial Statements. NZ IFRS has been applied in the compilation of these comparative figures. The 30 June 2007 comparatives are provisional and have not yet been subject to audit. Percentage variances between the actual and prior year balances exceeding 500% are not shown where the dollar variance is immaterial.

STATEMENT OF FINANCIAL PERFORMANCE

for the three months ended 30 September 2007

Prior Year to 30 June 2007	3 Months to 30 Sept 2006		Note	Current Year Actual vs Forecast			Annual Forecast	
				Actual \$m	Forecast \$m	Variance \$m		%
		Revenue						
53,023	12,436	Taxation revenue	1	13,553	13,275	278	2.1	54,173
3,701	886	Other sovereign revenue	1	1,013	927	86	9.3	3,693
56,724	13,322	Total Revenue Levied through the Crown's Sovereign Power		14,566	14,202	364	2.6	57,866
12,361	3,232	Sales of goods and services		3,369	3,353	16	0.5	13,253
2,984	674	Interest revenue and dividends	2	792	806	(14)	(1.7)	3,366
2,362	615	Other revenue		587	622	(35)	(5.6)	2,387
17,707	4,521	Total Revenue Earned through the Crown's Operations		4,748	4,781	(33)	(0.7)	19,006
74,431	17,843	Total Revenue (excluding gains)		19,314	18,983	331	1.7	76,872
		Expenses						
16,346	4,157	Social assistance and official development assistance	3	4,549	4,496	(53)	(1.2)	17,892
15,281	3,737	Personnel expenses	4	3,950	3,966	16	0.4	15,657
3,338	677	Depreciation and amortisation	5	874	885	11	1.2	3,296
27,522	6,325	Other operating expenses	5	6,820	7,086	266	3.8	28,997
2,893	726	Interest expenses	6	742	663	(79)	(11.9)	2,748
3,713	706	Insurance expenses	7	857	728	(129)	(17.7)	3,010
-	-	Forecast for future new spending	5	-	-	-	-	314
69,093	16,328	Total Expenses (excluding losses)		17,792	17,824	32	0.2	71,914
5,338	1,515	Operating Balance before gains/(losses)		1,522	1,159	363	31.3	4,958
1,569	66	Net gains/(losses) on financial instruments	8	604	266	338	127.1	1,377
985	8	Net gains/(losses) on non-financial instruments		10	2	8	400.0	-
2,554	74	Total Gains/(losses)		614	268	346	129.1	1,377
186	5	Net surplus/(deficit) from associates and joint ventures	5	7	12	(5)	(41.7)	96
8,078	1,594	Operating Balance from continuing activities		2,143	1,439	704	48.9	6,431
(92)	1	Gain/(loss) from discontinued operations		-	-	-	-	-
7,986	1,595	Operating Balance (including minority interest)		2,143	1,439	704	48.9	6,431
12	-	Attributable to minority interest in Air NZ		-	-	-	-	-
7,998	1,595	Operating Balance	9	2,143	1,439	704	48.9	6,431

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

STATEMENT OF FINANCIAL PERFORMANCE (CONTINUED)-FUNCTIONAL EXPENSE ANALYSIS

for the three months ended 30 September 2007

Prior Year to 30 June 2007 Actual \$m	3 Months to 30 Sept 2006 Actual \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
		Total Crown expenses					
		By functional classification					
20,994	4,655	Social security and welfare	5,513	5,448	(65)	(1.2)	21,271
648	174	GSF pension expenses	157	157	-	-	629
10,512	2,614	Health	2,791	2,906	115	4.0	11,699
9,698	2,860	Education	2,607	2,580	(27)	(1.0)	10,321
4,454	484	Core government services	450	535	85	15.9	2,132
2,851	754	Law and order	761	784	23	2.9	3,076
1,453	235	Defence	339	399	60	15.0	1,597
6,872	1,572	Transport and communications	1,831	1,612	(219)	(13.6)	7,671
4,602	1,308	Economic and industrial services	1,541	1,639	98	6.0	5,879
1,249	321	Primary services	328	328	-	-	1,319
1,943	414	Heritage, culture and recreation	495	507	12	2.4	2,218
903	210	Housing and community development	231	232	1	0.4	961
21	1	Other	6	34	28	82.4	79
2,893	726	Finance costs	742	663	(79)	(11.9)	2,748
-	-	Forecast for future new spending	-	-	-	-	314
69,093	16,328	Total Crown Expenses excluding losses	17,792	17,824	32	0.2	71,914

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

Prior Year to 30 June 2007 Actual \$m	3 Months to 30 Sept 2006 Actual \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
		Core Crown expenses					
		By functional classification					
17,261	4,308	Social security and welfare	4,653	4,578	(75)	(1.6)	17,698
648	174	GSF pension expenses	157	157	-	-	629
10,358	2,517	Health	2,769	2,912	143	4.9	11,613
9,072	2,279	Education	2,427	2,434	7	0.3	9,719
4,676	522	Core government services	501	619	118	19.1	2,479
2,718	709	Law and order	699	723	24	3.3	2,836
1,491	248	Defence	348	410	62	15.1	1,641
2,275	483	Transport and communications	624	692	68	9.8	2,792
1,550	404	Economic and industrial services	614	541	(73)	(13.5)	2,276
460	106	Primary services	103	115	12	10.4	494
799	128	Heritage, culture and recreation	196	191	(5)	(2.6)	977
275	55	Housing and community development	75	72	(3)	(4.2)	304
68	48	Other	6	6	-	-	80
2,330	570	Finance costs	589	568	(21)	(3.7)	2,244
-	-	Forecast for future new spending	-	-	-	-	314
53,981	12,551	Total Core Crown Expenses excluding losses	13,761	14,018	257	1.8	56,096

