

# Financial Statements of the Government of New Zealand

For the three months ended  
30 September 2010



Prepared by The Treasury  
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New Zealand Government

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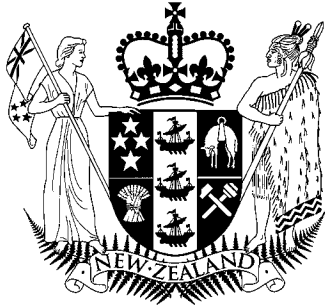
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## COMMENTARY

## S U M M A R Y

The Financial Statements of the Government provide a record of the Government's financial performance over the three months ended 30 September 2010 and its financial position as at that date.

The September results are reported against forecasts based on the *2010 Budget Economic and Fiscal Update (BEFU)*, published on 20 May 2010.

Overall, the operating balance before gains and losses for the three months was a deficit of \$3.7 billion. This deficit was \$2.2 billion higher than expected with two main factors impacting the results:

- Operating expenses include costs associated with the Canterbury earthquake (unforecast). The Earthquake Commission (EQC) recorded an estimated net cost of \$1.5 billion for settling claims for damage arising from the earthquake. While the total cost incurred by EQC is likely to exceed this figure, EQC has reinsurance cover for costs above \$1.5 billion. In addition, the Government is committed to reimburse a proportion of the restoration costs relating to critical local government infrastructure and certain other costs. These costs have not been included in the financial statements at this stage, as reliable estimates of the amounts concerned have not yet been established.
- Tax revenue was \$1.1 billion (8.2%) lower than forecast, with the underlying drivers of this result indicating that the economy is recovering more slowly from the recession than expected.

The Crown's net debt stood at \$33.8 billion, or 17.9% of GDP. This was higher than forecast, largely a result of lower tax receipts than expected.

These factors will be incorporated into the revised *Half Year Economic and Fiscal Update* due to be released on 14 December 2010.

## At a Glance

**Table 1** – Key indicators for the three months ended 30 September 2010 compared to BEFU

\$ million	Year to date				Full Year
	September	September	Variance to BEFU	Variance to BEFU	June
	2010	2010			2010
	Actual <sup>1</sup>	Forecast <sup>1</sup>	\$m	%	BEFU Forecast <sup>2</sup>
<b>Core Crown</b>					
Core Crown tax revenue	<b>12,506</b>	13,627	(1,121)	(8.2)	53,912
Core Crown revenue	<b>13,640</b>	14,875	(1,235)	(8.3)	60,260
Core Crown expenses	<b>16,629</b>	16,735	106	0.6	70,651
Core Crown residual cash	<b>(6,449)</b>	(5,564)	(885)	(15.9)	(13,327)
Gross debt <sup>3</sup>	<b>59,095</b>	56,595	(2,500)	(4.4)	66,969
<i>as a percentage of GDP</i>	<b>31.2%</b>	29.9%			32.8%
Net debt <sup>4</sup>	<b>33,819</b>	32,949	(870)	(2.6)	39,965
<i>as a percentage of GDP</i>	<b>17.9%</b>	17.4%			19.6%
<b>Total Crown</b>					
Operating balance before gains and losses	<b>(3,709)</b>	(1,467)	(2,242)	(152.8)	(8,632)
Operating balance	<b>(2,354)</b>	(922)	(1,432)	(155.3)	(7,067)
Net worth	<b>92,539</b>	93,994	(1,455)	(1.5)	89,416

1 Using GDP for the year ended 30 June 2010 of \$189,295 million (Source: Statistics New Zealand)

2 Using forecast GDP for the year ended 30 June 2011 of \$203,876 million (Source: Treasury)

3 Gross sovereign-issued debt excluding settlement cash and Reserve Bank bills

4 Net core Crown debt excluding student loans and other advances

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

### Results for the three months ended 30 September 2010:

- **Core Crown tax revenue** was \$1,121 million (8.2%) lower than forecast. There were two main components:
  - GST revenue was \$564 million (15.8%) lower than expected. This was mainly due to the boost in consumer spending before October's GST rate rise not being as big as expected. Although some of this shortfall will be recovered if the slump in consumer spending after the GST rate rise is also not as big as forecast, we expect that part of the shortfall (compared to Budget 2010) will persist based on evidence that spending in the September quarter continued to be subdued (per the Retail Trade Survey for July and August); and
  - Corporate tax revenue was \$458 million (22.4%) lower than expected. Although corporate tax revenue was 16% higher this year compared to the same time last year, it had not recovered to the extent that was forecast in Budget 2010. The shortfall mostly related to provisional tax revenue, which was lower than forecast and reflected weaker than expected corporate profits in the current tax year.
- **Core Crown expenses** were \$106 million lower than forecast with no significant individual variances.

- The **operating balance before gains and losses (OBEGAL) deficit** was \$3,709 million, \$2,242 million higher than forecast.<sup>1</sup> In addition to the \$1,121 million unfavourable tax revenue result, expenditure by Crown entities was higher than expected due mainly to the \$1,500 million net cost<sup>2</sup> of claims estimated by EQC for damage caused by the Canterbury earthquake.
- Including the impact of net gains, the **operating balance deficit** was \$1,432 million higher than forecast, at \$2,354 million. The main components were:
  - gains made by the NZS Fund on its investment portfolio were \$820 million higher than expected; and
  - ACC recorded an unforecast \$805 million actuarial loss on the valuation of its outstanding claims liability, largely generated by a decrease in the discount rate used to calculate the present value of expected future payments. However, this loss was largely offset by gains made by ACC on its investment portfolio that were \$617 million higher than expected.
- As a result of the operating balance deficit, **net worth** was \$1,455 million lower than expected.
- The **residual cash deficit** was \$6,449 million, \$885 million lower than forecast. This was generally the result of the tax revenue variances explained above. The two largest components were:
  - GST receipts were \$392m (13.2%) lower than forecast.
  - Corporate tax receipts were \$200m (9.3%) lower than forecast. This shortfall was not as large as the corporate tax revenue shortfall because taxpayers had made some unexpected, large payments into tax pools. These payments may be reflected in tax revenue at a later date, if the taxpayers concerned lodge related income tax assessments.
- The residual cash deficit led to **net debt** being \$870 million higher than forecast.
- **Gross debt** was \$2,500 million higher than forecast. There were two main components:
  - A temporary increase of approximately \$1,450 million, representing a liability for cash deposited into an account held at the NZ Debt Management Office by the Trustees of South Canterbury Finance (SCF). Note that the \$1,450 million deposit was held for the Trustees until it was repaid in October, when the Trustees made payment to eligible SCF investors. The payment to the Trustees reduced the Crown's marketable security holdings and extinguished the liability. These transactions have not impacted net debt as marketable securities (assets) were increased to cover the obligation; and
  - The Reserve Bank and NZDMO had unsettled trades at 30 September of \$803 million. These are short-term positions that are not forecast.
- Further analysis of the September results follows.

<sup>1</sup> On a percentage basis the variance against forecast is 153%. This is a function of OBEGAL being the difference between two very large numbers (total revenue and total expenses).

<sup>2</sup> The \$1,500 million net cost represents EQC's initial estimate of the claim costs, less an estimate of the reinsurance revenue proceeds.



## ANALYSIS

**Table 2** – Key indicator variances for the three months ended 30 September 2010 compared to *BEFU*

Item/indicator	Variance <sup>3</sup>	Key drivers
<b>Core Crown</b>		
Core Crown revenue	-\$1,235 million (lower than forecast)	<p>Core Crown tax revenue was \$1,121m (8.2%) lower than forecast. The main components were:</p> <ul style="list-style-type: none"> <li>• GST tax revenue was \$564m (15.8%) lower than forecast. This variance was mostly due to the boost in spending prior to October's GST rate rise being lower than expected. The result also reflected weaker-than-expected underlying consumer spending levels. The Retail Trade Survey for July and August suggests that subdued June quarter spending continued in the September quarter, pointing to an ongoing shortfall in GST revenue relative to the <i>Budget 2010</i> forecasts.</li> <li>• Corporate tax was \$458m (22.4%) lower than forecast. Although corporate tax revenue was 16% higher at 30 September than at the same time last year, it had not recovered to the extent that was forecast in <i>Budget 2010</i>. The shortfall mostly related to provisional tax revenue, which was lower than forecast and reflected weaker than expected corporate profits in the current tax year.</li> <li>• Other individuals tax was \$118m (16.4%) lower than forecast. Terminal tax continued to be weaker than expected, driven by past-year profitability which was also lower than expected.</li> <li>• Other customs and excise duties were \$112m (12.2%) lower than forecast. Tobacco companies stockpiled imported product prior to the excise rate increase in April. This led to an increase in revenue at the end of the last financial year, but has also resulted in reduced revenue this year.</li> </ul> <p>These were partly offset by:</p> <ul style="list-style-type: none"> <li>• Source deduction revenue was \$113m (2.0%) higher than forecast, reflecting income growth that was higher than expected, supported by stronger employment levels and average hours paid to employees in the first half of 2010 than was expected.</li> </ul>
Core Crown expenses	\$106 million (lower than forecast)	Core Crown expenses were largely on forecast with no significant individual variances.

<sup>3</sup> Favourable variances against forecast have a positive sign and unfavourable variances against forecast have a negative sign.

Item/indicator	Variance <sup>3</sup>	Key drivers
Core Crown residual cash deficit	-\$885 million  (higher than forecast)	<p>The core Crown residual cash deficit was \$6,449m, \$885m higher than forecast. The main contributors were:</p> <ul style="list-style-type: none"> <li>Core Crown tax receipts were \$738m (5.9%) lower than forecast, generally following the tax revenue results explained above with both GST and corporate tax receipts lower than forecast. The corporate tax <i>receipts</i> shortfall was not as large as the <i>revenue</i> shortfall because taxpayers had made some unexpected, large payments into tax pools. These payments may be reflected in tax revenue at a later date, if the taxpayers concerned lodge related income tax assessments.</li> <li>Personnel and operating cost payments were \$185m (1.6%) higher than forecast.</li> </ul>
Gross debt	-\$2,500 million  (higher than forecast)	<p>Gross debt was \$2,500m higher than forecast at \$59,095m. While issuances of Government Stock and Treasury Bills were as forecast, two main factors resulted in Gross Debt being higher than expected:</p> <ul style="list-style-type: none"> <li>A temporary increase of approximately \$1,450m arose from transactions involving the Trustees of South Canterbury Finance (SCF). The liability was initially created on 31 August, when the Trustees deposited the \$1,800m payment (made to them on behalf of eligible depositors in SCF under the Deposit Guarantee Scheme) into an account held at the NZ Debt Management Office. \$350m of the deposit was then repaid to the Trustees in September and the balance of \$1,450m was retained on deposit until it was repaid to the Trustees in order to make payment to the remaining eligible SCF investors.</li> </ul> <p>Note that the \$1,450 million balance was subsequently paid back to the Trustees in October, reducing the Crown's marketable securities and extinguishing the liability. These transactions did not impact net debt as marketable securities (assets) had been increased to cover the obligation.</p> <ul style="list-style-type: none"> <li>The Reserve Bank and NZDMO had unsettled trades at 30 September of \$803m. These are short-term positions that are not forecast.</li> </ul>
Net debt	-\$870 million  (higher than forecast)	<p>Net debt was \$870m higher than forecast at \$33,819m. This largely reflected the higher-than-expected residual cash deficit result noted above, with tax receipts lower than expected.</p>

Item/indicator	Variance	Key drivers
<b>Total Crown</b>		
Operating balance before gains and losses deficit	- \$2,242 million (higher than forecast)	<p>The OBEGAL deficit was \$2,242m higher than expected at \$3,709m. There were two main components:</p> <ul style="list-style-type: none"> <li>• The Earthquake Commission recorded a net expense of \$1,500m for the expected cost of its obligations arising from damage caused by the Canterbury earthquake. There is a separate note included in the financial statements that provides more detail on the estimated costs of the earthquake on the Crown.</li> <li>• Tax revenue was \$1,121m lower than forecast, as noted above.</li> </ul> <p>Energy company sales of services were \$210m lower than forecast, but this was more than offset by their associated operating expenditure being \$311m lower than expected.</p>
Operating balance deficit	- \$1,432 million (higher than forecast)	<p>The operating deficit was \$1,432m higher than expected at \$2,354m. The unfavourable variance in the OBEGAL result was softened by net gains that were \$1,325m higher than forecast. The main components were:</p> <ul style="list-style-type: none"> <li>• Gains made by the NZS Fund on its investment portfolio were \$820m higher than expected; and</li> <li>• ACC recorded an unforecast \$805m actuarial loss on the valuation of its outstanding claims liability, largely generated by a decrease in the discount rate used to calculate the present value of expected future payments. However, this loss was largely offset by gains made by ACC on its investment portfolio that were \$617m higher than expected.</li> </ul>
Net worth	- \$1,455 million (lower than forecast)	Net worth was lower than expected, due mainly to the operating balance deficit noted above.

