

Financial Statements of the Government of New Zealand

For the Five Months Ended
30 November 2008



Prepared by The Treasury
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New Zealand Government

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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 five months ended 30 November 2008 and its financial position as at 30 November 2008. They provide a comparison with the fiscal forecasts in the *2008 Pre-election Economic and Fiscal Update* (PREFU), which was released on 6 October 2008.

The *Budget Policy Statement* published on 18 December 2008 included updated economic and fiscal forecasts. As the *December Update* did not include detailed fiscal forecasts, the monthly financial statements will continue to be measured against PREFU.

Results for the five months ended 30 November 2008 (compared against PREFU):

- Operating balance before gains and losses (OBEGAL) was a deficit of \$0.2 billion and was \$0.8 billion lower than forecast in PREFU. This is primarily due to core Crown tax revenue of \$22.4 billion, which was \$0.9 billion lower than forecast. This comprised lower GST revenue of \$0.6 billion mainly due to different forecasting assumptions made around the phasing of GST revenue (GST receipts are on track), as well as lower-than-forecast terminal tax assessments of \$0.3 billion.
- The operating balance deficit of \$5.7 billion was \$7.1 billion lower than the PREFU forecast surplus of \$1.4 billion. The two main contributors to this lower-than-expected result were:
 - The NZ Superannuation Fund (NZS Fund), ACC and EQC continued to have losses on their investment portfolios that were larger than expected (\$4.2 billion, \$0.6 billion and \$0.3 billion respectively). This was partially offset by a \$0.9 billion gain on the Reserve Bank's financial instrument portfolio, and
 - GSF and ACC also recorded losses of \$1.0 billion and \$1.4 billion respectively as a result of changes in valuations of their long term liabilities.
- Gross sovereign-issued debt (GSID) was \$8.6 billion greater than forecast in PREFU at \$38.0 billion (21.1% of GDP). This was due to greater-than-forecast derivative liabilities (\$3.5 billion), a Reserve Bank bill tender relating to Residential Mortgage Backed Securities (\$2.4 billion), additional issuance of Treasury Bills (\$1.2 billion) and valuation adjustments to Government Stock (\$0.3 billion). Most of these factors have a broadly corresponding impact on the Crown's financial asset portfolio and so have minimal impact on net core Crown debt.
- Net core Crown debt was \$1.5 billion less than forecast in PREFU at \$3.4 billion due in the main to valuation changes in net derivative holdings.

Table 1 – Key indicators for the five months to 30 November 2008 against PREFU

	Year to date				Full Year
	November 2008 Actual ²	November 2008 Forecast ²	Variance \$m	Variance %	PREFU June 2009 Forecast ³
\$ million					
Core Crown					
Core Crown revenue (excl. NZS Fund) ¹	24,331	25,324	(993)	(3.9)	61,102
Core Crown expenses	25,085	25,116	31	0.1	62,359
NZS Fund operating balance	(2,806)	385	(3,191)	(828.8)	986
Core Crown residual cash	(5,663)	(5,294)	(369)	(7.0)	(5,909)
GSID (excl. settlement cash)	37,965	29,333	(8,632)	(29.4)	32,087
<i>as a percentage of GDP</i>	21.1%	16.3%			17.4%
Net Core Crown debt	3,446	4,916	1,470	29.9	5,207
<i>as a percentage of GDP</i>	1.9%	2.7%			2.8%
Net Core Crown debt (incl. NZS Fund)	(8,418)	(9,162)	(744)	(8.1)	(10,430)
<i>as a percentage of GDP</i>	(4.7)%	(5.1)%			(5.7)%
Total Crown					
OBEGAL	(175)	576	(751)	(130.4)	(64)
Net gains/(losses) and other items	(5,548)	822	(6,370)		1,973
Operating Balance	(5,723)	1,398	(7,121)	(509.4)	1,909

- 1 For the purposes of this indicator, the NZS Fund is treated as a third party (i.e. its revenue is not included but the tax it pays is)
- 2 Using GDP for the year ended 30 September 2008 of \$179,538 million (Source: Statistics New Zealand).
- 3 Using forecast GDP for the year ended 30 June 2009 of \$184,390 million (Source: Treasury)

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

Table 2 – Key indicator variances for the five months to 30 November 2008 compared to PREFU