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

STATEMENT OF CASH FLOWS

for the three months ended 30 September 2007

Prior Year to 30 June 2007 Actual \$m	3 Months to 30 Sept 2006 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Cash Flows From Operations							
Cash was provided from							
52,150	11,940	Taxation receipts	12,787	12,991	(204)	(1.6)	54,266
3,418	1,111	Other sovereign receipts	1,061	952	109	11.4	3,472
12,741	3,368	Sales of goods and services	3,191	3,775	(584)	(15.5)	13,394
2,094	355	Interest	604	595	9	1.5	2,256
439	95	Dividends	85	139	(54)	(38.8)	504
2,681	708	Other operating receipts	752	613	139	22.7	2,302
73,523	17,577	Total cash provided from operations	18,480	19,065	(585)	(3.1)	76,194
Cash was disbursed to							
18,436	4,531	Social assistance and official development assistance	4,146	4,334	188	4.3	19,529
40,189	10,657	Personnel and operating payments	11,474	12,259	785	6.4	44,025
2,442	453	Interest payments	734	624	(110)	(17.6)	2,530
-	-	Forecast for future new spending	-	-	-	-	314
61,067	15,641	Total cash disbursed to operations	16,354	17,217	863	5.0	66,398
12,456	1,936	Net Cash Flows From Operations	2,126	1,848	278	15.0	9,796
Cash Flows From Investing Activities							
Cash was provided from/(disbursed to)							
(5,213)	(1,434)	Net purchase of physical assets	(1,219)	(1,283)	64	5.0	(6,661)
(8,157)	(3,095)	Net purchase of shares and other securities	(1,699)	(2,368)	669	28.3	(4,491)
(206)	(26)	Net purchase of intangible assets	(50)	(61)	11	18.0	(144)
(1,014)	(489)	Net issue/(repayment) of advances	478	60	418	-	(1,628)
(288)	(9)	Net acquisition of investments in associates	(141)	(8)	(133)	-	(95)
-	-	Capital contingency provision	-	-	-	-	(184)
(14,878)	(5,053)	Net Cash Flows From Investing Activities	(2,631)	(3,660)	1,029	28.1	(13,203)
(2,422)	(3,117)	Net Cash Flows From Operating and Investing Activities	(505)	(1,812)	1,307	72.1	(3,407)
Cash Flows From Financing Activities							
Cash was provided from/(disbursed to)							
81	24	Issues of circulating currency	54	44	10	22.7	178
(3,758)	668	Net repayment/(issues) of Government stock ¹	893	662	231	34.9	2,223
4,933	2,132	Net repayment of foreign-currency borrowing	293	212	81	38.2	2,225
1,740	433	Net repayment/(issues) of other New Zealand dollar borrowing	312	(228)	540	236.8	(1,130)
2,996	3,257	Net Cash Flows From Financing Activities	1,552	690	862	124.9	3,496
574	140	Net Movement in Cash	1,047	(1,122)	2,169	193.3	89
3,676	3,676	Opening Cash Balance	4,208	4,208	-	-	3,107
(42)	(31)	Foreign-exchange (losses)/gains on opening cash	78	18	60	333.3	-
4,208	3,785	Closing Cash Balance	5,333	3,104	2,229	71.8	3,196

¹ Net issues of Government stock include movements within government stock holdings of entities such as NZS Fund, ACC and EQC. The Bonds reconciliation at the end of these accounts outlines proceeds and repayments of domestic bonds.

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

STATEMENT OF CASH FLOWS (CONTINUED)

for the three months ended 30 September 2007

Prior Year to 30 June 2007 Actual \$m	3 Months to 30 Sept 2006 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
12,456	1,936	Net Cash Flows from Operations	2,126	1,848	278	15.0	9,796
<i>Items included in the operating balance but not in net cash flows from operations.</i>							
Gains/(losses)							
1,268	124	Gains/(losses) NZ Superannuation Fund	42	149	(107)	(71.8)	511
317	(59)	Gains/(losses) on other financial instruments	555	122	433	354.9	866
969	9	Gains/(losses) on other non-financial instruments	17	(3)	20	-	-
2,554	74	Total Gains/(losses)	614	268	346	129.1	1,377
Movements in Working Capital							
60	15	Increase/(decrease) in receivables	801	(1,035)	1,836	177.4	218
79	32	Increase/(decrease) in inventories	32	15	17	113.3	41
(77)	28	Increase/(decrease) in prepayments	44	(35)	79	225.7	(2)
(85)	27	Decrease/(increase) in deferred revenue	12	84	(72)	(85.7)	-
(1,169)	81	Decrease/(increase) in payables	(870)	974	(1,844)	(189.3)	(569)
(1,192)	183		19	3	16	-	(312)
Other Non-cash Items in Operating Balance							
(3,338)	(677)	Depreciation and amortisation	(874)	(885)	11	1.2	(3,296)
(2,141)	(78)	Write-down on initial recognition of loans Impairment on financial assets (excl receivables)	(117)	(128)	11	8.6	(518)
37	4	Net interest revenue	2	1	1	100.0	(38)
(131)	(49)	Decrease/(increase) in defined benefit retirement plan liabilities	95	34	61	179.4	389
1,147	(34)	Decrease/(increase) in insurance liabilities	22	(47)	69	146.8	(51)
(1,580)	231	Other	249	333	(84)	(25.2)	(1,013)
186	5		7	12	(5)	(41.7)	97
(5,820)	(598)	Total Other Non-cash Items	(616)	(680)	64	9.4	(4,430)
7,998	1,595	Operating Balance	2,143	1,439	704	48.9	6,431