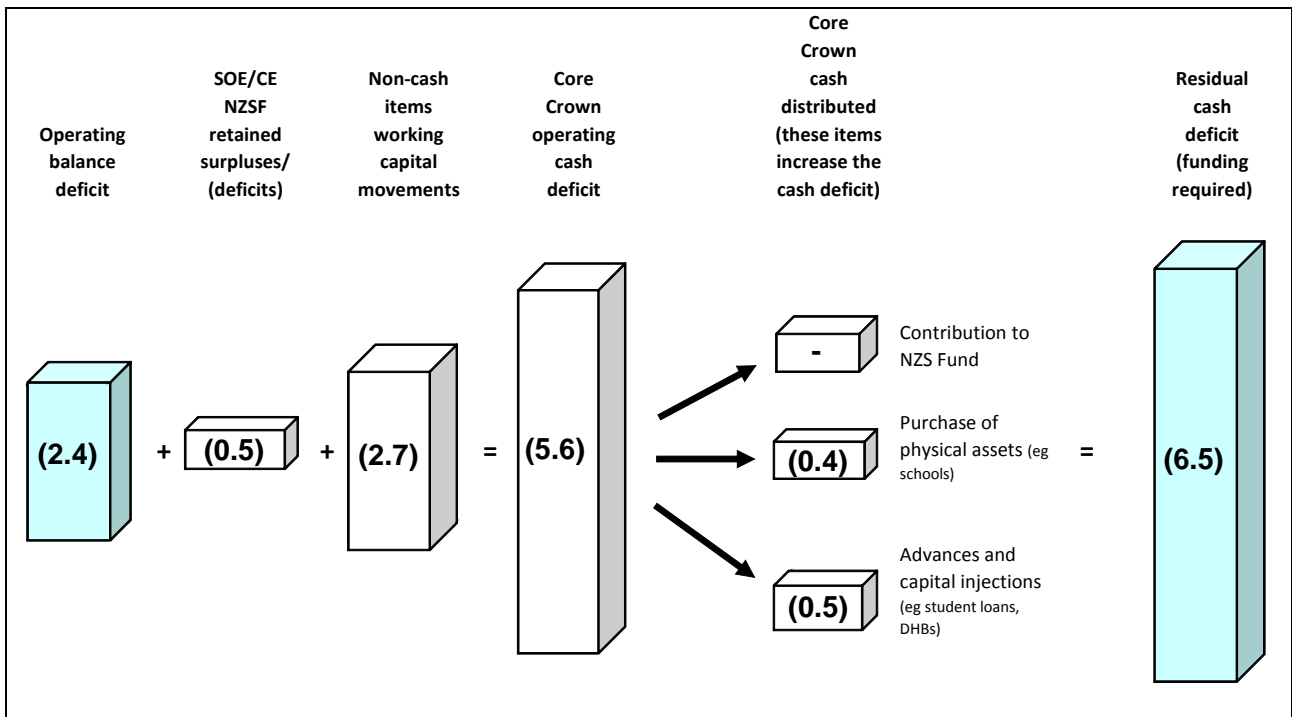
**Table 3 – Fiscal Strategy and financial results**

Fiscal Strategy		Financial Results		Ref	30 Sep 2010 Actual \$m	30 Sep 2010 Forecast \$m	Variance \$m	Variance %	Annual Forecast \$m
		Taxation as a % of GDP		1	26.4%	28.8%			26.4%
<b>Operating revenue</b> Ensure sufficient revenue to meet the operating balance objective		Core Crown taxation revenue ...			12,506	13,627	(1,121)	(8.2)	53,912
		... combined with other core Crown revenue ...			1,134	1,248	(114)	(9.1)	6,348
<b>Operating expenses</b> Reduce the growth in government spending to ensure operating expenses are consistent with the operating balance objective		... fund core Crown expenses...			(16,629)	(16,735)	106	0.6	(70,651)
		... and with SOE and Crown entity results and core Crown gains and losses...			635	938	(303)	(32.3)	3,324
<b>Operating balance</b> Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective		... result in an operating surplus or deficit...			(2,354)	(922)	(1,432)	(155.3)	(7,067)
		...with income in SOEs, CEs and the NZS Fund retained...			(464)	(982)	518	52.7	(3,445)
		... and some items do not impact cash ...			(2,767)	(2,698)	(69)	(2.6)	2,173
		... leaving operating cash flows to ...			<b>(5,585)</b>	<b>(4,602)</b>	<b>(983)</b>	<b>(21.4)</b>	<b>(8,339)</b>
<b>Debt</b> Manage total debt at prudent levels ensuring net debt remains consistently below 40% of GDP		... build up assets in the NZS Fund ...			-	-	-	-	-
		... meet the capital expenditure budget ...			(364)	(445)	81	18.2	(2,240)
		... and make advances (e.g. to students and DHBs)			(500)	(517)	17	3.3	(2,748)
		With the residual cash ...			<b>(6,449)</b>	<b>(5,564)</b>	<b>(885)</b>	<b>(15.9)</b>	<b>(13,327)</b>
<b>Debt</b> Manage total debt at prudent levels ensuring net debt remains consistently below 40% of GDP		... when combined with opening net debt ...			26,738	26,738	-	-	26,642
		... and other fair value movements in financial assets and financial liabilities ...			632	647	15	2.3	(4)
		... results in a closing net debt ...			<b>33,819</b>	<b>32,949</b>	<b>(870)</b>	<b>(2.6)</b>	<b>39,965</b>
	... and as a % of GDP			<b>17.9%</b>	<b>17.4%</b>			<b>19.6%</b>	

<sup>1</sup> GDP for the three months ended 30 September 2010 (actual and forecast) is the actual data for the year ended 30 June 2010 (Source: Statistics New Zealand) pro-rated for three months.

**Figure 1** – Application of core Crown cash flows (\$billions)

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



## YEAR - ON - YEAR PERSPECTIVE

Table 4 – Comparison with previous year

	September 2010 Actual \$m	September 2009 Actual \$m	Change <sup>1</sup> \$m	Change %
<b>Statement of Financial Performance</b>				
<b>Core Crown revenue</b>				
Taxation revenue	12,506	11,889	617	5.2
Other revenue	1,134	1,434	(300)	(20.9)
<b>Total Core Crown Revenue</b>	<b>13,640</b>	<b>13,323</b>	<b>317</b>	<b>2.4</b>
<b>Core Crown expenses</b>				
Social security and welfare	5,389	5,187	202	3.9
GSF pension expenses	73	93	(20)	(21.5)
Health	3,413	3,215	198	6.2
Education	3,054	2,882	172	6.0
Core government services	841	754	87	11.5
Law and order	842	775	67	8.6
Defence	452	440	12	2.7
Transport and communications	546	462	84	18.2
Economic and industrial services	700	685	15	2.2
Primary services	163	116	47	40.5
Heritage, culture and recreation	260	203	57	28.1
Housing and community development	123	98	25	25.5
Other	95	34	61	179.4
Finance costs	678	529	149	28.2
<b>Total Core Crown Expenses</b>	<b>16,629</b>	<b>15,473</b>	<b>1,156</b>	<b>7.5</b>
Net surplus of SOE/CE's	(720)	128	(848)	-
<b>OBEGAL</b>	<b>(3,709)</b>	<b>(2,022)</b>	<b>(1,687)</b>	<b>(83.4)</b>
Total gains/(losses)	1,325	1,863	(538)	(28.9)
Other operating items	30	(16)	46	287.5
<b>Operating Balance</b>	<b>(2,354)</b>	<b>(175)</b>	<b>(2,179)</b>	<b>-</b>
<b>Core Crown residual cash</b>	<b>(6,449)</b>	<b>(3,292)</b>	<b>(3,157)</b>	<b>(95.9)</b>
<b>Debt indicators</b>				
<b>Gross debt<sup>2</sup></b>	<b>59,095</b>	<b>48,500</b>	<b>10,594</b>	<b>21.8</b>
<b>Net debt<sup>3</sup></b>	<b>33,819</b>	<b>21,253</b>	<b>12,566</b>	<b>59.1</b>

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

<sup>2</sup> Gross sovereign-issued debt excluding settlement cash and Reserve Bank bills.

<sup>3</sup> Net core Crown debt excluding NZS Fund, student loans and other advances.

## Revenue and Expenses

Total **taxation revenue** for the three months ended 30 September 2010 has increased by \$0.6 billion (5.2%) on the same period last year. Corporate tax and source deductions were the largest contributors to the rise in tax revenue as business profitability and incomes recover following the recession of 2008/09.

Total **core Crown expenses** have increased by \$1.2 billion (7.5%) on the same period last year. The significant movements in core Crown functional expenses were as follows:

Functional expense	Movement from previous year	Main drivers of the change
Social Security and Welfare	+ \$0.2 billion	<ul style="list-style-type: none"><li>• Indexation of welfare benefits and higher beneficiary recipient numbers</li></ul>
Health	+ \$0.2 billion	<ul style="list-style-type: none"><li>• Funding provided in the 2010 Budget to maintain and improve existing service levels</li></ul>
Education	+ \$0.2 billion	<ul style="list-style-type: none"><li>• Higher demand-driven expenses from roll growth and from funding provided in the 2010 Budget</li></ul>
Finance Costs	+ \$0.1 billion	<ul style="list-style-type: none"><li>• A result of increased debt levels</li></ul>
Other	+ \$0.5 billion	
<b>Total</b>	<b>+ \$1.2 billion</b>	

**Total gains and losses** were in a net gain position of \$1.3 billion for the period ended 30 September 2010, compared to a net gain of \$1.8 billion for the same period last year. The \$0.5 billion difference is mainly due to gains on the Crown's investment portfolios and reflects the variable nature of gains (and losses) in investment markets.

## Debt

Both **net** and **gross debt** have increased as a result of the issuance of debt (primarily Government Stock) and the running-down of financial assets to meet cash deficits.







# FINANCIAL STATEMENTS

# STATEMENT OF ACCOUNTING POLICIES

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## 1 Reporting Entity

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

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

A schedule of the entities that are included in the Government reporting entity was set out on pages 172 and 173 of the *Financial Statements of the Government of New Zealand* released on 14 October 2010.

With the exception of the 30 June 2010 comparative figures, all actual, forecast and comparative figures presented in these financial statements are unaudited.