Key Indicator	Variance	Key Drivers
Core Crown		
Core Crown revenue (excl. NZS Fund revenue)	-\$993 million (lower than forecast)	<ul style="list-style-type: none"> • Core Crown tax revenue was \$873m (3.8%) lower than forecast. This was comprised of: <ul style="list-style-type: none"> – GST revenue was \$577m (11.1%) lower than forecast. Approximately \$200m of the GST variance is due to timing effects which are likely to reverse out in December. The remainder of the shortfall could relate to a more rapid deterioration of New Zealand economy than expected. However, this is not supported by GST receipts being \$133m (3.1%) greater than forecast. We will be in a better position to assess the strength or weakness of GST after the end of January, because January is a significant month for GST with two due dates and it is the first month that includes GST outturns relating to the Christmas/summer holiday period. – Corporate tax revenue was \$255m (7%) lower than forecast. The variance is largely due to less-than-forecast terminal tax assessments, which relate to lower-than-expected final profits generated in previous tax years. We expect that the corporate tax shortfall will persist through to the end of the 2008/09 fiscal year, as the effects of the recent worldwide economic downturn flow through to New Zealand firms' profitability. • Tax revenue from NZS Fund was \$128m lower than forecast, reflecting the decline in the fund's performance. • Other revenue was \$249m higher than forecast, primarily in relation to petroleum mining royalties. The high price of oil last year led to a number of operations moving to a higher royalty threshold earlier than expected. • Interest revenue was \$262m lower than forecast, primarily due to lower-than-forecast interest rates.
Core Crown expenses	\$31 million (lower than forecast)	<ul style="list-style-type: none"> • Core Crown expenses were broadly in line with forecast.
NZS Fund operating balance	-\$3,191 million (lower than forecast)	<ul style="list-style-type: none"> • The Fund's return for the month of November was -5.04%. This reflects the weak performance of global equity markets as a result of the continuing downturn of the financial markets during the first five months of the fiscal year. The downturn was mainly driven by equity, commodities, fixed income and property markets, partially offset by a positive return on private market and New Zealand fixed interest holdings. The Fund's annualised return since inception (September 2003) was 3.74%, compared to 6.90% for the risk-free of return (Treasury bills).

Key Indicator	Variance	Key Drivers
Core Crown		
Core Crown residual cash deficit	-\$369 million (higher than forecast)	<ul style="list-style-type: none"> • The residual cash deficit was \$369m higher than forecast. This was due to: <ul style="list-style-type: none"> – Core Crown tax receipts were \$235m lower than forecast. Source deduction receipts (for example, PAYE) were \$244m (2.4%) less than forecast. The negative variance is likely to be due to a greater-than-expected downturn in the New Zealand economy and possibly greater-than-anticipated effects of the 1 October 2008 tax cuts. Since the <i>Pre-Election Update</i> forecast was finalised the outlook for the New Zealand economy, in particular the labour market, has deteriorated markedly. <p>The greater-than-expected deterioration in the outlook for the labour market is mirrored by business sentiment, which suggests that a shortfall of source deductions will continue through the 2008/09 fiscal year. According to the September Quarterly Survey of Business Opinion (QSBO), a net 7% of firms expected to reduce staff numbers during the December 2008 quarter. However, the December QSBO revealed that a net 21% of firms actually reduced staff. Looking ahead a net 32% of firms expect to reduce staff during the March quarter, the highest level since June 1991.</p> <ul style="list-style-type: none"> – Social assistance benefit payments were \$204m higher than expected, primarily due to a greater than expected deterioration in economic conditions. – An increase in IMF contributions of \$130m was not forecast. – This was partially offset by petroleum mining royalty receipts which were \$249m higher than expected, due to the cash impact of petroleum mining royalty revenue (as noted above).

Key Indicator	Variance	Key Drivers
Core Crown		
GSID (excluding settlement cash)	-\$8,632 million (higher than forecast)	<ul style="list-style-type: none"> • GSID (excluding settlement cash) was higher than forecast. This was due to: <ul style="list-style-type: none"> – Higher than forecast derivative liabilities of \$3,453m resulting from the depreciation of the New Zealand dollar against major currencies, the movements in interest rates, and an increase in the amount of derivative holdings. – Reserve Bank bill tenders of \$2,439m relating to Residential Mortgage Backed Securities, as announced in November. The Reserve Bank bills were not funded by the government and resulted in a corresponding increase in financial assets. – The issuance of \$700m of Treasury Bills to NZ Fast Forward Fund, which were not forecast. – Stronger-than-expected demand for Treasury Bills due to heightened concerns around credit risk (\$494m). – A fair value adjustment of \$250m to the value of Government stock. • Most of these factors have a broadly corresponding impact on the Crown's financial asset portfolio, so there was minimal impact on the net core Crown debt indicator.
Net core Crown debt (excl. NZSF)	\$1,470 million (lower than forecast)	<ul style="list-style-type: none"> • Net core Crown debt was lower than forecast. This was mainly due to: <ul style="list-style-type: none"> – Circulating currency being \$285m higher than forecast – An increase of \$1,388m in the net derivative asset position NZDMO held with the NZS Fund (treated as third party transactions in the debt indicators). – This was partially offset by a higher-than-forecast residual operating cash deficit (as noted above).
Net core Crown debt (incl. NZSF)	-\$744 million (higher than forecast)	<ul style="list-style-type: none"> • The lower than forecast net core Crown debt of \$1,470m (refer above) was offset by the lower than forecast value of assets in the NZS Fund (\$2,214m lower than forecast).