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

STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the three months ended 30 September 2007

Prior Year to 30 June 2007 Actual \$m	3 Months to 30 Sept 2006 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
5,163	(8)	Revaluation of physical assets	(16)	43	(59)	(137.2)	-
(384)	(4)	Effective portion of changes in value of fair-value hedges	181	(36)	217	-	39
(18)	2	Net change in fair value of cash flow hedges transferred to the operating statement	15	(1)	16	-	74
(4)	8	Net change in fair value of cash flow hedges transferred to the hedged item	(23)	-	(23)	-	-
(62)	(19)	Foreign currency translation differences for foreign operations	4	(20)	24	120.0	-
10	(1)	Valuation gain/(losses) on investments available for sale taken to reserves	4	-	4	-	-
11	-	Other movements	20	(57)	77	135.1	-
4,716	(22)	Total income/(expense) recognised directly in Net Worth	185	(71)	256	360.6	113
7,986	1,595	Operating Balance (including minority interest)	2,143	1,439	704	48.9	6,431
12,702	1,573	Total recognised income and expense	2,328	1,368	960	70.2	6,544
		Attributable to:					
(12)	-	- minority interest in Air NZ	-	-	-	-	-
12,714	1,573	- the Crown	2,328	1,368	960	70.2	6,544
12,702	1,573	Total recognised income and expense	2,328	1,368	960	70.2	6,544

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

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

STATEMENT OF FINANCIAL POSITION

as at 30 September 2007

As at 30 June 2007 \$m	As at 30 Sept 2006 \$m		Note	Current Year Actual vs Forecast			Annual Forecast	
				Actual \$m	Forecast \$m	Variance \$m	%	\$m
Assets								
4,208	3,785	Cash and cash equivalents	10	5,333	3,104	2,229	71.8	3,196
12,029	13,665	Receivables	10	12,830	11,774	1,056	9.0	12,547
29,831	27,695	Marketable securities and derivatives in gain	10	32,953	31,467	1,486	4.7	32,885
13,827	11,883	Share investments	10	13,801	13,921	(120)	(0.9)	17,273
14,031	12,500	Advances	10	14,000	15,772	(1,772)	(11.2)	15,087
823	775	Inventory		855	838	17	2.0	982
1,309	1,374	Prepayments and other assets		1,334	1,281	53	4.1	1,205
95,613	89,733	Property, plant & equipment	11	95,871	96,605	(734)	(0.8)	95,950
6,921	6,024	Equity accounted investments ¹		6,920	6,961	(41)	(0.6)	6,647
1,653	1,456	Intangible assets and goodwill		1,628	1,757	(129)	(7.3)	1,555
-	-	Forecast for new capital spending		-	-	-	-	184
-	-	2006/07 top-down capital adjustment		-	-	-	-	(200)
180,245	168,890	Total Assets		185,525	183,480	2,045	1.1	187,311
Liabilities								
3,444	3,386	Issued currency		3,497	3,680	183	5.0	3,730
8,103	8,052	Payables	13	8,769	8,702	(67)	(0.8)	9,036
978	925	Deferred revenue		966	894	(72)	(8.1)	845
41,914	42,844	Borrowings		44,453	43,993	(460)	(1.0)	46,364
17,419	15,608	Insurance liabilities	14	17,170	17,086	(84)	(0.5)	19,011
7,160	8,335	Retirement plan liabilities		7,138	7,208	70	1.0	8,414
4,523	4,197	Provisions	15	4,498	3,844	(654)	(17.0)	3,850
83,541	83,347	Total Liabilities		86,491	85,407	(1,084)	(1.3)	91,250
96,704	85,543	Total Assets less Total Liabilities		99,034	98,073	961	1.0	96,061
Net Worth								
44,169	37,807	Taxpayer funds	16	46,333	45,610	723	1.6	48,239
52,371	47,145	Revaluation reserve	16	52,356	52,355	1	-	47,402
(132)	313	Other reserves	16	49	(188)	237	126.1	127
96,408	85,265	Total Net Worth attributable to the Crown		98,738	97,777	961	1.0	95,768
296	278	Net worth attributable to minority interest in Air NZ		296	296	-	-	293
96,704	85,543	Total Net Worth		99,034	98,073	961	1.0	96,061

¹ Tertiary education institutions constitute most equity accounted investments.

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

STATEMENT OF BORROWINGS

as at 30 September 2007

As at 30 June 2007 \$m	As at 30 Sept 2006 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Borrowings							
15,778	17,369	Government stock ¹	16,730	16,406	(324)	(2.0)	17,732
2,098	2,993	Treasury bills	2,244	2,527	283	11.2	2,786
364	382	Government retail stock	371	360	(11)	(3.1)	358
7,507	5,214	Settlement deposits with Reserve Bank	8,146	7,523	(623)	(8.3)	7,523
1,126	692	Derivatives in loss ²	1,191	500	(691)	(138.2)	300
954	757	Finance lease liabilities	978	948	(30)	(3.2)	958
14,087	15,437	Other borrowings	14,793	15,729	936	6.0	16,707
41,914	42,844	Total Borrowings³	44,453	43,993	(460)	(1.0)	46,364
31,174	32,574	Total Sovereign-Guaranteed Debt ⁴	33,277	33,930	653	1.9	33,167
10,740	10,270	Total Non-Sovereign Debt	11,176	10,063	(1,113)	(11.1)	13,197
41,914	42,844	Total Borrowings³	44,453	43,993	(460)	(1.0)	46,364
Gross and Net Debt analysis:							
41,914	42,844	Total Borrowings ³	44,453	43,993	(460)	(1.0)	46,364
35,885	37,263	Core Crown borrowings	37,606	37,442	(164)	(0.4)	38,876
912	1,027	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	667	682	15	2.2	1,524
36,797	38,290	Gross sovereign-issued debt⁵	38,273	38,124	(149)	(0.4)	40,400
44,909	40,052	Less core Crown financial assets ⁶	47,374	46,460	914	2.0	51,184
(8,112)	(1,762)	Net Core Crown debt (incl. NZS Fund)⁷	(9,101)	(8,336)	765	9.2	(10,784)
12,576	10,542	Add back NZS Fund financial assets	13,287	13,130	157	1.2	15,439
4,464	8,780	Net Core Crown Debt (excl. NZS Fund)⁸	4,186	4,794	608	12.7	4,655