## 2 General Accounting Policies

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

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

## 3 Specific Accounting Policies

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

<http://www.treasury.govt.nz/publications/guidance/reporting/accounting>

## 4 Forecasts

The forecasts in these financial statements have been derived from the forecasts released in the *2010 Budget Economic and Fiscal Update (BEFU)*, on 20 May 2010.

The accounting policies underlying the preparation of forecasts are set out in the Statement of Accounting Policies reproduced in full on the Treasury's internet site:

<http://www.treasury.govt.nz/budget/forecasts/befu2010>

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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### **5 Comparative Figures**

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

### **6 Variance Percentages**

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

# STATEMENT OF FINANCIAL PERFORMANCE

for the three months ended 30 September 2010

Year to 30 Jun 2010	3 Months to 30 Sep 2009		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
		<b>Revenue</b>						
50,347	11,698	Taxation revenue	1	12,357	13,488	(1,131)	(8.4)	53,457
4,682	1,167	Other sovereign revenue	1	1,265	1,301	(36)	(2.8)	5,759
<b>55,029</b>	<b>12,865</b>	<b>Total Revenue Levied through the Crown's Sovereign Power</b>		<b>13,622</b>	<b>14,789</b>	<b>(1,167)</b>	<b>(7.9)</b>	<b>59,216</b>
14,331	3,509	Sales of goods and services		3,876	4,045	(169)	(4.2)	15,399
2,315	684	Interest revenue and dividends	2	687	732	(45)	(6.1)	4,063
3,050	727	Other revenue		1,225	713	512	71.8	3,103
<b>19,696</b>	<b>4,920</b>	<b>Total revenue earned through the Crown's operations</b>		<b>5,788</b>	<b>5,490</b>	<b>298</b>	<b>5.4</b>	<b>22,565</b>
<b>74,725</b>	<b>17,785</b>	<b>Total revenue (excluding gains)</b>		<b>19,410</b>	<b>20,279</b>	<b>(869)</b>	<b>(4.3)</b>	<b>81,781</b>
		<b>Expenses</b>						
21,213	5,318	Social assistance and official development assistance	3	5,593	5,633	40	0.7	22,628
18,477	4,449	Personnel expenses	4	4,679	4,683	4	0.1	19,109
4,229	1,008	Depreciation and amortisation	5	1,060	1,072	12	1.1	4,428
31,338	7,432	Other operating expenses	5	8,196	8,552	356	4.2	35,927
2,777	841	Interest expenses	6	783	911	128	14.1	4,612
3,006	759	Insurance expenses	7	2,808	895	(1,913)	(213.7)	3,725
-	-	Forecast new operating spending	5	-	-	-	-	394
-	-	Top-down expense adjustment	5	-	-	-	-	(410)
<b>81,040</b>	<b>19,807</b>	<b>Total expenses (excluding losses)</b>		<b>23,119</b>	<b>21,746</b>	<b>(1,373)</b>	<b>(6.3)</b>	<b>90,413</b>
<b>(6,315)</b>	<b>(2,022)</b>	<b>Operating balance before gains/(losses)</b>		<b>(3,709)</b>	<b>(1,467)</b>	<b>(2,242)</b>	<b>(152.8)</b>	<b>(8,632)</b>
2,522	2,030	Net gains/(losses) on financial instruments	8	2,089	486	1,603	329.8	1,250
(960)	(167)	Net gains/(losses) on non-financial instruments	9	(764)	29	(793)	-	181
<b>1,562</b>	<b>1,863</b>	<b>Total gains/(losses)</b>		<b>1,325</b>	<b>515</b>	<b>810</b>	<b>157.3</b>	<b>1,431</b>
227	(16)	Net surplus/(deficit) from associates and joint ventures		31	30	1	3.3	135
<b>(4,526)</b>	<b>(175)</b>	<b>Operating balance from continuing activities</b>		<b>(2,353)</b>	<b>(922)</b>	<b>(1,431)</b>	<b>(155.2)</b>	<b>(7,066)</b>
-	-	Gain/(loss) from discontinued operations		(1)	-	(1)	-	(1)
<b>(4,526)</b>	<b>(175)</b>	<b>Operating balance (including minority interest)</b>		<b>(2,354)</b>	<b>(922)</b>	<b>(1,432)</b>	<b>(155.3)</b>	<b>(7,067)</b>
17	-	Attributable to minority interest in Air New Zealand		-	-	-	-	-
<b>(4,509)</b>	<b>(175)</b>	<b>Operating balance</b>	10	<b>(2,354)</b>	<b>(922)</b>	<b>(1,432)</b>	<b>(155.3)</b>	<b>(7,067)</b>

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

# STATEMENT OF COMPREHENSIVE INCOME

for the three months ended 30 September 2010

Year to 30 Jun 2010 Actual \$m	3 Months to 30 Sep 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
(4,526)	(175)	Operating Balance (including minority interest)	(2,354)	(922)	(1,432)	(155.3)	(7,067)
		<b>Other comprehensive income</b>					
196	36	Revaluation of physical assets	(27)	(36)	9	25.0	-
(112)	(202)	Effective portion of changes in value of cash flow hedges	(85)	(32)	(53)	(165.6)	5
(62)	-	Net change in fair value of cash flow hedges transferred to operating balance	-	-	-	-	(1)
(3)	11	Net change in fair value of cash flow hedges transferred to the hedged item	5	(12)	17	141.7	-
(11)	(22)	Foreign currency translation differences for foreign operations	6	-	6	-	-
3	(8)	Valuation gains/(losses) on investments available for sale taken to reserves	4	6	(2)	(33.3)	1
(1)	2	Other movements	2	2	-	-	(1)
<b>10</b>	<b>(183)</b>	<b>Total other comprehensive income</b>	<b>(95)</b>	<b>(72)</b>	<b>(23)</b>	<b>(31.9)</b>	<b>4</b>
<b>(4,516)</b>	<b>(358)</b>	<b>Total comprehensive income</b>	<b>(2,449)</b>	<b>(994)</b>	<b>(1,455)</b>	<b>(146.4)</b>	<b>(7,063)</b>
		<b>Attributable to:</b>					
(34)	-	- minority interest in Air New Zealand	-	-	-	-	-
(4,482)	(358)	- the Crown	(2,449)	(994)	(1,455)	(146.4)	(7,063)
<b>(4,516)</b>	<b>(358)</b>	<b>Total comprehensive income</b>	<b>(2,449)</b>	<b>(994)</b>	<b>(1,455)</b>	<b>(146.4)</b>	<b>(7,063)</b>

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

## ANALYSIS OF EXPENSES BY FUNCTIONAL CLASSIFICATION

for the three months ended 30 September 2010

Year to 30 Jun 2010 Actual \$m	3 Months to 30 Sep 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		<b>Total Crown expenses</b>					
24,206	5,965	Social security and welfare	6,243	6,400	157	2.5	26,127
333	93	GSF pension expenses	75	75	-	-	363
12,673	3,087	Health	3,249	3,241	(8)	(0.2)	13,379
12,440	3,036	Education	3,291	3,221	(70)	(2.2)	12,861
2,830	698	Core government services	811	847	36	4.3	3,922
3,354	809	Law and order	879	914	35	3.8	3,746
1,771	429	Defence	445	463	18	3.9	1,862
7,991	1,923	Transport and communications	2,037	2,032	(5)	(0.2)	8,184
7,541	1,750	Economic and industrial services	3,935	2,275	(1,660)	(73.0)	8,114
1,373	374	Primary services	391	392	1	0.3	1,742
2,584	515	Heritage, culture and recreation	581	575	(6)	(1.0)	3,344
1,087	253	Housing and community development	304	309	5	1.6	1,102
80	34	Other	95	91	(4)	(4.4)	1,071
2,777	841	Finance costs	783	911	128	14.1	4,612
-	-	Forecast new operating spending	-	-	-	-	394
-	-	Top-down expense adjustment	-	-	-	-	(410)
<b>81,040</b>	<b>19,807</b>	<b>Total Crown expenses excluding losses</b>	<b>23,119</b>	<b>21,746</b>	<b>(1,373)</b>	<b>(6.3)</b>	<b>90,413</b>

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

Year to 30 Jun 2010 Actual \$m	3 Months to 30 Sep 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		<b>Core Crown expenses</b>					
21,185	5,187	Social security and welfare	5,389	5,426	37	0.7	22,120
328	93	GSF pension expenses	73	73	-	-	357
13,128	3,215	Health	3,413	3,409	(4)	(0.1)	14,043
11,724	2,882	Education	3,054	3,023	(31)	(1.0)	11,992
2,974	754	Core government services	841	851	10	1.2	3,979
3,191	775	Law and order	842	876	34	3.9	3,537
1,814	440	Defence	452	476	24	5.0	1,912
2,345	462	Transport and communications	546	549	3	0.5	2,417
2,839	685	Economic and industrial services	700	709	9	1.3	2,828
507	116	Primary services	163	163	-	-	757
1,281	203	Heritage, culture and recreation	260	256	(4)	(1.6)	2,037
306	98	Housing and community development	123	123	-	-	370
80	34	Other	95	91	(4)	(4.4)	1,088
2,311	529	Finance costs	678	710	32	4.5	3,230
-	-	Forecast new operating spending	-	-	-	-	394
-	-	Top-down expense adjustment	-	-	-	-	(410)
<b>64,013</b>	<b>15,473</b>	<b>Core Crown expenses excluding losses</b>	<b>16,629</b>	<b>16,735</b>	<b>106</b>	<b>0.6</b>	<b>70,651</b>

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

# STATEMENT OF CASH FLOWS

for the three months ended 30 September 2010

Year to 30 Jun 2010	3 Months to 30 Sep 2009		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		<b>Cash Flows From Operations</b>					
		<b>Cash was provided from</b>					
50,104	11,627	Taxation receipts	11,839	12,521	(682)	(5.4)	52,681
4,268	1,130	Other sovereign receipts	1,311	1,462	(151)	(10.3)	4,792
14,411	4,203	Sales of goods and services	3,858	4,055	(197)	(4.9)	15,173
2,378	602	Interest and dividends	800	734	66	9.0	3,592
2,974	428	Other operating receipts	768	792	(24)	(3.0)	2,960
<b>74,135</b>	<b>17,990</b>	<b>Total cash provided from operations</b>	<b>18,576</b>	<b>19,564</b>	<b>(988)</b>	<b>(5.1)</b>	<b>79,198</b>
		<b>Cash was disbursed to</b>					
		Social assistance and official development assistance	6,319	6,281	(38)	(0.6)	22,642
21,335	6,623	Personnel and operating payments	15,430	15,762	332	2.1	54,693
2,420	488	Interest payments	427	467	40	8.6	3,979
-	-	Forecast new operating spending	-	-	-	-	394
-	-	Top-down expense adjustment	-	-	-	-	(410)
<b>74,522</b>	<b>19,892</b>	<b>Total cash disbursed to operations</b>	<b>22,176</b>	<b>22,510</b>	<b>334</b>	<b>1.5</b>	<b>81,298</b>
<b>(387)</b>	<b>(1,902)</b>	<b>Net cash flows from operations</b>	<b>(3,600)</b>	<b>(2,946)</b>	<b>(654)</b>	<b>(22.2)</b>	<b>(2,100)</b>
		<b>Cash Flows From Investing Activities</b>					
		<b>Cash was provided from/(disbursed to)</b>					
(5,865)	(1,297)	Net purchase of physical assets	(1,412)	(1,643)	231	14.1	(7,842)
2,092	1,913	Net purchase of shares and other securities	1,746	1,409	337	23.9	(1,088)
(377)	(100)	Net purchase of intangible assets	(67)	(84)	17	20.2	(513)
(310)	349	Net (issue)/repayment of advances	(291)	(66)	(225)	(340.9)	(1,426)
(198)	19	Net acquisition of investments in associates	9	9	-	-	(468)
-	-	Capital contingency provision	-	-	-	-	(282)
-	-	Top-down capital adjustment	-	-	-	-	300
<b>(4,658)</b>	<b>884</b>	<b>Net cash flows from investing activities</b>	<b>(15)</b>	<b>(375)</b>	<b>360</b>	<b>96.0</b>	<b>(11,319)</b>
<b>(5,045)</b>	<b>(1,018)</b>	<b>Net cash flows from operating and investing activities</b>	<b>(3,615)</b>	<b>(3,321)</b>	<b>(294)</b>	<b>(8.9)</b>	<b>(13,419)</b>
		<b>Cash Flows From Financing Activities</b>					
		<b>Cash was provided from/(disbursed to)</b>					
15	(59)	Issues of circulating currency	40	(126)	166	131.7	104
7,157	343	Net issue/(repayment) of Government stock <sup>1</sup>	4,186	4,305	(119)	(2.8)	11,718
		Net issue/(repayment) of foreign currency borrowing	1,319	(2,684)	4,003	149.1	(5,320)
3,296	(518)	Net issue/(repayment) of other New Zealand dollar borrowing	41	2,136	(2,095)	(98.1)	6,898
<b>(3,764)</b>	<b>2,357</b>	<b>Net cash flows from financing activities</b>	<b>5,586</b>	<b>3,631</b>	<b>1,955</b>	<b>53.8</b>	<b>13,400</b>
<b>1,659</b>	<b>1,105</b>	<b>Net movement in cash</b>	<b>1,971</b>	<b>310</b>	<b>1,661</b>	<b>-</b>	<b>(19)</b>
6,268	6,268	<b>Opening Cash Balance</b>	7,774	7,774	-	-	6,143
		Foreign-exchange gains/(losses) on opening cash	(137)	15	(152)	-	2
<b>(153)</b>	<b>(282)</b>	<b>Closing Cash Balance</b>	<b>9,608</b>	<b>8,099</b>	<b>1,509</b>	<b>18.6</b>	<b>6,126</b>