Key Indicator	Variance	Key Drivers
Total Crown		
OBEGAL	-\$751 million (lower than forecast)	<ul style="list-style-type: none"> • Total Crown revenue was \$863m lower than forecast. The main component was core Crown tax revenue which was \$873m lower than forecast (as noted above). • Total Crown expenditure was \$112m lower than forecast. This was mainly attributable to \$154m lower than forecast expenditure by Air New Zealand due to lower fuel costs. This was partly offset by a loss on fuel hedge contracts, which was excluded from OBEGAL.
Operating balance	-\$7,121 million (lower than forecast)	<ul style="list-style-type: none"> • Along with OBEGAL above, net gains were \$6,370m lower than forecast. The main contributors were: <ul style="list-style-type: none"> – The NZS Fund, ACC and EQC all suffered losses on their financial instrument portfolios that were larger than expected. The amounts of the greater-than-forecast losses were \$4,224m, \$560m and \$280m respectively. The losses were the result of continuing turmoil in global financial markets. – This was partly offset by a gain of \$903m on Reserve Bank’s financial instrument portfolio, mainly due to FX rate changes (held constant in the forecast). – GSF recorded a \$989m loss arising from a valuation of its assets and liabilities as at 31 October. This loss arose partly from a decrease in the discount rate (\$367m) and partly from poor investment performance (\$575m). – ACC also recorded a \$1,412m loss in the valuation of its outstanding claims liability. The loss arose from a decrease in the discount rate used to calculate the liability and was not included in the forecast (consistent with forecasting policy).

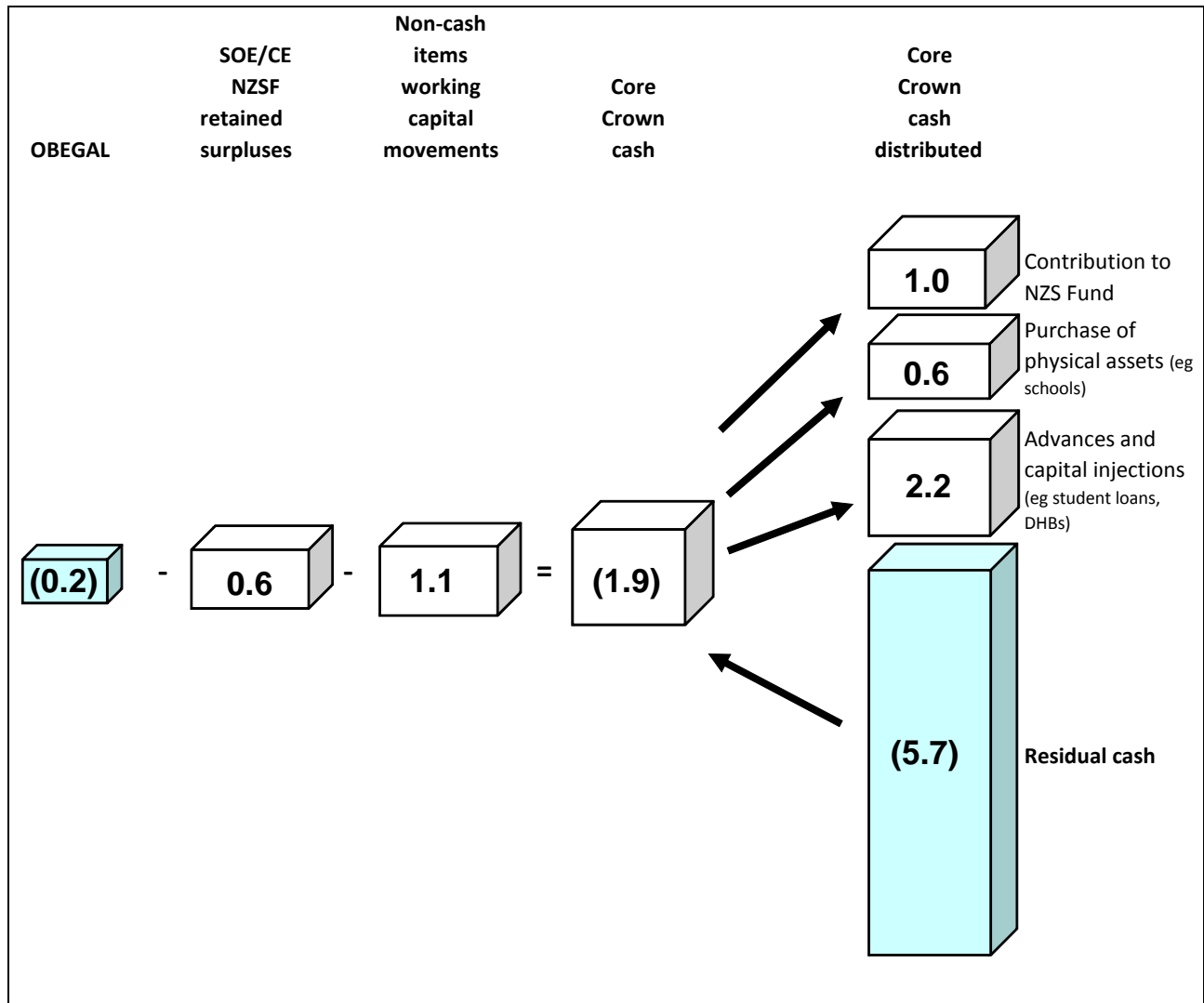
Table 3 – Reconciliation of Total Crown OBEGAL to core Crown residual cash