Notes on Borrowings

- Government stock includes \$50 million of infrastructure bonds.
- Derivatives are included in either borrowings or marketable securities, deposits and equity investments depending on their balance date value. This treatment leads to fluctuations in individual items within the Statement of Borrowings, primarily due to exchange rate movements.
- Total Borrowings (Gross Debt) is the total borrowings (both sovereign-guaranteed and non-sovereign guaranteed) of the total Crown. This equates to the amount in the total Crown balance sheet and represents the complete picture of whole-of-Crown debt obligations to external parties.
- Total Borrowings (Gross Debt) can be split into sovereign-guaranteed and non-sovereign-guaranteed debt. This split reflects the fact that borrowings by SOEs and Crown entities is not explicitly guaranteed by the Crown. No debt of SOEs and Crown entities is currently guaranteed by the Crown.
- Gross sovereign-issued debt is debt issued by the sovereign (i.e., core Crown) and includes Government stock held by the NZS Fund, ACC or EQC for example. In other words, the total sovereign-issued debt does not eliminate any internal cross-holdings held by these entities. The Government's debt objective uses this measure of debt.
- Core Crown financial assets exclude receivables.
- Net core Crown debt is the Government Sovereign issued debt less financial assets. This can provide information about the sustainability of the Government's accounts, and is used by some international agencies when determining the credit-worthiness of a country. However, as some financial assets are not easily converted into cash, and some are restricted, it is important to view net debt alongside gross sovereign-issued debt.
- Adding back the NZ Superannuation Fund Assets provides the financial liabilities less financial assets of the Core Crown, excluding those assets set aside to meet part of the future cost of New Zealand superannuation.

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

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 Actual \$m	3 Months to 30 Sept 2006 Actual \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
NOTE 1: Revenue Collected Through the Crown's Sovereign Power							
Taxation Revenue (accrual)							
Individuals							
20,987	5,055	PAYE	5,621	5,682	(61)	(1.1)	22,334
4,440	1,007	Other persons	1,019	1,006	13	1.3	4,553
(1,080)	(369)	Refunds	(403)	(375)	(28)	(7.5)	(1,102)
468	99	Fringe benefit tax	146	111	35	31.5	474
24,815	5,792	Total Individuals	6,383	6,424	(41)	(0.6)	26,259
Corporate Tax							
8,808	2,175	Gross companies tax	2,173	2,266	(93)	(4.1)	8,222
(296)	(48)	Refunds	71	(43)	114	265.1	(255)
1,189	373	Non-resident withholding tax	429	241	188	78.0	1,005
149	27	Foreign-source dividend w/holding payments	31	20	11	55.0	102
9,850	2,527	Total Corporate Tax	2,704	2,484	220	8.9	9,074
Other Income Tax							
2,227	503	Resident w/holding tax on interest income	587	560	27	4.8	2,340
89	35	Resident w/holding tax on dividend income	19	30	(11)	(36.7)	92
2	-	Estate and gift duties	-	-	-	-	2
2,318	538	Total Other Income Tax	606	590	16	2.7	2,434
36,983	8,857	Total Income Tax	9,693	9,498	195	2.1	37,767
Goods and Services Tax							
19,533	4,422	Gross goods and services tax	4,815	4,682	133	2.8	19,726
(8,325)	(2,082)	Refunds	(2,087)	(2,151)	64	3.0	(8,231)
11,208	2,340	Total Goods and Services Tax	2,728	2,531	197	7.8	11,495
Other Taxation							
819	212	Petroleum fuels excise	180	231	(51)	(22.1)	903
238	133	Tobacco excise	54	40	14	35.0	148
1,836	431	Customs duty	427	483	(56)	(11.6)	1,865
786	181	Road user charges	200	219	(19)	(8.7)	877
553	121	Alcohol excise	132	136	(4)	(2.9)	586
230	59	Gaming duties	58	53	5	9.4	215
222	56	Motor vehicle fees	57	55	2	3.6	219
54	19	Energy resources levies	12	12	-	-	34
94	27	Approved issuer levy and cheque duty	12	17	(5)	(29.4)	64
4,832	1,239	Total Other Indirect Taxation	1,132	1,246	(114)	(9.1)	4,911
16,040	3,579	Total Indirect Taxation	3,860	3,777	83	2.2	16,406
53,023	12,436	Total Taxation Revenue	13,553	13,275	278	2.1	54,173
Other Sovereign Revenue (accrual)							
2,667	616	ACC levies	719	654	65	9.9	2,654
265	79	Fire Service levies	88	68	20	29.4	261
84	21	EQC levies	22	21	1	4.8	86
685	170	Other miscellaneous items	184	184	-	-	692
3,701	886	Total Other Sovereign Revenue	1,013	927	86	9.3	3,693
56,724	13,322	Total Sovereign Revenue	14,566	14,202	364	2.6	57,866