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

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

## STATEMENT OF CASH FLOWS (CONTINUED)

for the three months ended 30 September 2010

Year to 30 Jun 2010 Actual \$m	3 Months to 30 Sep 2009 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	Annual Forecast \$m	
		<b>Reconciliation Between the Net Cash Flows from Operations and the Operating Balance</b>					
(387)	(1,902)	<b>Net Cash Flows from Operations</b>	<b>(3,600)</b>	<b>(2,946)</b>	<b>(654)</b>	<b>(22.2)</b>	<b>(2,100)</b>
		<i>Items included in the operating balance but not in net cash flows from operations.</i>					
		<b>Gains/(losses)</b>					
2,522	2,030	Gains/(losses) on other financial instruments	2,089	486	1,603	329.8	1,250
(960)	(167)	Gains/(losses) on other non-financial instruments	(764)	29	(793)	-	181
<b>1,562</b>	<b>1,863</b>	<b>Total gains/(losses)</b>	<b>1,325</b>	<b>515</b>	<b>810</b>	<b>157.3</b>	<b>1,431</b>
		<b>Other Non-cash Items in Operating Balance</b>					
(4,229)	(1,008)	Depreciation and amortisation	(1,060)	(1,072)	12	1.1	(4,428)
(855)	(160)	Write-down on initial recognition of loans Impairment on financial assets (excluding receivables)	(188)	(168)	(20)	(11.9)	(896)
33	2	Decrease/(increase) in defined benefit retirement plan liabilities	7	5	2	40.0	5
284	81	Decrease/(increase) in insurance liabilities	168	166	2	1.2	337
(974)	475	Other	(1,548)	483	(2,031)	(420.5)	(1,329)
244	(16)		27	28	(1)	(3.6)	135
<b>(5,497)</b>	<b>(626)</b>	<b>Total other non-cash Items</b>	<b>(2,594)</b>	<b>(558)</b>	<b>(2,036)</b>	<b>(364.9)</b>	<b>(6,176)</b>
		<b>Movements in Working Capital</b>					
(338)	(1,275)	Increase/(decrease) in receivables	1,560	1,637	(77)	(4.7)	225
(420)	(271)	Increase/(decrease) in accrued interest	(469)	(445)	(24)	(5.4)	(162)
78	24	Increase/(decrease) in inventories	46	27	19	70.4	51
18	59	Increase/(decrease) in prepayments	91	67	24	35.8	(7)
(202)	(194)	Decrease/(increase) in deferred revenue	(120)	(73)	(47)	(64.4)	109
677	2,147	Decrease/(increase) in payables	1,407	854	553	64.8	(438)
<b>(187)</b>	<b>490</b>	<b>Total movements in working capital</b>	<b>2,515</b>	<b>2,067</b>	<b>448</b>	<b>21.7</b>	<b>(222)</b>
<b>(4,509)</b>	<b>(175)</b>	<b>Operating Balance</b>	<b>(2,354)</b>	<b>(922)</b>	<b>(1,432)</b>	<b>(155.3)</b>	<b>(7,067)</b>

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



## STATEMENT OF CHANGES IN NET WORTH

for the three months ended 30 September 2010

Year to 30 Jun 2010 Actual \$m	3 Months to 30 Sep 2009 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
99,515	99,515	<b>Opening net worth</b>	<b>94,988</b>	<b>94,988</b>	-	-	<b>96,479</b>
(4,526)	(175)	Operating balance (including minority interest)	(2,354)	(922)	(1,432)	(155.3)	(7,067)
196	36	Net revaluations	(27)	(36)	9	25.0	-
(96)	(210)	Transfers to/(from) reserves (Gains)/losses transferred to the	(81)	(26)	(55)	(211.5)	5
(60)	-	statement of financial performance	-	-	-	-	-
(30)	(9)	Other movements	13	(10)	23	230.0	(1)
<b>(4,516)</b>	<b>(358)</b>	<b>Total comprehensive income</b>	<b>(2,449)</b>	<b>(994)</b>	<b>(1,455)</b>	<b>(146.4)</b>	<b>(7,063)</b>
(11)	-	Transactions with minority interest in Air New Zealand	-	-	-	-	-
<b>94,988</b>	<b>99,157</b>	<b>Closing net worth</b>	<b>92,539</b>	<b>93,994</b>	<b>(1,455)</b>	<b>(1.5)</b>	<b>89,416</b>

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

# STATEMENT OF FINANCIAL POSITION

as at 30 September 2010

As at 30 Jun 2010 Actual \$m	As at 30 Sep 2009 Actual \$m		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
<b>Assets</b>								
7,774	7,091	Cash and cash equivalents	11	9,608	8,099	1,509	18.6	6,126
13,884	13,344	Receivables	11	15,865	15,521	344	2.2	14,038
		Marketable securities, deposits and						
43,687	44,695	derivatives in gain	11	42,089	42,723	(634)	(1.5)	46,220
12,179	12,967	Share investments	11	13,034	12,068	966	8.0	17,771
18,447	16,254	Advances	11	18,921	18,850	71	0.4	20,411
1,160	1,106	Inventory		1,205	1,187	18	1.5	1,228
1,661	1,308	Other assets		1,701	1,696	5	0.3	1,488
113,330	110,408	Property, plant & equipment	12	113,788	114,201	(413)	(0.4)	117,742
9,049	8,718	Equity accounted investments <sup>1</sup>		9,061	9,130	(69)	(0.8)	9,440
2,184	2,122	Intangible assets and goodwill <sup>2</sup>		2,292	2,257	35	1.6	2,596
-	-	Forecast for new capital spending		-	-	-	-	282
-	-	Top-down capital adjustment		-	-	-	-	(425)
<b>223,355</b>	<b>218,013</b>	<b>Total assets</b>		<b>227,564</b>	<b>225,732</b>	<b>1,832</b>	<b>0.8</b>	<b>236,917</b>
<b>Liabilities</b>								
4,020	3,946	Issued currency		4,061	4,030	(31)	(0.8)	4,251
9,931	7,724	Payables	14	8,190	8,696	506	5.8	10,001
1,628	1,621	Deferred revenue		1,748	1,701	(47)	(2.8)	1,222
69,733	65,077	Borrowings		76,477	75,769	(708)	(0.9)	89,416
27,131	26,291	Insurance liabilities	15	29,484	26,648	(2,836)	(10.6)	28,635
9,940	8,912	Retirement plan liabilities		9,772	9,774	2	-	8,821
5,984	5,285	Provisions	16	5,293	5,120	(173)	(3.4)	5,155
<b>128,367</b>	<b>118,856</b>	<b>Total liabilities</b>		<b>135,025</b>	<b>131,738</b>	<b>(3,287)</b>	<b>(2.5)</b>	<b>147,501</b>
<b>94,988</b>	<b>99,157</b>	<b>Total assets less total liabilities</b>		<b>92,539</b>	<b>93,994</b>	<b>(1,455)</b>	<b>(1.5)</b>	<b>89,416</b>
<b>Net Worth</b>								
31,087	36,215	Taxpayer funds	17	28,750	30,177	(1,427)	(4.7)	26,983
63,593	62,641	Revaluation reserve	17	63,551	63,547	4	-	62,086
(94)	(146)	Other reserves	17	(164)	(132)	(32)	(24.2)	(100)
<b>94,586</b>	<b>98,710</b>	<b>Total net worth attributable to the Crown</b>		<b>92,137</b>	<b>93,592</b>	<b>(1,455)</b>	<b>(1.6)</b>	<b>88,969</b>
		Net worth attributable to minority						
402	447	interest in Air New Zealand		402	402	-	-	447
<b>94,988</b>	<b>99,157</b>	<b>Total net worth</b>		<b>92,539</b>	<b>93,994</b>	<b>(1,455)</b>	<b>(1.5)</b>	<b>89,416</b>

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

<sup>2</sup> Intangible assets include the Kyoto net asset, previously a net liability (refer Note 16).