Amounts in \$ millions	Fiscal Indicators/Financial Statements	Year to date				Full Year
		November 2008	November 2008	Variance	Variance	PREFU June 2009
		Actual	Forecast	\$m	%	Forecast
	Taxation as a percentage of GDP ¹	29.8%	30.9%			30.1%
Taxes...	Taxation	22,268	23,104	(836)	(3.6)	55,538
... combined with other revenue ...	Core Crown other revenue, gains and losses	(929)	2,782	(3,711)	(133.4)	7,060
... fund core crown expenses ...	Core Crown expenses	(25,085)	(25,116)	31	(0.1)	(62,359)
... and with the results of entities outside the budget process ...	Net surpluses/(deficits) of SOEs and Crown entities	(1,977)	628	(2,605)	(414.8)	1,670
... results in a net operating balance (surplus or deficit)...	Operating balance	(5,723)	1,398	(7,121)	(509.4)	1,909
...part of which is due to gains or losses set aside for fiscal purposes...	Other (gains)/losses	5,548	(822)	6,370	(774.9)	(1,973)
... and so we have developed an operating indicator excluding these items.	OBEGAL	(175)	576	(751)	(130.4)	(64)
Some of this is income retained that is not available for fiscal purposes	Net return on NZS Fund (excl. gains and losses)	(137)	34	(171)	(502.9)	33
" " " " " "	Net retained surpluses of SOEs and Crown entities	(401)	(348)	(53)	15.2	(1,088)
and some is income and expenses not impacting cash	Non-cash items and working capital movements	(1,137)	(1,824)	687	(37.7)	1,905
The operating cash flow that results, needs to provide sufficient funds for	Core Crown Cash flow from Operations	(1,850)	(1,562)	(288)	18.4	786
- building up assets in NZ Superannuation	Contribution to NZS Fund	(950)	(950)	-	-	(2,242)
- meeting the capital expenditure budget, and	Purchase of physical assets	(630)	(682)	52	(7.6)	(1,700)
- making advances (e.g. to students and DHBs)	Advances and Capital injections	(2,233)	(2,100)	(133)	6.3	(2,753)
with a residual impact on debt that allows it to remain at prudent levels	Residual Cash	(5,663)	(5,294)	(369)	7.0	(5,909)
	... and as a percentage of GDP	-3.2%	-2.9%			-3.2%

¹ GDP for the five months ended 30 November (actual and forecast) is the actual data for the year ended 30 September 2008 (Source: Statistics New Zealand) extrapolated for five months.

Figure 1 – 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.



REMAINDER OF THE 2008/09 FISCAL YEAR

The following table details the month-by-month profile of the Government's key fiscal indicator forecasts for the remainder of the 2008/09 year. These monthly forecast tracks are based on the full-year forecasts released in the *Pre-Election Update* (PREFU) on 6 October 2008.

Table 4 – Key fiscal indicators

	Year to date							Full Year
	Nov 2008 Forecast	Dec 2008 Forecast	Jan 2009 Forecast	Feb 2009 Forecast	Mar 2009 Forecast	Apr 2009 Forecast	May 2009 Forecast	PREFU June 2009 Forecast
\$ million								
Core Crown								
Core Crown revenue (excl. NZS Fund) ¹	25,324	30,529	35,840	40,895	45,958	50,833	56,172	61,102
Core Crown expenses	25,116	29,873	34,814	39,706	44,901	50,090	55,246	62,359
NZS Fund operating balance	385	467	549	634	720	807	896	986
Core Crown residual cash	(5,294)	(7,405)	(4,707)	(4,903)	(6,098)	(8,062)	(5,020)	(5,909)
GSID (excl. settlement cash)	29,333	29,773	30,039	30,471	30,904	31,292	31,627	32,087
Net Core Crown debt	4,916	7,050	4,031	4,164	5,327	7,103	4,016	5,207
Net Core Crown debt (incl. NZS Fund)	(9,162)	(7,085)	(10,562)	(10,421)	(9,813)	(8,107)	(11,637)	(10,430)
Total Crown								
OBEGAL	576	1,201	1,439	1,826	1,914	521	968	(64)
Net gains/(losses) and other items	822	987	1,167	1,353	1,525	1,706	1,881	1,973
Operating Balance	1,398	2,188	2,606	3,179	3,439	2,227	2,849	1,909

1 For the purposes of this indicator, the NZS Fund is treated as a third party (i.e. its revenue is not included but the tax it pays is).