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007	3 Months to 30 Sept 2006		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Actual \$m	Actual \$m	Forecast \$m	
NOTE 1 (continued): Receipts Collected Through the Crown's Sovereign Power							
Income Tax Receipts (cash)							
Individuals							
21,012	5,101	PAYE	5,508	5,666	(158)	(2.8)	22,334
5,121	1,173	Other persons	1,285	1,171	114	9.7	5,430
(1,850)	(576)	Refunds	(730)	(600)	(130)	(21.7)	(2,017)
482	117	Fringe benefit tax	119	114	5	4.4	470
24,765	5,815	Total Individuals	6,182	6,351	(169)	(2.7)	26,217
Corporate Tax							
9,120	2,111	Gross companies tax	2,173	2,296	(123)	(5.4)	9,184
(1,153)	(387)	Refunds	(227)	(204)	(23)	(11.3)	(1,041)
1,135	367	Non-resident withholding tax	446	275	171	62.2	981
141	31	Foreign-source dividend w/holding payments	17	19	(2)	(10.5)	102
9,243	2,122	Total Corporate Tax	2,409	2,386	23	1.0	9,226
Other Income Tax							
2,192	490	Resident w/holding tax on interest income	587	560	27	4.8	2,340
90	30	Resident w/holding tax on dividend income	16	30	(14)	(46.7)	92
3	1	Estate and gift duties	-	-	-	-	2
2,285	521	Total Other Income Tax	603	590	13	2.2	2,434
36,293	8,458	Total Income Tax	9,194	9,327	(133)	(1.4)	37,877
Goods and Services Tax							
18,691	4,205	Gross goods and services tax	4,471	4,373	98	2.2	19,354
(7,625)	(1,884)	Refunds	(2,057)	(1,971)	(86)	(4.4)	(7,877)
11,066	2,321	Total Goods and Services Tax	2,414	2,402	12	0.5	11,477
Other Taxation							
835	213	Petroleum fuels excise	191	237	(46)	(19.4)	903
265	142	Tobacco excise	36	57	(21)	(36.8)	148
1,778	366	Customs duty	472	443	29	6.5	1,865
791	186	Road user charges	201	219	(18)	(8.2)	877
549	119	Alcohol excise	127	130	(3)	(2.3)	586
236	59	Gaming duties	60	53	7	13.2	215
208	36	Motor vehicle fees	67	55	12	21.8	219
55	19	Energy resources levies	13	51	(38)	(74.5)	35
74	21	Approved issuer levy and cheque duty	12	17	(5)	(29.4)	64
4,791	1,161	Total Other Indirect Taxation	1,179	1,262	(83)	(6.6)	4,912
15,857	3,482	Total Indirect Taxation	3,593	3,664	(71)	(1.9)	16,389
52,150	11,940	Total Tax Receipts Collected	12,787	12,991	(204)	(1.6)	54,266
Other Sovereign Receipts (cash)							
2,607	862	ACC levies	817	723	94	13.0	2,561
268	79	Fire Service levies	88	68	20	29.4	263
84	23	EQC levies	25	23	2	8.7	86
459	147	Other miscellaneous items	131	138	(7)	(5.1)	562
3,418	1,111	Total Other Sovereign Receipts	1,061	952	109	11.4	3,472
55,568	13,051	Total Sovereign Receipts	13,848	13,943	(95)	(0.7)	57,738

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 Actual \$m	3 Months to 30 Sept 2006 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 2: Interest Revenue and Dividends							
<i>By type</i>							
2,540	571	Interest revenue	703	670	33	4.9	2,865
444	103	Dividends	89	136	(47)	(34.6)	501
2,984	674	Total Interest Revenue and Dividends	792	806	14	1.7	3,366
<i>By source</i>							
396	92	NZ Superannuation Fund	95	131	(36)	(27.5)	425
2,184	456	Other core Crown	534	560	(26)	(4.6)	2,162
746	214	Crown entities	306	360	(54)	(15.0)	880
484	112	State-owned Enterprises	174	135	39	28.9	481
(826)	(200)	Inter-segment eliminations	(317)	(380)	63	16.6	(582)
2,984	674	Total Interest Revenue and Dividends	792	806	14	1.7	3,366
NOTE 3: Social Assistance and Official Development Assistance							
6,810	1,676	New Zealand superannuation	1,815	1,809	(6)	(0.3)	7,292
1,468	373	Domestic purposes benefit	367	366	(1)	(0.3)	1,456
613	169	Unemployment benefit	120	129	9	7.0	497
1,132	282	Invalids benefit	296	298	2	0.7	1,201
1,699	470	Family support	536	489	(47)	(9.6)	1,964
877	220	Accommodation supplement	221	226	5	2.2	909
573	143	Sickness benefit	151	149	(2)	(1.3)	608
382	120	Student allowances	122	127	5	3.9	402
270	67	Disability allowances	69	69	-	-	279
2,192	537	Other social assistance benefits	756	695	(61)	(8.8)	2,883
16,016	4,057	Total Social assistance	4,453	4,357	(96)	(2.2)	17,491
330	100	Official development assistance	96	139	43	30.9	401
16,346	4,157	Total Social Assistance and Official Development Assistance	4,549	4,496	(53)	(1.2)	17,892
ACC payments are now classified as insurance expenses under NZ IFRS (refer note 7).							
NOTE 4: Personnel Expenses							
5,113	1,313	Core Crown	1,363	1,405	42	3.0	5,434
8,160	1,946	Crown entities	2,046	2,057	11	0.5	8,213
2,012	478	State-owned Enterprises	542	505	(37)	(7.3)	2,011
(4)	-	Inter-segment eliminations	(1)	(1)	-	-	(1)
15,281	3,737	Total Personnel Expenses	3,950	3,966	16	0.4	15,657