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

# STATEMENT OF BORROWINGS

as at 30 September 2010

As at 30 Jun 2010 Actual \$m	As at 30 Sep 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
27,926	22,047	Government stock <sup>1</sup>	31,834	32,417	583	1.8	41,328
7,625	9,063	Treasury bills	7,041	6,919	(122)	(1.8)	9,509
309	435	Government retail stock	295	337	42	12.5	337
6,679	6,338	Settlement deposits with Reserve Bank	7,108	7,809	701	9.0	7,602
2,376	1,855	Derivatives in loss	2,227	2,051	(176)	(8.6)	1,369
920	949	Finance lease liabilities	842	877	35	4.0	1,037
23,898	24,390	Other borrowings	27,130	25,359	(1,771)	(7.0)	28,234
<b>69,733</b>	<b>65,077</b>	<b>Total borrowings</b>	<b>76,477</b>	<b>75,769</b>	<b>(708)</b>	<b>(0.9)</b>	<b>89,416</b>
50,017	47,074	Sovereign-guaranteed debt	55,762	55,304	(458)	(0.8)	65,890
19,716	18,003	Non sovereign-guaranteed debt	20,715	20,465	(250)	(1.2)	23,526
<b>69,733</b>	<b>65,077</b>	<b>Total borrowings</b>	<b>76,477</b>	<b>75,769</b>	<b>(708)</b>	<b>(0.9)</b>	<b>89,416</b>
		<b>Net Debt:</b>					
58,583	53,636	Core Crown borrowings <sup>2</sup>	64,915	63,114	(1,801)	(2.9)	73,196
308	1,298	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(161)	(60)	101	168.3	(31)
<b>58,891</b>	<b>54,934</b>	<b>Gross sovereign-issued debt<sup>3</sup></b>	<b>64,754</b>	<b>63,054</b>	<b>(1,700)</b>	<b>(2.7)</b>	<b>73,165</b>
57,209	56,858	Less core Crown financial assets <sup>4</sup>	57,327	56,157	1,170	2.1	61,317
<b>1,682</b>	<b>(1,924)</b>	<b>Net core Crown debt (incl NZS Fund)<sup>5</sup></b>	<b>7,427</b>	<b>6,897</b>	<b>(530)</b>	<b>(7.7)</b>	<b>11,848</b>
14,189	12,601	Add back NZS Fund holdings of core Crown financial assets and NZS Fund fin assets <sup>6</sup>	15,111	14,940	171	1.1	16,575
<b>15,871</b>	<b>10,677</b>	<b>Net core Crown debt (excl NZS Fund)<sup>5</sup></b>	<b>22,538</b>	<b>21,837</b>	<b>(701)</b>	<b>(3.2)</b>	<b>28,423</b>
10,867	10,576	Advances	11,281	11,112	(169)	(1.5)	11,542
<b>26,738</b>	<b>21,253</b>	<b>Net core Crown debt (excl NZS Fund and advances)<sup>7</sup></b>	<b>33,819</b>	<b>32,949</b>	<b>(870)</b>	<b>(2.6)</b>	<b>39,965</b>
		<b>Gross Debt:</b>					
58,891	54,934	Gross sovereign-issued debt <sup>3</sup>	64,754	63,054	(1,700)	(2.7)	73,165
(6,900)	(8,034)	Less Reserve Bank settlement cash and Reserve Bank bills	(7,259)	(8,059)	(800)	(9.9)	(7,796)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash <sup>8</sup>	1,600	1,600	-	-	1,600
<b>53,591</b>	<b>48,500</b>	<b>Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve bank bills</b>	<b>59,095</b>	<b>56,595</b>	<b>(2,500)</b>	<b>(4.4)</b>	<b>66,969</b>

## Notes on gross and net debt:

- Government stock includes \$395 million of infrastructure bonds.
- Core Crown borrowings in this instance includes unsettled purchases of securities (classified as accounts of financial position).
- Gross Sovereign-Issued Debt (GSID) represents debt issued by the sovereign (the core Crown) and includes Government stock held by the New Zealand Superannuation Fund (NZS Fund), ACC and EQC.
- Core Crown financial assets exclude receivables.
- Net Core Crown Debt represents GSID 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.
- Adding back the NZS 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.
- Net Core Crown Debt (excluding NZS Fund and advances) excludes financial assets which are held for public policy rather than treasury management purposes.
- The Reserve Bank has used \$1.6 billion of settlement cash to purchase reserves that were to have been funded by the NZ Debt Management Office borrowing. Therefore, the impact of settlement cash on GSID is adjusted by this amount.

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

## STATEMENT OF COMMITMENTS

as at 30 September 2010

	As at 30 Sep 2010 \$m	As at 30 Jun 2010 \$m	As at 30 Sep 2009 \$m
<b>Capital Commitments</b>			
Specialist military equipment	398	422	699
Land and buildings	830	849	1,382
Other property, plant and equipment	6,478	6,370	4,731
Other capital commitments	262	224	610
Tertiary Education Institutions	302	302	245
<b>Total capital commitments</b>	<b>8,270</b>	<b>8,167</b>	<b>7,667</b>
<b>Operating Commitments</b>			
Non-cancellable accommodation leases	2,907	2,862	2,829
Other non-cancellable leases	3,559	3,230	2,797
Non-cancellable contracts for the supply of goods and services	2,257	2,258	2,022
Other operating commitments	9,107	9,376	10,197
Tertiary Education Institutions	304	304	335
<b>Total operating commitments</b>	<b>18,134</b>	<b>18,030</b>	<b>18,180</b>
<b>Total commitments</b>	<b>26,404</b>	<b>26,197</b>	<b>25,847</b>
<b>Total Commitments by Segment</b>			
Core Crown	17,646	20,983	18,678
Crown entities	13,293	13,811	17,579
State-owned Enterprises	7,716	7,242	5,870
Inter-segment eliminations	(12,251)	(15,839)	(16,280)
<b>Total commitments</b>	<b>26,404</b>	<b>26,197</b>	<b>25,847</b>

## STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 30 September 2010

	As at 30 Sep 2010 \$m	As at 30 Jun 2010 \$m	As at 30 Sep 2009 \$m
<b>Quantifiable Contingent Liabilities</b>			
Guarantees and indemnities	107	106	122
Uncalled capital	3,584	2,310	2,281
Legal proceedings and disputes	405	414	1,746
Other contingent liabilities	3,534	3,535	4,006
<b>Total quantifiable contingent liabilities</b>	<b>7,630</b>	<b>6,365</b>	<b>8,155</b>
<b>Total Quantifiable Contingent Liabilities by Segment</b>			
Core Crown	7,302	6,050	7,898
Crown entities	241	171	145
State-owned Enterprises	87	144	112
Inter-segment eliminations	-	-	-
<b>Total quantifiable contingent liabilities</b>	<b>7,630</b>	<b>6,365</b>	<b>8,155</b>
<b>Quantifiable Contingent Assets</b>			
Core Crown	635	570	1,543
Crown entities	3	2	2
<b>Total quantifiable contingent assets</b>	<b>638</b>	<b>572</b>	<b>1,545</b>

The above table does not include:

- the guarantee schemes in relation to financial institution deposits. Refer note 19 for information.
- unquantified costs relating to Canterbury's Earthquake. Refer note 20 for more information.

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

## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	3 Months to 30 Sep 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 1: Revenue Collected Through the Crown's Sovereign Power</b>							
<b>Taxation Revenue (accrual)</b>							
<b>Individuals</b>							
21,774	5,320	PAYE	5,692	5,579	113	2.0	20,174
3,987	1,028	Other persons	1,026	1,093	(67)	(6.1)	4,403
(1,831)	(583)	Refunds	(542)	(486)	(56)	(11.5)	(1,484)
461	129	Fringe benefit tax	119	114	5	4.4	430
<b>24,391</b>	<b>5,894</b>	<b>Total individuals</b>	<b>6,295</b>	<b>6,300</b>	<b>(5)</b>	<b>(0.1)</b>	<b>23,523</b>
<b>Corporate Tax</b>							
6,698	954	Gross companies tax	1,347	1,811	(464)	(25.6)	8,214
(379)	(74)	Refunds	(42)	(75)	33	44.0	(376)
884	282	Non-resident withholding tax	152	182	(30)	(16.5)	628
(3)	(8)	Foreign-source dividend w/holding payments	(1)	2	(3)	(150.0)	8
<b>7,200</b>	<b>1,154</b>	<b>Total corporate tax</b>	<b>1,456</b>	<b>1,920</b>	<b>(464)</b>	<b>(24.2)</b>	<b>8,474</b>
<b>Other Income Tax</b>							
1,804	460	Resident w/holding tax on interest income	405	372	33	8.9	1,465
130	42	Resident w/holding tax on dividend income	41	51	(10)	(19.6)	240
2	1	Estate and gift duties	-	-	-	-	1
<b>1,936</b>	<b>503</b>	<b>Total other income tax</b>	<b>446</b>	<b>423</b>	<b>23</b>	<b>5.4</b>	<b>1,706</b>
<b>33,527</b>	<b>7,551</b>	<b>Total income tax</b>	<b>8,197</b>	<b>8,643</b>	<b>(446)</b>	<b>(5.2)</b>	<b>33,703</b>
<b>Goods and Services Tax</b>							
19,797	4,833	Gross goods and services tax	4,819	5,742	(923)	(16.1)	23,968
(7,880)	(1,890)	Refunds	(1,816)	(2,175)	359	16.5	(9,524)
<b>11,917</b>	<b>2,943</b>	<b>Total goods and services tax</b>	<b>3,003</b>	<b>3,567</b>	<b>(564)</b>	<b>(15.8)</b>	<b>14,444</b>
<b>Other Taxation</b>							
910	215	Road user charges	233	229	4	1.7	955
805	223	Petroleum fuels excise - domestic production	240	240	-	-	907
600	141	Alcohol excise - domestic production	167	151	16	10.6	657
217	56	Tobacco excise - domestic production	27	47	(20)	(42.6)	209
622	96	Petroleum fuels excise - imports <sup>1</sup>	106	150	(44)	(29.3)	600
225	50	Alcohol excise - imports <sup>1</sup>	58	52	6	11.5	242
851	249	Tobacco excise - imports <sup>1</sup>	158	228	(70)	(30.7)	1,020
175	49	Other customs duty	52	52	-	-	198
219	58	Gaming duties	50	60	(10)	(16.7)	228
171	43	Motor vehicle fees	43	43	-	-	175
39	9	Energy resources levies	9	9	-	-	38
69	15	Approved issuer levy and cheque duty	14	17	(3)	(17.6)	81
<b>4,903</b>	<b>1,204</b>	<b>Total other indirect taxation</b>	<b>1,157</b>	<b>1,278</b>	<b>(121)</b>	<b>(9.5)</b>	<b>5,310</b>
<b>16,820</b>	<b>4,147</b>	<b>Total indirect taxation</b>	<b>4,160</b>	<b>4,845</b>	<b>(685)</b>	<b>(14.1)</b>	<b>19,754</b>
<b>50,347</b>	<b>11,698</b>	<b>Total taxation revenue</b>	<b>12,357</b>	<b>13,488</b>	<b>(1,131)</b>	<b>(8.4)</b>	<b>53,457</b>
<b>Other Sovereign Revenue (accrual)</b>							
3,261	789	ACC levies	900	916	(16)	(1.7)	3,823
301	87	Fire Service levies	91	76	15	19.7	309
86	23	EQC levies	22	22	-	-	87
1,034	268	Other miscellaneous items	252	287	(35)	(12.2)	1,540
<b>4,682</b>	<b>1,167</b>	<b>Total other sovereign revenue</b>	<b>1,265</b>	<b>1,301</b>	<b>(36)</b>	<b>(2.8)</b>	<b>5,759</b>
<b>55,029</b>	<b>12,865</b>	<b>Total sovereign revenue</b>	<b>13,622</b>	<b>14,789</b>	<b>(1,167)</b>	<b>(7.9)</b>	<b>59,216</b>