YEAR - ON - YEAR PERSPECTIVE

Table 5 – Comparison with previous year

	November 2008	November 2007	Change ¹	Change
	Actual \$m	Actual \$m	\$m	%
Statement of Financial Performance				
Core Crown revenue				
Taxation revenue	22,374	22,520	(146)	(0.6)
Other revenue	2,134	1,951	183	9.4
Total Core Crown Revenue	24,508	24,471	37	0.2
Core Crown expenses				
Social security and welfare	7,842	7,391	451	6.1
GSF pension expenses	275	282	(7)	(2.5)
Health	5,037	4,627	410	8.9
Education	4,439	3,997	442	11.1
Core government services	1,349	1,158	191	16.5
Law and order	1,261	1,184	77	6.5
Defence	712	615	97	15.8
Transport and communications	1,022	1,032	(10)	(1.0)
Economic and industrial services	1,278	1,090	188	17.2
Primary services	196	180	16	8.9
Heritage, culture and recreation	437	352	85	24.1
Housing and community development	137	126	11	8.7
Other	64	9	55	-
Finance costs	1,036	998	38	3.8
Total Core Crown Expenses	25,085	23,041	2,044	8.9
Net surplus of SOE/CE's	402	731	(329)	(45.0)
OBEGAL	(175)	2,161	(2,336)	(108.1)
Total gains/(losses)	(5,683)	(940)	(4,743)	-
Other operating items	135	63	72	114.3
Operating Balance	(5,723)	1,284	(7,007)	-
Core Crown residual cash	(5,663)	774	(6,437)	-
Debt indicators				
Gross sovereign-issued debt (excluding settlement cash)	37,965	32,430	5,535	17.1
Net Core Crown debt	3,446	2,547	899	35.3

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

Revenue and Expenses

Total **taxation revenue** for the five months ended 30 November 2008 has decreased by \$0.1 billion (0.6%) on the same period last year. The decrease was primarily in corporate tax and GST, partially offset by an increase in PAYE.

Total **core Crown expenses** were \$2.0 billion (8.9%) higher than the comparable period from the previous financial year. The significant movements within core Crown functional expenses were as follows:

Functional expense	Movement from Previous year	Main drivers of the change
Social security and welfare	+ \$0.5 billion	<ul style="list-style-type: none">• Indexation of welfare benefits
Health	+ \$0.4 billion	<ul style="list-style-type: none">• Funding provided in the 2008 Budget to maintain and improve existing service levels
Education	+ \$0.4 billion	<ul style="list-style-type: none">• Higher demand-driven expenses from roll growth• Funding provided in the 2008 Budget
Core government services	+ \$0.2 billion	<ul style="list-style-type: none">• Primarily due to policy initiatives from the 2008 Budget
Economic and industrial services	+ \$0.2 billion	<ul style="list-style-type: none">• Primarily due to the introduction of the KiwiSaver initiative
Other	+ \$0.3 billion	<ul style="list-style-type: none">• Mainly due to policy initiatives from the 2008 Budget
Total	+ \$2.0 billion	

Total Gains and losses were in a net loss position of \$5.7 billion for the period ended 30 November 2008, compared to a net loss position of \$0.9 billion for the same period the previous year. The \$4.7 billion difference is due to:

- lower than expected investment returns experienced in the 2008/09 financial year primarily resulting from the current downturn in financial markets
- an increase in the ACC unfunded liability since November 2007 due to increases in expected claim costs driven by economic assumptions (e.g. discount and inflation rates), and
- an increase in the GSF liability since November 2007 due to a decrease in the discount rate and lower than expected investment performance.

The **core Crown residual cash** deficit increased by \$6.4 billion compared to the same period last year. This is primarily due to:

- the purchase of KiwiRail Holdings Limited
- investment in the NZ Fast Forward Fund
- the increase in core Crown expenses (as noted above), and
- a decrease of \$2.5 billion in tax receipts as a result of having one less tax due date in the period and changes to company and personal tax rates.

GSID (excl. settlement cash) has increased by \$5.5 billion primarily as a result of an increase in derivatives (\$3.3 billion) and Reserve Bank bill tenders relating to Residential Mortgage Backed Securities (\$2.4 billion).

Net core Crown debt has increased by \$0.9 billion as a result of an increase in borrowings, partially offset by an increase in financial assets.