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 Actual \$m	3 Months to 30 Sept 2006 Actual \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
		NOTE 5: Operating Expenses					
30,084	6,485	Core Crown	7,233	7,523	290	3.9	30,416
13,480	3,269	Crown entities	3,526	3,653	127	3.5	15,291
8,283	2,222	State-owned Enterprises	2,412	2,325	(87)	(3.7)	9,180
(20,987)	(4,974)	Inter-segment eliminations	(5,477)	(5,530)	(53)	(1.0)	(22,280)
30,860	7,002	Total operating expenses	7,694	7,971	277	3.5	32,607
		NOTE 6: Interest Expenses					
		<i>By type</i>					
2,876	699	Interest on financial liabilities	736	633	(103)	(16.3)	2,335
17	27	Interest unwind on provisions	6	30	24	80.0	413
2,893	726	Total interest expenses	742	663	(79)	(11.9)	2,748
		<i>By source</i>					
2,330	570	Core Crown	589	568	(21)	(3.7)	2,245
274	64	Crown entities	73	74	1	1.4	306
685	187	State-owned Enterprises	207	175	(32)	(18.3)	704
(396)	(95)	Inter-segment eliminations	(127)	(154)	(27)	(17.5)	(507)
2,893	726	Total interest expenses	742	663	(79)	(11.9)	2,748
		NOTE 7: Insurance Expenses					
		<i>By type</i>					
1,967	481	ACC payments	536	491	(45)	(9.2)	2,016
1,746	225	Other insurance expenses	321	237	(84)	(35.4)	994
3,713	706	Total insurance expenses	857	728	(129)	(17.7)	3,010
		NOTE 8: Gains and losses on financial instruments					
		<i>By source</i>					
(270)	(321)	NZ Superannuation Fund	309	149	160	107.4	749
1,450	444	Other core Crown	49	94	(45)	(47.9)	406
369	(36)	Crown entities	275	113	162	143.4	485
62	(1)	State-owned Enterprises	79	(18)	97	-	18
(42)	(20)	Inter-segment eliminations	(108)	(72)	(36)	(50.0)	(281)
1,569	66	Net gains/(losses) on financial instruments	604	266	338	127.1	1,377
		NOTE 9: Source of Operating Balance					
6,498	1,222	Core Crown	1,471	879	592	67.3	4,464
1,006	276	Crown entities	787	539	248	46.0	1,242
821	224	State-owned Enterprises	248	299	(51)	(17.1)	1,068
(327)	(127)	Inter-segment eliminations	(363)	(278)	(85)	(30.6)	(343)
7,998	1,595	Total Operating Balance	2,143	1,439	704	48.9	6,431

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2007 \$m	As at 30 Sept 2006 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 10: Financial Assets							
4,208	3,785	Cash and cash equivalents	5,333	3,104	2,229	71.8	3,196
6,371	9,086	Tax receivables	7,301	6,714	587	8.7	7,078
5,658	4,579	Trade and other receivables	5,529	5,060	469	9.3	5,469
6,011	5,912	Student loans	6,098	6,554	(456)	(7.0)	6,252
3,637	2,847	KiwiBank mortgages	4,487	3,981	506	12.7	5,127
2,052	1,562	Long-term deposits	1,492	2,511	(1,019)	(40.6)	2,037
183	318	Reserve position at the IMF	188	219	(31)	(14.2)	212
2,148	1,861	Other loans	1,735	2,507	(772)	(30.8)	1,459
13,827	11,883	Share investments	13,801	13,921	(120)	(0.9)	17,273
2,349	1,676	Derivatives in gain	2,181	704	1,477	209.8	464
27,482	26,019	Other marketable securities	30,772	30,763	9	-	32,421
73,926	69,528	Total Financial Assets	78,917	76,038	2,879	3.8	80,988
Financial assets by portfolio							
22,577	20,026	Reserve Bank and DMO managed funds	24,207	22,632	1,575	7.0	26,013
12,576	10,541	NZ Superannuation Fund	13,287	13,129	158	1.2	15,439
14,622	17,681	Other core Crown	15,551	15,511	40	0.3	14,311
(952)	(1,075)	Intra-segment eliminations	(852)	(703)	(149)	(21.2)	(1,536)
48,823	47,173	Total Core Crown	52,193	50,569	1,624	3.2	54,227
10,588	9,163	ACC portfolio	11,096	10,441	655	6.3	11,695
1,920	1,919	EQC portfolio	2,015	2,043	(28)	(1.4)	2,174
4,064	3,432	Other Crown entities	4,300	3,726	574	15.4	3,670
16,572	14,514	Total Crown Entities	17,411	16,210	1,201	7.4	17,539
8,531	7,841	Total State-owned Enterprises	9,313	9,259	54	0.6	9,222
73,926	69,528	Total Financial Assets by portfolio	78,917	76,038	2,879	3.8	80,988
NOTE 11: Property, Plant and Equipment							
By Class of asset							
Net Carrying Value							
21,138	18,638	Land (valuation)	21,385	20,934	451	2.2	18,963
20,861	20,407	Buildings (valuation)	20,684	21,062	(378)	(1.8)	21,349
1,972	1,934	Electricity distribution network (cost)	1,931	2,033	(102)	(5.0)	2,219
10,401	8,621	Electricity generation assets (valuation)	10,463	10,637	(174)	(1.6)	10,057
2,092	2,228	Aircraft (ex SME) (valuation)	2,511	2,553	(42)	(1.6)	2,064
19,417	18,080	State highways (valuation)	19,545	19,613	(68)	(0.3)	19,415
10,570	10,565	Rail network (valuation)	10,568	10,618	(50)	(0.5)	10,804
3,079	3,237	Specialist military equipment (valuation)	3,080	3,175	(95)	(3.0)	3,628
3,218	3,297	Other plant and equipment (cost)	3,172	3,344	(172)	(5.1)	3,758
2,392	1,509	Specified cultural and heritage assets (valuation)	2,458	2,430	28	1.2	1,569
473	1,217	Other assets (valuation)	74	206	(132)	(64.1)	2,124
95,613	89,733	Total Net Carrying Value	95,871	96,605	(734)	(0.8)	95,950