1. Customs excise-equivalent duty

## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010	3 Months to 30 Sep 2009	Current Year Actual vs Forecast				Annual Forecast \$m	
		Actual \$m	Actual \$m	Actual \$m	Forecast \$m		Variance \$m
<b>NOTE 1 (continued): Receipts Collected Through the Crown's Sovereign Power</b>							
<b>Income Tax Receipts (cash)</b>							
<b>Individuals</b>							
21,744	5,407	PAYE	5,683	5,555	128	2.3	20,314
4,630	1,099	Other persons	1,074	1,126	(52)	(4.6)	4,875
(2,793)	(1,046)	Refunds	(996)	(863)	(133)	(15.4)	(2,255)
469	115	Fringe benefit tax	111	101	10	9.9	433
<b>24,050</b>	<b>5,575</b>	<b>Total individuals</b>	<b>5,872</b>	<b>5,919</b>	<b>(47)</b>	<b>(0.8)</b>	<b>23,367</b>
<b>Corporate Tax</b>							
8,650	1,974	Gross companies tax	1,922	2,149	(227)	(10.6)	9,051
(1,644)	(285)	Refunds	(216)	(292)	76	26.0	(1,314)
889	292	Non-resident withholding tax	146	182	(36)	(19.8)	627
6	2	Foreign-source dividend w/holding payments	(2)	2	(4)	(200.0)	8
<b>7,901</b>	<b>1,983</b>	<b>Total corporate tax</b>	<b>1,850</b>	<b>2,041</b>	<b>(191)</b>	<b>(9.4)</b>	<b>8,372</b>
<b>Other Income Tax</b>							
1,833	418	Resident w/holding tax on interest income	388	344	44	12.8	1,463
114	22	Resident w/holding tax on dividend income	36	51	(15)	(29.4)	240
2	1	Estate and gift duties	-	-	-	-	1
<b>1,949</b>	<b>441</b>	<b>Total other income tax</b>	<b>424</b>	<b>395</b>	<b>29</b>	<b>7.3</b>	<b>1,704</b>
<b>33,900</b>	<b>7,999</b>	<b>Total income tax</b>	<b>8,146</b>	<b>8,355</b>	<b>(209)</b>	<b>(2.5)</b>	<b>33,443</b>
<b>Goods and Services Tax</b>							
18,797	4,464	Gross goods and services tax	4,391	5,030	(639)	(12.7)	23,052
(7,456)	(1,902)	Refunds	(1,788)	(2,086)	298	14.3	(9,124)
<b>11,341</b>	<b>2,562</b>	<b>Total goods and services tax</b>	<b>2,603</b>	<b>2,944</b>	<b>(341)</b>	<b>(11.6)</b>	<b>13,928</b>
<b>Other Taxation</b>							
805	216	Petroleum fuels excise	231	229	2	0.9	907
214	39	Tobacco excise	23	45	(22)	(48.9)	209
1,805	321	Other customs duty	369	458	(89)	(19.4)	2,060
908	215	Road user charges	232	209	23	11.0	955
622	140	Alcohol excise	130	151	(21)	(13.9)	657
218	58	Gaming duties	52	61	(9)	(14.8)	228
195	52	Motor vehicle fees	31	43	(12)	(27.9)	175
37	9	Energy resources levies	9	9	-	-	38
59	16	Approved issuer levy and cheque duty	13	17	(4)	(23.5)	81
<b>4,863</b>	<b>1,066</b>	<b>Total other indirect taxation</b>	<b>1,090</b>	<b>1,222</b>	<b>(132)</b>	<b>(10.8)</b>	<b>5,310</b>
<b>16,204</b>	<b>3,628</b>	<b>Total indirect taxation</b>	<b>3,693</b>	<b>4,166</b>	<b>(473)</b>	<b>(11.4)</b>	<b>19,238</b>
<b>50,104</b>	<b>11,627</b>	<b>Total tax receipts collected</b>	<b>11,839</b>	<b>12,521</b>	<b>(682)</b>	<b>(5.4)</b>	<b>52,681</b>
<b>Other Sovereign Receipts (cash)</b>							
3,291	863	ACC levies	1,031	1,202	(171)	(14.2)	3,761
301	87	Fire Service levies	91	76	15	19.7	309
86	24	EQC levies	26	22	4	18.2	87
590	156	Other miscellaneous items	163	162	1	0.6	635
<b>4,268</b>	<b>1,130</b>	<b>Total other sovereign receipts</b>	<b>1,311</b>	<b>1,462</b>	<b>(151)</b>	<b>(10.3)</b>	<b>4,792</b>
<b>54,372</b>	<b>12,757</b>	<b>Total sovereign receipts</b>	<b>13,150</b>	<b>13,983</b>	<b>(833)</b>	<b>(6.0)</b>	<b>57,473</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010	3 Months to 30 Sep 2009		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		<b>NOTE 2: Interest Revenue and Dividends</b>					
		<i>By type</i>					
1,926	610	Interest revenue	602	660	(58)	(8.8)	3,482
389	74	Dividends	85	72	13	18.1	581
<b>2,315</b>	<b>684</b>	<b>Total interest revenue and dividends</b>	<b>687</b>	<b>732</b>	<b>(45)</b>	<b>(6.1)</b>	<b>4,063</b>
		<i>By source</i>					
2,135	604	Core Crown	346	471	(125)	(26.5)	2,487
1,146	231	Crown entities	369	209	160	76.6	939
626	246	State-owned Enterprises	280	229	51	22.3	1,550
(1,592)	(397)	Inter-segment eliminations	(308)	(177)	(131)	(74.0)	(913)
<b>2,315</b>	<b>684</b>	<b>Total interest revenue and dividends</b>	<b>687</b>	<b>732</b>	<b>(45)</b>	<b>(6.1)</b>	<b>4,063</b>
		<b>NOTE 3: Social Assistance and Official Development Assistance</b>					
8,290	2,051	New Zealand superannuation	2,174	2,170	(4)	(0.2)	8,822
1,693	415	Domestic purposes benefit	445	442	(3)	(0.7)	1,756
930	221	Unemployment benefit	236	244	8	3.3	969
1,303	325	Invalids benefit	333	333	-	-	1,319
2,168	577	Family tax credit	561	582	21	3.6	2,239
1,154	282	Accommodation supplement	299	303	4	1.3	1,221
710	173	Sickness benefit	186	191	5	2.6	760
570	170	Student allowances	199	216	17	7.9	656
411	103	Disability allowances	104	105	1	1.0	421
1,024	228	KiwiSaver	287	288	1	0.3	1,179
2,525	652	Other social assistance benefits	658	669	11	1.6	2,801
<b>20,778</b>	<b>5,197</b>	<b>Total social assistance</b>	<b>5,482</b>	<b>5,543</b>	<b>61</b>	<b>1.1</b>	<b>22,143</b>
435	121	Official development assistance	111	90	(21)	(23.3)	485
<b>21,213</b>	<b>5,318</b>	<b>Total social assistance and official development assistance</b>	<b>5,593</b>	<b>5,633</b>	<b>40</b>	<b>0.7</b>	<b>22,628</b>
		<b>NOTE 4: Personnel Expenses</b>					
5,991	1,404	Core Crown	1,476	1,499	23	1.5	6,076
10,043	2,437	Crown entities	2,545	2,547	2	0.1	10,516
2,455	610	State-owned Enterprises	660	639	(21)	(3.3)	2,526
(12)	(2)	Inter-segment eliminations	(2)	(2)	-	-	(9)
<b>18,477</b>	<b>4,449</b>	<b>Total personnel expenses</b>	<b>4,679</b>	<b>4,683</b>	<b>4</b>	<b>0.1</b>	<b>19,109</b>
		<b>NOTE 5: Operating Expenses</b>					
		<i>By type</i>					
4,229	1,008	Depreciation and amortisation	1,060	1,072	12	1.1	4,428
31,338	7,432	Other operating expenses	8,196	8,552	356	4.2	35,927
-	-	Forecast new operating spending	-	-	-	-	394
-	-	Top-down expense adjustment	-	-	-	-	(410)
<b>35,567</b>	<b>8,440</b>	<b>Total operating expenses</b>	<b>9,256</b>	<b>9,624</b>	<b>368</b>	<b>3.8</b>	<b>40,339</b>
		<i>By source</i>					
34,225	8,152	Core Crown	8,873	8,878	5	0.1	38,661
18,392	4,300	Crown entities	4,465	4,404	(61)	(1.4)	17,903
9,494	2,336	State-owned Enterprises	2,461	2,850	389	13.6	10,237
(26,544)	(6,348)	Inter-segment eliminations	(6,543)	(6,508)	35	0.5	(26,462)
<b>35,567</b>	<b>8,440</b>	<b>Total operating expenses</b>	<b>9,256</b>	<b>9,624</b>	<b>368</b>	<b>3.8</b>	<b>40,339</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	3 Months to 30 Sep 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		<b>NOTE 6: Interest Expenses</b>					
		<i>By type</i>					
2,724	823	Interest on financial liabilities	783	891	108	12.1	4,537
53	18	Interest unwind on provisions	-	20	20	100.0	75
<b>2,777</b>	<b>841</b>	<b>Total interest expenses</b>	<b>783</b>	<b>911</b>	<b>128</b>	<b>14.1</b>	<b>4,612</b>
		<i>By source</i>					
2,311	529	Core Crown	678	710	32	4.5	3,230
245	29	Crown entities	62	64	2	3.1	181
845	290	State-owned Enterprises	349	294	(55)	(18.7)	1,733
(624)	(7)	Inter-segment eliminations	(306)	(157)	149	94.9	(532)
<b>2,777</b>	<b>841</b>	<b>Total interest expenses</b>	<b>783</b>	<b>911</b>	<b>128</b>	<b>14.1</b>	<b>4,612</b>
		<b>NOTE 7: Insurance Expenses</b>					
		<i>By entity</i>					
2,922	734	ACC	782	879	97	11.0	3,668
64	18	EQC	2,020	10	(2,010)	-	39
20	7	Other insurance expenses	6	6	-	-	18
<b>3,006</b>	<b>759</b>	<b>Total insurance expenses</b>	<b>2,808</b>	<b>895</b>	<b>(1,913)</b>	<b>(213.7)</b>	<b>3,725</b>
		<b>NOTE 8: Gains and Losses on Financial Instruments</b>					
		<i>By source</i>					
2,094	1,271	Core Crown	1,636	566	1,070	189.0	1,231
787	708	Crown entities	707	35	672	-	209
(105)	45	State-owned Enterprises	(164)	(68)	(96)	(141.2)	(11)
(254)	6	Inter-segment eliminations	(90)	(47)	(43)	(91.5)	(179)
<b>2,522</b>	<b>2,030</b>	<b>Net gains/(losses) on financial instruments</b>	<b>2,089</b>	<b>486</b>	<b>1,603</b>	<b>329.8</b>	<b>1,250</b>
		<b>NOTE 9: Gains and Losses on Non-Financial Instruments</b>					
		<i>By type</i>					
(1,231)	-	Actuarial gains/(losses) on GSF liability	-	-	-	-	-
410	(199)	Actuarial gains/(losses) on ACC liability	(805)	-	(805)	-	-
(139)	32	Other	41	29	12	41.4	181
<b>(960)</b>	<b>(167)</b>	<b>Net gains/(losses) on non-financial instruments</b>	<b>(764)</b>	<b>29</b>	<b>(793)</b>	<b>-</b>	<b>181</b>
		<i>By source</i>					
(1,351)	(15)	Core Crown	3	(3)	6	200.0	21
398	(194)	Crown entities	(808)	(5)	(803)	-	(17)
(7)	43	State-owned Enterprises	42	37	5	13.5	177
-	(1)	Inter-segment eliminations	(1)	-	(1)	-	-
<b>(960)</b>	<b>(167)</b>	<b>Net gains/(losses) on non-financial instruments</b>	<b>(764)</b>	<b>29</b>	<b>(793)</b>	<b>-</b>	<b>181</b>
		<b>NOTE 10: Operating Balance</b>					
		<i>By source</i>					
(7,000)	(976)	Core Crown	(1,342)	(1,291)	(51)	(4.0)	(9,082)
2,373	944	Crown entities	(1,027)	351	(1,378)	(392.6)	1,423
635	276	State-owned Enterprises	212	161	51	31.7	1,014
(517)	(419)	Inter-segment eliminations	(197)	(143)	(54)	(37.8)	(422)
<b>(4,509)</b>	<b>(175)</b>	<b>Total operating balance</b>	<b>(2,354)</b>	<b>(922)</b>	<b>(1,432)</b>	<b>(155.3)</b>	<b>(7,067)</b>



## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2010 \$m	As at 30 Sep 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 11: Financial Assets</b>							
7,774	7,091	Cash and cash equivalents	9,608	8,099	1,509	18.6	6,126
6,864	7,152	Tax receivables	6,875	8,181	(1,306)	(16.0)	6,288
7,020	6,192	Trade and other receivables	8,990	7,340	1,650	22.5	7,750
6,790	6,631	Student loans	6,847	6,876	(29)	(0.4)	7,300
10,419	9,077	Kiwibank mortgages	10,695	10,690	5	-	12,411
2,784	2,458	Long-term deposits	2,934	2,760	174	6.3	2,240
2,199	1,988	IMF financial assets	2,177	2,546	(369)	(14.5)	2,546
1,238	546	Other advances	1,379	1,284	95	7.4	700
12,179	12,967	Share investments	13,034	12,068	966	8.0	17,771
2,972	4,207	Derivatives in gain	4,093	2,505	1,588	63.4	1,771
35,732	36,042	Other marketable securities	32,885	34,912	(2,027)	(5.8)	39,663
<b>95,971</b>	<b>94,351</b>	<b>Total financial assets</b>	<b>99,517</b>	<b>97,261</b>	<b>2,256</b>	<b>2.3</b>	<b>104,566</b>
<b>Financial assets by entity</b>							
23,097	23,897	NZDMO	22,827	22,744	83	0.4	24,360
19,125	19,973	Reserve Bank of New Zealand	18,558	19,231	(673)	(3.5)	18,928
15,552	14,496	NZ Superannuation Fund	17,019	15,798	1,221	7.7	16,452
17,202	17,501	Other core Crown	18,876	18,743	133	0.7	16,777
(8,995)	(9,712)	Intra-segment eliminations	(8,995)	(9,005)	10	0.1	(6,845)
<b>65,981</b>	<b>66,155</b>	<b>Total core Crown segment</b>	<b>68,285</b>	<b>67,511</b>	<b>774</b>	<b>1.1</b>	<b>69,672</b>
16,985	14,426	ACC portfolio	17,908	16,692	1,216	7.3	18,897
6,003	5,768	EQC portfolio	6,206	6,097	109	1.8	6,424
6,631	6,787	Other Crown entities	6,680	6,370	310	5	6,352
(1,483)	(1,460)	Intra-segment eliminations	(953)	(1,470)	517	35.2	(1,482)
<b>28,136</b>	<b>25,521</b>	<b>Total Crown entities segment</b>	<b>29,841</b>	<b>27,689</b>	<b>2,152</b>	<b>7.8</b>	<b>30,191</b>
<b>16,065</b>	<b>14,933</b>	<b>Total State-owned enterprises segment</b>	<b>16,872</b>	<b>16,537</b>	<b>335</b>	<b>2.0</b>	<b>18,987</b>
(14,211)	(12,258)	Inter-segment eliminations	(15,481)	(14,476)	(1,005)	(6.9)	(14,284)
<b>95,971</b>	<b>94,351</b>	<b>Total financial assets</b>	<b>99,517</b>	<b>97,261</b>	<b>2,256</b>	<b>2.3</b>	<b>104,566</b>

## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2010 \$m	As at 30 Sep 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 12: Property, Plant and Equipment</b>							
<b>Net Carrying Value</b>							
<i>By class of asset:</i>							
16,688	16,417	Land (valuation)	16,698	16,810	(112)	(0.7)	16,570
24,019	23,779	Buildings (valuation)	24,121	24,134	(13)	(0.1)	25,831
2,251	2,057	Electricity distribution network (cost)	2,278	2,414	(136)	(5.6)	2,887
13,642	11,669	Electricity generation assets (valuation)	13,760	13,613	147	1.1	12,333
1,731	1,958	Aircraft (excl military) (valuation)	2,151	1,760	391	22.2	2,347
24,838	24,288	State highways (valuation)	25,016	25,120	(104)	(0.4)	25,596
12,437	12,561	Rail network (valuation)	12,483	12,543	(60)	(0.5)	13,224
3,413	3,839	Specialist military equipment (valuation)	3,374	3,423	(49)	(1.4)	3,835
8,505	8,580	Specified cultural and heritage assets (valuation)	8,508	8,508	-	-	8,645
5,806	5,260	Other plant and equipment (cost)	5,399	5,876	(477)	(8.1)	6,474
<b>113,330</b>	<b>110,408</b>	<b>Total net carrying value</b>	<b>113,788</b>	<b>114,201</b>	<b>(413)</b>	<b>(0.4)</b>	<b>117,742</b>
<i>By source:</i>							
29,986		Core Crown	29,987	30,084	(97)	(0.3)	31,877
48,109		Crown entities	48,322	48,632	(310)	(0.6)	49,453
35,235		State-owned enterprises	35,479	35,485	(6)	-	36,412
-		Inter-segment eliminations	-	-	-	-	-
<b>113,330</b>		<b>Total net carrying value</b>	<b>113,788</b>	<b>114,201</b>	<b>(413)</b>	<b>(0.4)</b>	<b>117,742</b>
<b>Movement note</b>							
<b>Cost or valuation</b>							
119,547		Opening balance	123,941	123,941	-	-	125,897
6,555		Additions (refer below)	1,682	2,095	(413)	(19.7)	8,221
(977)		Disposals	(103)	(177)	74	41.8	(229)
(1,143)		Net revaluations	-	-	-	-	-
(41)		Other	(44)	249	(293)	(117.7)	(273)
<b>123,941</b>		<b>Total cost or valuation</b>	<b>125,476</b>	<b>126,108</b>	<b>(632)</b>	<b>(0.5)</b>	<b>133,616</b>
<b>Accumulated depreciation and impairment</b>							
9,412		Opening balance	10,611	10,611	-	-	12,263
(587)		Eliminated on disposal	(37)	(15)	(22)	(146.7)	(64)
(1,349)		Eliminated on revaluation	-	-	-	-	-
3,582		Depreciation expense	908	920	(12)	(1.3)	3,834
(447)		Other	206	391	(185)	(47.3)	(159)
<b>10,611</b>		<b>Total accumulated depreciation and impairment</b>	<b>11,688</b>	<b>11,907</b>	<b>(219)</b>	<b>(1.8)</b>	<b>15,874</b>
<b>113,330</b>		<b>Total property, plant and equipment</b>	<b>113,788</b>	<b>114,201</b>	<b>(413)</b>	<b>(0.4)</b>	<b>117,742</b>
<b>Additions - by functional classification</b>							
2,383		Transport and communications	540	719	(179)	(24.9)	2,494
1,425		Economic and industrial services	326	374	(48)	(12.8)	1,793
725		Education	319	345	(26)	(7.5)	936
430		Defence	173	276	(103)	(37.1)	932
526		Health	133	175	(42)	(24.2)	936
1,066		Other	191	206	(15)	(7.3)	1,130
<b>6,555</b>		<b>Total additions</b>	<b>1,682</b>	<b>2,095</b>	<b>(413)</b>	<b>(19.7)</b>	<b>8,221</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 \$m	3 Months to 30 Sep 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 13: NZ Superannuation Fund</b>							
433	87	Revenue	111	85	26	30.6	520
(27)	-	Less current tax expense	259	28	(231)	-	310
502	390	Less other expenses <sup>1</sup>	92	19	(73)	(384.2)	135
1,750	1,556	Add gains/(losses)	1,434	607	827	136.2	978
<b>1,708</b>	<b>1,253</b>	<b>Operating balance</b>	<b>1,194</b>	<b>645</b>	<b>549</b>	<b>85.1</b>	<b>1,053</b>
13,688	13,688	Opening net worth	15,656	15,656	-	-	16,066
250	250	Gross contribution from the Crown	-	-	-	-	-
1,708	1,253	Operating balance	1,194	645	549	85.1	1,053
10	(5)	Other movements in reserves	1	2	(1)	(50.0)	5
<b>15,656</b>	<b>15,186</b>	<b>Closing net worth</b>	<b>16,851</b>	<b>16,303</b>	<b>548</b>	<b>3.4</b>	<b>17,124</b>
<i>comprising:</i>							
15,552	14,496	Financial assets	17,019	15,798	1,221	7.7	16,452
104	690	Net other assets	(168)	505	(673)	(133.3)	672
<b>15,656</b>	<b>15,186</b>	<b>Closing net worth</b>	<b>16,851</b>	<b>16,303</b>	<b>548</b>	<b>3.4</b>	<b>17,124</b>
<b>Core Crown revenue (excl NZS Fund)</b>							
56,216	13,323	Core Crown revenue	13,640	14,875	(1,235)	(8.3)	60,260
433	87	Less NZS Fund revenue	111	85	26	30.6	520
(27)	-	Add back NZS Fund intra-segment revenue	259	28	231	-	310
<b>55,756</b>	<b>13,236</b>	<b>Core Crown revenue (excl NZS Fund)</b>	<b>13,788</b>	<b>14,818</b>	<b>(1,030)</b>	<b>(7.0)</b>	<b>60,050</b>
<b>OBEGAL excluding NZS Fund</b>							
(6,315)	(2,022)	Total Crown OBEGAL	(3,709)	(1,467)	(2,242)	(152.8)	(8,632)
433	87	Less NZS Fund revenue	111	85	26	30.6	520
81	25	Less NZS Fund external expenses	23	13	10	76.9	89
(27)	-	Add back NZS Fund tax	259	28	231	-	310
<b>(6,694)</b>	<b>(2,084)</b>	<b>OBEGAL excluding NZS Fund</b>	<b>(3,538)</b>	<b>(1,511)</b>	<b>(2,027)</b>	<b>(134.1)</b>	<b>(8,753)</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2010 \$m	As at 30 Sep 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		<b>NOTE 14: Payables</b>					
6,703	4,931	Accounts payable	5,800	5,468	(332)	(6.1)	6,242
3,228	2,793	Taxes repayable	2,390	3,228	838	26.0	3,759
<b>9,931</b>	<b>7,724</b>	<b>Total payables</b>	<b>8,190</b>	<b>8,696</b>	<b>506</b>	<b>5.8</b>	<b>10,001</b>
		<b>NOTE 15: Insurance liabilities</b>					
26,997	26,171	ACC liability	27,364	26,526	(838)	(3.2)	28,483
88	85	EQC liability	2,092	96	(1,996)	-	86
46	35	Other insurance liabilities	28	26	(2)	(7.7)	66
<b>27,131</b>	<b>26,291</b>	<b>Total insurance liabilities</b>	<b>29,484</b>	<b>26,648</b>	<b>(2,836)</b>	<b>(10.6)</b>	<b>28,635</b>
		<b>NOTE 16: Provisions</b>					
74	-	Provision for ETS Credits	76	90	14	15.6	722
748	866	Provision for the net cost of defaults under the deposit guarantee scheme (refer note 19)	-	-	-	-	-
1,007	949	Provision for National Provident Fund guarantee	1,006	1,006	-	-	883
2,836	2,494	Provision for employee entitlements	2,910	2,798	(112)	(4.0)	2,516
1,319	976	Other provisions	1,301	1,226	(75)	(6.1)	1,034
<b>5,984</b>	<b>5,285</b>	<b>Total provisions</b>	<b>5,293</b>	<b>5,120</b>	<b>(173)</b>	<b>(3.4)</b>	<b>5,155</b>
<p>The Crown's net Kyoto position as at 30 September 2010 is a \$222 million net asset.  The net asset is included in the intangible asset line within these financial statements. A full copy of the Net Position report 2010 can be found on the Ministry for the Environment's website: <a href="http://www.mfe.govt.nz">www.mfe.govt.nz</a></p>							
		<b>NOTE 17: Changes in Net Worth</b>					
36,382	36,382	Opening taxpayers funds	31,087	31,087	-	-	34,027
(4,509)	(175)	Operating balance excluding minority interest	(2,354)	(922)	(1,432)	(155.3)	(7,067)
(786)	8	Transfers from/(to) other reserves	17	12	5	41.7	23
<b>31,087</b>	<b>36,215</b>	<b>Closing taxpayers funds</b>	<b>28,750</b>	<b>30,177</b>	<b>(1,427)</b>	<b>(4.7)</b>	<b>26,983</b>
62,612	62,612	Opening revaluation reserve	63,593	63,593	-	-	62,110
196	36	Net revaluations	(27)	(36)	9	25.0	-
785	(7)	Transfers from/(to) other reserves	(15)	(10)	(5)	(50.0)	(24)
<b>63,593</b>	<b>62,641</b>	<b>Closing revaluation reserve</b>	<b>63,551</b>	<b>63,547</b>	<b>4</b>	<b>-</b>	<b>62,086</b>
74	74	Opening other reserves	(94)	(94)	-	-	(105)
(168)	(220)	Net movements	(70)	(38)	(32)	(84.2)	5
<b>(94)</b>	<b>(146)</b>	<b>Closing other reserves</b>	<b>(164)</b>	<b>(132)</b>	<b>(32)</b>	<b>(24.2)</b>	<b>(100)</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 \$m	3 Months to 30 Sep 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 18: Reconciliation of core Crown operating cash flows to residual core Crown cash</b>							
<b>Core Crown Cash Flows from Operations</b>							
50,631	11,786	Total tax receipts	11,861	12,599	(738)	(5.9)	53,348
566	134	Total other sovereign receipts	165	162	3	1.9	582
1,897	446	Interest, profits and dividends	257	299	(42)	(14.0)	1,572
2,658	1,014	Sale of goods & services and other receipts	493	521	(28)	(5.4)	2,214
(21,605)	(6,061)	Subsidies and transfer payments	(6,333)	(6,294)	(39)	(0.6)	(22,726)
(37,157)	(9,391)	Personnel and operating costs	(11,933)	(11,748)	(185)	(1.6)	(40,498)
(1,981)	(193)	Finance costs	(95)	(141)	46	32.6	(2,847)
-	-	Forecast for future new operating spending	-	-	-	-	(394)
-	-	Top-down expense adjustment	-	-	-	-	410
<b>(4,991)</b>	<b>(2,265)</b>	<b>Net cash flows from core Crown operations</b>	<b>(5,585)</b>	<b>(4,602)</b>	<b>(983)</b>	<b>(21.4)</b>	<b>(8,339)</b>
(1,778)	(369)	Net purchase of physical assets	(364)	(445)	81	18.2	(2,258)
(926)	(154)	Net increase in advances	(208)	(236)	28	11.9	(905)
(1,055)	(254)	Net purchase of investments	(292)	(281)	(11)	(3.9)	(1,843)
(250)	(250)	Contribution to NZ Superannuation Fund	-	-	-	-	-
-	-	Forecast for future new capital spending	-	-	-	-	(282)
-	-	Top-down capital adjustment	-	-	-	-	300
<b>(9,000)</b>	<b>(3,292)</b>	<b>Residual cash</b>	<b>(6,449)</b>	<b>(5,564)</b>	<b>(885)</b>	<b>(15.9)</b>	<b>(13,327)</b>
<b>Financed by:</b>							
2,002	2,616	Other net sale/(purchase) of marketable securities and deposits	2,024	803	1,221	152.1	(286)
<b>(6,998)</b>	<b>(676)</b>	<b>Total operating and investing activities</b>	<b>(4,425)</b>	<b>(4,761)</b>	<b>336</b>	<b>7.1</b>	<b>(13,613)</b>
<b>Used in:</b>							
(3,938)	2,266	Net (repayment)/issue of other New Zealand dollar borrowing	(109)	2,098	(2,207)	(105.2)	5,815
3,368	(536)	Net (repayment)/issue of foreign currency borrowing	1,380	(2,684)	4,064	151.4	(5,320)
15	(59)	Issues of circulating currency	40	(126)	166	131.7	104
(817)	(1,250)	Decrease/(increase) in cash	(1,190)	858	(2,048)	(238.7)	14
<b>(1,372)</b>	<b>421</b>		<b>121</b>	<b>146</b>	<b>(25)</b>	<b>(17.1)</b>	<b>613</b>
<b>(8,370)</b>	<b>(255)</b>	<b>Net cash inflow/(outflow) to be offset by domestic bonds</b>	<b>(4,304)</b>	<b>(4,615)</b>	<b>311</b>	<b>6.7</b>	<b>(13,000)</b>
<b>Gross Cash Proceeds from Domestic Bonds</b>							
12,424	4,499	Domestic bonds (market)	4,299	4,610	(311)	(6.7)	12,776
799	609	Domestic bonds (non-market)	5	5	-	-	224
<b>13,223</b>	<b>5,108</b>	<b>Total gross cash proceeds from domestic bonds</b>	<b>4,304</b>	<b>4,615</b>	<b>(311)</b>	<b>(6.7)</b>	<b>13,000</b>
(4,197)	(4,197)	Repayment of domestic bonds (market)	-	-	-	-	-
(656)	(656)	Repayment of domestic bonds (non-market)	-	-	-	-	-
<b>(4,853)</b>	<b>(4,853)</b>	<b>Total repayment of domestic bonds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>8,370</b>	<b>255</b>	<b>Net (repayments of)/cash proceeds from domestic bonds</b>	<b>4,304</b>	<b>4,615</b>	<b>(311)</b>	<b>(6.7)</b>	<b>13,000</b>