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 the entities that are included in the Government reporting entity was set out on pages 85 and 86 of the *Pre-election Economic and Fiscal Update 2008* released on 6 October 2008.

All actual, forecast and comparative figures presented in these financial statements are unaudited.

2 General Accounting Policies

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

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

3 Specific Accounting Policies

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

<http://www.treasury.govt.nz/publications/guidance/finmgmt-reporting/nzifrs/policies-guidance>

4 Forecast Results and Assumptions

The forecast results in these financial statements have been derived from the forecasts released in the *Pre-election Economic and Fiscal Update (PREFU)*, on 6 October 2008.

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

<http://www.treasury.govt.nz/budget/forecasts/prefu2008>

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

5 Comparative Figures

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

6 Variance Percentages

Percentage variances between the actual and prior year balances exceeding 500% are not shown where the dollar variance is immaterial.

STATEMENT OF FINANCIAL PERFORMANCE

for the five months ended 30 November 2008

Year to 30 Jun 2008	5 Months to 30 Nov 2007		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
		Revenue						
56,372	22,315	Taxation revenue	1	22,268	23,104	(836)	(3.6)	55,538
3,879	1,543	Other sovereign revenue	1	1,646	1,622	24	1.5	3,993
60,251	23,858	Total Revenue Levied through the Crown's Sovereign Power		23,914	24,726	(812)	(3.3)	59,531
15,399	5,318	Sales of goods and services		6,667	6,692	(25)	(0.4)	16,084
3,214	1,337	Interest revenue and dividends	2	1,523	1,796	(273)	(15.2)	3,828
2,615	964	Other revenue		1,345	1,098	247	22.5	2,247
21,228	7,619	Total revenue earned through the Crown's operations		9,535	9,586	(51)	(0.5)	22,159
81,479	31,477	Total revenue (excluding gains)		33,449	34,312	(863)	(2.5)	81,690
		Expenses						
18,374	7,610	Social assistance and official development assistance	3	8,217	8,271	54	0.7	20,151
16,478	6,702	Personnel expenses	4	7,441	7,389	(52)	(0.7)	17,800
3,670	1,460	Depreciation and amortisation	5	1,828	1,861	33	1.8	3,973
30,656	10,860	Other operating expenses	5	13,186	13,420	234	1.7	33,721
3,101	1,232	Interest expenses	6	1,588	1,577	(11)	(0.7)	3,311
3,563	1,452	Insurance expenses	7	1,364	1,327	(37)	(2.8)	4,076
-	-	Forecast new operating spending	5	-	-	-	-	172
-	-	Top-down expense adjustment	5	-	(109)	(109)	(100.0)	(1,450)
75,842	29,316	Total expenses (excluding losses)		33,624	33,736	112	0.3	81,754
5,637	2,161	Operating balance before gains/(losses)		(175)	576	(751)	(130.4)	(64)
(617)	372	Net gains/(losses) on financial instruments	8	(3,280)	649	(3,929)	-	1,462
(2,925)	(1,312)	Net gains/(losses) on non-financial instruments	9	(2,403)	33	(2,436)	-	178
(3,542)	(940)	Total gains/(losses)		(5,683)	682	(6,365)	-	1,640
334	63	Net surplus/(deficit) from associates and joint ventures		135	140	(5)	(3.6)	334
2,429	1,284	Operating balance from continuing activities		(5,723)	1,398	(7,121)	-	1,910
22	-	Gain/(loss) from discontinued operations		-	-	-	-	(1)
2,451	1,284	Operating balance (including minority interest)		(5,723)	1,398	(7,121)	-	1,909
(67)	-	Attributable to minority interest in Air New Zealand		-	-	-	-	-
2,384	1,284	Operating Balance	10	(5,723)	1,398	(7,121)	-	1,909

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

ANALYSIS OF EXPENSES BY FUNCTIONAL CLASSIFICATION

for the five months ended 30 November 2008

Year to 30 Jun 2008	5 Months to 30 Nov 2007		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		Total Crown expenses					
21,509	8,863	Social security and welfare	9,217	9,184	(33)	(0.4)	23,382
690	282	GSF pension expenses	275	273	(2)	(0.7)	654
10,809	4,563	Health	4,927	4,925	(2)	-	11,884
10,397	4,247	Education	4,872	5,075	203	4.0	11,643
3,274	1,146	Core government services	1,322	1,225	(97)	(7.9)	3,576
3,082	1,264	Law and order	1,327	1,360	33	2.4	3,370
1,525	598	Defence	690	691	1	0.1	1,716
7,424	2,839	Transport and communications	3,683	3,902	219	5.6	9,487
9,038	2,473	Economic and industrial services	3,626	3,591	(35)	(1.0)	8,641
1,459	548	Primary services	563	543	(20)	(3.7)	1,450
2,337	812	Heritage, culture and recreation	1,025	1,031	6	0.6	2,808
938	440	Housing and community development	454	452	(2)	(0.4)	1,053
259	9	Other	55	16	(39)	(243.8)	57
3,101	1,232	Finance costs	1,588	1,577	(11)	(0.7)	3,311
-	-	Forecast new operating spending	-	-	-	-	172
-	-	Top-down expense adjustment	-	(109)	(109)	(100.0)	(1,450)
75,842	29,316	Total Crown expenses excluding losses	33,624	33,736	112	0.3	81,754