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2007 \$m	As at 30 Sept 2006 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
NOTE 12: NZ Superannuation Fund							
9,855	9,855	Opening net worth	12,973	12,973	-	-	12,910
2,049	473	Gross contribution from the Crown	485	481	4	0.8	2,103
1,094	137	Income after tax	86	220	(134)	(60.9)	855
(25)	(12)	Other movements in reserves	2	(151)	153	101.3	-
12,973	10,453	Closing Net Worth	13,546	13,523	23	0.2	15,868
<i>comprising:</i>							
12,576	10,541	Financial assets	13,287	13,129	158	1.2	15,439
397	(88)	Net other assets	259	394	(135)	(34.3)	429
12,973	10,453	Closing Net Worth	13,546	13,523	23	0.2	15,868
NOTE 13: Payables							
4,924	4,275	Accounts payable	5,033	5,193	160	3.1	5,556
3,179	3,777	Taxes repayable	3,736	3,509	(227)	(6.5)	3,480
8,103	8,052	Total Payables	8,769	8,702	(67)	(0.8)	9,036
NOTE 14: Insurance liabilities							
17,328	14,313	ACC liability	17,099	17,015	(84)	(0.5)	18,949
68	64	EQC liability	65	56	(9)	(16.1)	42
23	1,231	Other insurance liabilities	6	15	9	60.0	20
17,419	15,608	Total Insurance Liabilities	17,170	17,086	(84)	(0.5)	19,011
NOTE 15: Provisions							
704	609	Provision for Kyoto Provision for National Provident Fund	717	703	(14)	(2.0)	557
771	803	guarantee	771	805	34	4.2	805
1,819	1,702	Provision for employee entitlements	1,894	1,656	(238)	(14.4)	1,621
1,229	1,083	Other provisions	1,116	680	(436)	(64.1)	867
4,523	4,197	Total Provisions	4,498	3,844	(654)	(17.0)	3,850

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 \$m	3 Months to 30 Sept 2006 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
NOTE 16: Changes in Net Worth							
36,214	36,214	Opening taxpayers funds	44,169	44,169	-	-	42,219
7,998	1,595	Operating balance excluding minority interest	2,143	1,439	704	48.9	6,431
(43)	(2)	Transfers from/(to) other reserves	21	2	19	-	(411)
44,169	37,807	Closing Taxpayers Funds	46,333	45,610	723	1.6	48,239
47,153	47,153	Opening revaluation reserve	52,371	52,371	-	-	47,459
5,163	(8)	Net Revaluations	(16)	43	(59)	(137.2)	2
55	-	Transfers from/(to) other reserves	1	(59)	60	101.7	(59)
52,371	47,145	Closing Revaluation Reserve	52,356	52,355	1	-	47,402
326	326	Opening other reserves	(132)	(132)	-	-	93
(458)	(13)	Net movements	181	(56)	237	423.2	34
(132)	313	Closing Other Reserves	49	(188)	237	126.1	127

NOTE 17: Contingent Liabilities

As at 30 June 2007, quantifiable contingent liabilities totalling \$5,246 million (30 June 2006 \$6,102 million) were reported. There have been no material changes to that balance.

NOTE 18: Commitments

As at 30 June 2007, commitments totalling \$18,177 million (30 June 2006, \$18,031 million) were reported. There have been no material changes to that balance.

NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 \$m	3 Months to 30 Sept 2006 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 19: Reconciliation of core Crown operating cash flows to residual core Crown cash							
Core Crown Cash Flows from Operations							
53,271	11,989	Total tax receipts	12,899	13,052	(153)	(1.2)	55,121
391	155	Total other sovereign receipts	124	131	(7)	(5.3)	477
1,896	283	Interest, profits and dividends	494	544	(50)	(9.2)	1,857
1,456	389	Sale of goods & services and other receipts	433	272	161	59.2	1,472
(17,317)	(4,347)	Subsidies and transfer payments	(4,442)	(4,639)	197	4.2	(18,789)
(28,907)	(7,311)	Personnel and operating costs	(8,055)	(8,254)	199	2.4	(32,610)
(2,220)	(394)	Finance costs	(570)	(500)	(70)	(14.0)	(2,176)
-	-	Forecast for future new operating spending	-	-	-	-	(314)
8,570	764	Net Cash Flows from core Crown Operations	883	606	277	45.7	5,038
(1,760)	(509)	Net purchase of physical assets	(293)	(383)	90	23.5	(1,803)
(1,743)	(266)	Net increase in advances	(355)	(118)	(237)	(200.8)	(1,088)
(366)	114	Net purchase of investments	(98)	(69)	(29)	(42.0)	(636)
(2,048)	(472)	Contribution to NZ Superannuation Fund	(484)	(481)	(3)	(0.6)	(2,103)
-	-	Purchase of Reserve Bank reserves	-	-	-	-	(200)
-	-	Forecast for future new capital spending	-	-	-	-	(184)
2,653	(369)	Residual Cash	(347)	(445)	98	22.0	(976)
Financed by:							
(5,926)	(2,469)	Other net sale/(purchase) of marketable securities and deposits	(1,255)	(1,196)	(59)	(4.9)	(1,649)
(3,273)	(2,838)	Total Operating and Investing Activities	(1,602)	(1,641)	39	2.4	(2,625)
Used in:							
4,963	1,552	Net repayment/(issue) of other New Zealand-dollar borrowing	224	239	(15)	(6.3)	709
1,775	436	Net repayment/(issue) of foreign currency borrowing	311	(214)	525	245.3	(993)
81	24	Issues of circulating currency	54	44	10	22.7	178
(458)	94	Decrease/(increase) in cash	308	781	(473)	(60.6)	3
6,361	2,106		897	850	47	5.5	(103)
3,088	(732)	Net Cash Inflow/(Outflow) to be Offset by Domestic Bonds	(705)	(791)	86	10.9	(2,728)
Gross Cash Proceeds from Domestic Bonds							
2,294	702	Domestic bonds (market)	673	736	(63)	(8.6)	2,520
632	30	Domestic bonds (non-market)	32	55	(23)	(41.8)	208
2,926	732	Total Gross Cash Proceeds from Domestic Bonds	705	791	(86)	(10.9)	2,728
(5,593)	-	Repayment of domestic bonds (market)	-	-	-	-	-
(421)	-	Repayment of domestic bonds (non-market)	-	-	-	-	-
(3,088)	732	Net (Repayments of)/Cash Proceeds from Domestic Bonds	705	791	(86)	(10.9)	2,728

IMPACT OF THE ADOPTION OF NZ IFRS

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

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

- Net worth as at 1 July 2006, as at 30 September 2006 and as at 30 June 2007
- Operating Balance for the year ended 30 June 2007 and for the three months ended 30 September 2006

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

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

IMPACT OF THE ADOPTION OF NZ IFRS

	Note	As at 1 July 2006 \$m	As at 30 June 2007 \$m	As at 30 Sep 2006 \$m
Net worth per existing GAAP published accounts		71,403	95,836	73,407
Rail network valuation	a	10,330	-	10,330
Amended net worth per existing GAAP		81,733	95,836	83,737
Changes as a result of transition to NZ IFRS				
Revaluation of GSF	b	3,133	3,137	3,156
Inclusion of a risk premium on ACC liability	c	(1,603)	(1,976)	(1,621)
Inclusion of derivatives	d	304	(355)	190
Fair value adjustments to receivables	e	(369)	(598)	(383)
Revaluation of NPF liability	f	195	182	195
Goodwill amortisation	g	-	98	15
Other movements		196	380	254
Net worth per NZ IFRS published accounts		83,589	96,704	85,543

	Note	Year ended 30 June 2007 \$m	Three months ended 30 Sep 2006 \$m
Operating balance per existing GAAP published accounts		8,663	1,864
Changes as a result of transition to NZ IFRS			
Revaluation of GSF	b	4	23
Inclusion of a risk premium on ACC liability	c	(373)	(18)
Inclusion of derivatives	d	(250)	(120)
Fair value adjustments to receivables	e	(229)	(14)
Revaluation of NPF liability	f	(13)	-
Goodwill amortisation	g	98	15
Other movements		98	(155)
Operating balance per NZ IFRS published accounts		7,998	1,595

Notes to the NZ IFRS Transition

- a) On 1 July 2006 the accounting policy regarding the valuation basis of the rail network changed under existing GAAP to depreciated replacement cost. Previously this asset was reported at historical cost.
- b) The reporting of the Government Superannuation Fund (GSF) has changed due to applying a specific standard for employee benefits, including pension schemes, under NZ IFRS. The main changes to the financial statement are:
- a reduction in the net liability of GSF due to valuing the liability on the basis that the Government meets its obligation on a pay-as-needed basis, rather than the amount to be invested today to fully fund future contributions under existing GAAP. This latter approach assumes the Fund would invest in assets that would generate revenue on which there would be an additional obligation to pay tax, and
 - a netting of GSF plan assets against the pension liability (nil impact on net worth).

IMPACT OF THE ADOPTION OF NZ IFRS

- c) The reporting of the ACC liability has changed owing to the new requirements under NZ IFRS. The main changes to the financial statements are:
- the ACC liability has increased due to adding an additional risk premium and liability adequacy test on the unearned levy liability to meet estimated future claims. The actuarially calculated liability under existing GAAP represents a mid-point estimate – that is, equal chance of actual payouts being greater than or less than the estimate. To that extent, it represents the most likely outcome. Introducing an additional risk premium and liability adequacy test under NZ IFRS does not change the relative risk of ACC’s activities; rather it simply changes how this risk is reported
 - changes to the presentation of the unearned levy liability (nil impact on net worth).
- d) Under NZ IFRS all derivative contracts must be recognised in the statement of financial position at fair value.
- e) Receivables from taxes and fines have been written down to reflect time value of money and collection costs.
- f) Like the reduction in the GSF liability above, the reduction in the National Provident Fund (NPF) liability is due to the tax effect of valuing the liability on the basis of present valuing the possible payments to this scheme under the current arrangements, rather than the current approach which determines what payment would be required today to settle all future obligations.
- g) Under NZ IFRS goodwill is not amortised over a specified period. Instead, an annual impairment test is conducted.