### Note 19: Deposit Guarantee Schemes

The Government provides two guarantee schemes in relation to financial institution deposits: the Retail Deposit Guarantee Scheme and the Wholesale Funding Guarantee Facility. Information on the Government's exposure as a result of these schemes, the management of these exposures and the impact of these schemes is detailed below.

#### Retail Deposit Guarantee Scheme

##### Scheme Description

On 12 October 2008 the Minister of Finance initiated an opt-in Retail Deposit Guarantee Scheme. The objective of this scheme is to ensure ongoing retail depositor confidence in New Zealand's financial system given the international financial market turbulence. Under the Retail Deposit Guarantee Scheme, fees are payable to the Government by participating institutions if they hold significant deposits (i.e., greater than \$5 billion) or if they experience significant growth in deposits. Approved deposit takers are listed on the Treasury website.

On 25 August 2009 the Minister of Finance announced that it would extend the Crown Retail Deposit Guarantee Scheme from 12 October 2010 to 31 December 2011 with tightened eligibility criteria and additional limitations on coverage of the scheme. The changes to the scheme include restricting coverage to institutions with a credit rating of BB or higher, reducing the guaranteed amount of individual eligible deposits and changing the fee structure to include all deposits.

##### Scheme Management

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

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

In addition, the Crown has established a monitoring regime to continually assess the risk associated with the scheme.

##### Amounts Guaranteed and provision for loss

As at 30 September 2010, 73 financial institutions had joined the scheme and deposits totalling \$133 billion had been guaranteed. This is the maximum exposure and does not include any offset resulting from the recovery of the remaining assets of the financial institution in the event the guarantee is called upon. The Crown assesses the potential loss to be associated with the entities that hold significant deposits (i.e., greater than \$5 billion) as being remote. It is recognising the revenue received from these institutions over the guarantee period and has made no provision for any loss associated with these entities.

### **Note 19: Deposit Guarantee Schemes (continued)**

For other entities operating within the scheme (i.e., entities that hold deposits less than \$5 billion) the need for a provision for any losses that are considered more likely than not to occur is assessed. The Crown continually updates both the likelihood of further default actions triggering the guarantee and the expected loss given default. The Crown has assessed the net expected loss given default to be nil as at 30 September 2010.

During the three months to 30 September 2010 receivers were appointed to three of the Companies which had been included within the provision for net costs to the Crown: Mutual Finance Ltd on 14 July 2010, Allied Nationwide Finance on 20 August 2010 and South Canterbury Finance Ltd on 31 August 2010. Appointment of receivers to the companies triggered the Crown guarantee under the retail deposit scheme.

The net cost to the Crown of the defaults of these three companies is expected to be approximately \$745 million including the costs of discounting cash flows to present values. The Crown recognised the inherent risk of these entities and provided for the net cost of their failure in the 2010 financial statements.

As at 30 September 2010, 8 entities guaranteed under the the retail deposit guarantee scheme had been placed into receivership. The Crown recognises its obligations under the scheme as liabilities and its rights of recovery from the receivers as assets. The Crown has included liabilities of \$155 million being the gross cost of payments yet to be made to investors in guaranteed entities which were in receivership as at 30 September 2010.

Except as provided on the Treasury web site, further information on the Retail Deposit Guarantee Scheme cannot be provided due to commercial sensitivity.

### **Subsequent Events**

On 12 October 2010 the original retail deposit guarantee scheme expired. The Extended Retail Deposit Guarantee Scheme started on 12 October 2010, immediately upon expiry of the previous scheme. As a result the Crown guarantee is limited to those entities participating in the extended scheme, furthermore, the Crown guarantee excludes products issued by participating entities explicitly without the benefit of the guarantee. The extended scheme includes 7 entities with guaranteed deposits of \$2.3 billion.

### **Wholesale Funding Guarantee Facility**

On 1 November 2008 the Minister of Finance initiated an opt-in wholesale funding guarantee facility. The objective of the opt-in wholesale funding guarantee facility was to facilitate access to international financial markets by New Zealand financial institutions, in a global environment where international investors were highly risk averse and where many other governments had offered guarantees on their banks' wholesale debt. Under the wholesale funding guarantee facility, the Government receives a fee from each participating institution based on the institution's credit rating and the term and amount of guaranteed debt issued. Deposit-taking financial institutions utilising the wholesale funding guarantee facility have applied for a guarantee under the Crown retail deposit guarantee scheme. In addition to the risk management under the retail scheme, the Government further manages its risk exposure by:

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

### **Note 19: Deposit Guarantee Schemes (continued)**

- requiring the debt issuer to hedge and manage any foreign exchange risk.

As at 30 September 2010, the value of wholesale securities guaranteed was \$9.9 billion. No provision is made in these financial statements for losses under this scheme as these are considered remote.

On 10 March 2010 the Minister of Finance announced the closure of the Wholesale funding guarantee facility effective from 31 May 2010. As at 30 September 2010, the Crown had issued 25 guarantee certificates; the benefit of those guarantees will remain in place for the underlying securities until the scheduled maturity of those securities. The terms of these securities range from 2 to 5 years. Over time, the value of securities issued with the benefit of Crown guarantees will reduce, with the last guarantee certificate expiring in October 2014.

### **Note 20: Canterbury Earthquake**

On the 4<sup>th</sup> of September the Canterbury region experienced a magnitude 7.1 earthquake. These financial statements include an initial net provision of \$1.5 billion for the likely costs to be incurred by the Earthquake Commission (EQC) in settling claims for damage to residential property from the earthquake. The total current estimate of damage covered by EQC and administration costs is likely to exceed this, but EQC has reinsurance cover for costs above \$1.5 billion. As most of these payments should occur within a year, no discount has been made for the time value of these payments.

In addition to the costs outlined above, the Government is committed to reimburse a proportion of eligible restoration costs relating to critical local government infrastructure including water and sewerage systems and stopbanks. It is also likely to make a contribution towards the repair of local roads via the National Land Transport Fund's emergency repairs allocation. Work is ongoing to establish a reliable estimate of these costs.

The Government has also announced or incurred other expenses in relation to such items as land remediation, wage subsidies, restoration of heritage buildings, community and trauma support, and other support assistance.

There has also been some damage to central government assets such as hospitals, schools, state housing and state highways. These costs are largely covered by insurance.

The above costs do not include the impact on tax or other revenues as a result of the earthquake, nor do they include costs that the Government has not yet committed to, whether or not they are under active consideration, but which may yet arise in association with the earthquake.