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

Year to 30 Jun 2008	5 Months to 30 Nov 2007		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		Core Crown					
		Core Crown expenses					
17,877	7,391	Social security and welfare	7,842	7,791	(51)	(0.7)	19,156
690	282	GSF pension expenses	275	273	(2)	(0.7)	654
11,297	4,627	Health	5,037	5,098	61	1.2	12,377
9,551	3,997	Education	4,439	4,397	(42)	(1.0)	10,739
3,371	1,158	Core government services	1,349	1,389	40	2.9	3,649
2,894	1,184	Law and order	1,261	1,284	23	1.8	3,139
1,562	615	Defence	712	710	(2)	(0.3)	1,756
2,244	1,032	Transport and communications	1,022	1,024	2	0.2	3,566
2,889	1,090	Economic and industrial services	1,278	1,333	55	4.1	3,549
541	180	Primary services	196	200	4	2.0	545
1,107	352	Heritage, culture and recreation	437	469	32	6.8	1,446
260	126	Housing and community development	137	148	11	7.4	347
254	9	Other	64	21	(43)	(204.8)	57
2,460	998	Finance costs	1,036	1,088	52	4.8	2,657
-	-	Forecast new operating spending	-	-	-	-	172
-	-	Top-down expense adjustment	-	(109)	(109)	(100.0)	(1,450)
56,997	23,041	Total core Crown expenses excluding losses	25,085	25,116	31	0.1	62,359

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

STATEMENT OF CASH FLOWS

for the five months ended 30 November 2008

Year to 30 Jun 2008	5 Months to 30 Nov 2007		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		Cash Flows From Operations					
		Cash was provided from					
55,168	23,050	Taxation receipts	21,039	21,039	-	-	54,159
3,460	1,709	Other sovereign receipts	1,783	1,830	(47)	(2.6)	3,737
14,635	5,567	Sales of goods and services	7,622	7,742	(120)	(1.5)	16,599
3,111	1,247	Interest and dividends	1,486	1,519	(33)	(2.2)	3,292
2,211	1,052	Other operating receipts	1,087	1,157	(70)	(6.1)	2,727
78,585	32,625	Total cash provided from operations	33,017	33,287	(270)	(0.8)	80,514
		Cash was disbursed to					
		Social assistance and official development assistance	8,376	8,294	(82)	(1.0)	19,675
18,026	7,345	Personnel and operating payments	23,017	23,628	611	2.6	54,076
45,972	19,551	Interest payments	1,489	1,593	104	6.5	2,970
2,820	1,270	Forecast new operating spending	-	-	-	-	172
-	-	Top-down expense adjustment	-	(109)	(109)	(100.0)	(1,450)
-	-						
66,818	28,166	Total cash disbursed to operations	32,882	33,406	524	1.6	75,443
11,767	4,459	Net cash flows from operations	135	(119)	254	213.4	5,071
		Cash Flows From Investing Activities					
		Cash was provided from/(disbursed to)					
(4,922)	(1,956)	Net purchase of physical assets	(1,967)	(2,153)	186	8.6	(6,909)
(6,080)	(3,580)	Net purchase of shares and other securities	2,853	3,070	(217)	(7.1)	499
(320)	(93)	Net purchase of intangible assets	(136)	(167)	31	18.6	(444)
(2,646)	(59)	Net issue/(repayment) of advances	493	361	132	36.6	359
(363)	(211)	Net acquisition of investments in associates	(257)	(208)	(49)	(23.6)	(1,024)
-	-	Capital contingency provision	-	-	-	-	(184)
-	-	Top-down capital adjustment	-	-	-	-	485
(14,331)	(5,899)	Net cash flows from investing activities	986	903	83	9.2	(7,218)
(2,564)	(1,440)	Net cash flows from operating and investing activities	1,121	784	337	43.0	(2,147)
		Cash Flows From Financing Activities					
		Cash was provided from/(disbursed to)					
86	153	Issues of circulating currency	357	72	285	395.8	172
1,674	2,025	Net issue/(repayment) of Government stock ¹	(1,004)	(955)	(49)	(5.1)	1,748
		Net issue/(repayment) of foreign currency borrowing	(1,138)	(390)	(748)	(191.8)	(336)
1,099	1,359	Net issue/(repayment) of other New Zealand dollar borrowing	4,775	394	4,381	-	637
(697)	(2,176)						
2,162	1,361	Net cash flows from financing activities	2,990	(879)	3,869	440.2	2,221
(402)	(79)	Net movement in cash	4,111	(95)	4,206	-	74
4,162	4,208	Opening Cash Balance	3,804	3,804	-	-	3,804
		Foreign-exchange gains/(losses) on opening cash	65	(1)	66	-	(10)
44	39						
3,804	4,168	Closing Cash Balance	7,980	3,708	4,272	115.2	3,868

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 five months ended 30 November 2008

Year to 30 Jun 2008 Actual \$m	5 Months to 30 Nov 2007 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							
11,767	4,459	Net Cash Flows from Operations	135	(119)	254	213.4	5,071
<i>Items included in the operating balance but not in net cash flows from operations.</i>							
Gains/(losses)							
(617)	372	Gains/(losses) on other financial instruments	(3,280)	649	(3,929)	-	1,462
(2,925)	(1,312)	Gains/(losses) on other non-financial instruments	(2,403)	33	(2,436)	-	178
(3,542)	(940)	Total gains/(losses)	(5,683)	682	(6,365)	-	1,640
Other Non-cash Items in Operating Balance							
(3,670)	(1,460)	Depreciation and amortisation	(1,828)	(1,861)	33	1.8	(3,973)
(559)	(195)	Write-down on initial recognition of loans	(183)	(177)	(6)	(3.4)	(611)
213	2	Impairment on financial assets (excluding receivables)	-	2	(2)	(100.0)	3
2	(15)	Decrease/(increase) in defined benefit retirement plan liabilities	13	14	(1)	(7.1)	(75)
(1,358)	401	Decrease/(increase) in insurance liabilities	479	584	(105)	(18.0)	(1,498)
334	63	Other	133	139	(6)	(4.3)	334
(5,038)	(1,204)	Total other non-cash Items	(1,386)	(1,299)	(87)	(6.7)	(5,820)
Movements in Working Capital							
2,100	(1,349)	Increase/(decrease) in receivables	(1,359)	126	(1,485)	-	321
(179)	127	Increase/(decrease) in accrued interest	(61)	392	(453)	(115.6)	196
138	42	Increase/(decrease) in inventories	66	35	31	88.6	46
77	371	Increase/(decrease) in prepayments	171	34	137	402.9	9
(326)	(59)	Decrease/(increase) in deferred revenue	(135)	(147)	12	8.2	87
(2,613)	(163)	Decrease/(increase) in payables	2,529	1,694	835	49.3	359
(803)	(1,031)	Total movements in working capital	1,211	2,134	(923)	(43.3)	1,018
2,384	1,284	Operating Balance	(5,723)	1,398	(7,121)	-	1,909

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

STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the five months ended 30 November 2008

Year to 30 Jun 2008 Actual \$m	5 Months to 30 Nov 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
6,214	7	Revaluation of physical assets	119	330	(211)	(63.9)	292
9	103	Effective portion of changes in value of cash flow hedges	495	317	178	56.2	19
22	27	Net change in fair value of cash flow hedges transferred to operating balance	(1)	(5)	4	80.0	-
(60)	(33)	Net change in fair value of cash flow hedges transferred to the hedged item	(71)	12	(83)	-	34
17	5	Foreign currency translation differences for foreign operations	26	(3)	29	-	(1)
11	7	Valuation gain/(losses) on investments available for sale taken to reserves	39	1	38	-	1
-	-	Other movements	-	-	-	-	1
6,213	116	Total income/(expense) recognised directly in Net Worth	607	652	(45)	(6.9)	346
2,451	1,284	Operating Balance (including minority interest)	(5,723)	1,398	(7,121)	-	1,909
8,664	1,400	Total recognised income and expense	(5,116)	2,050	(7,166)	(349.6)	2,255
		Attributable to:					
83	-	- minority interest in Air New Zealand	-	-	-	-	-
8,581	1,400	- the Crown	(5,116)	2,050	(7,166)	(349.6)	2,255
8,664	1,400	Total recognised income and expense	(5,116)	2,050	(7,166)	(349.6)	2,255

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

STATEMENT OF FINANCIAL POSITION

as at 30 November 2008

As at 30 June 2008 Actual \$m	As at 30 Nov 2007 Actual \$m		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
		Assets						
3,804	4,168	Cash and cash equivalents	11	7,980	3,708	4,272	115.2	3,868
14,158	10,122	Receivables	11	12,800	14,284	(1,484)	(10.4)	14,479
		Marketable securities, deposits and derivatives in gain	11	45,316	36,088	9,228	25.6	37,672
12,964	13,279	Share investments	11	10,584	14,132	(3,548)	(25.1)	14,293
12,948	12,348	Advances	11	14,175	13,804	371	2.7	17,134
964	868	Inventory		1,030	999	31	3.1	1,010
1,663	1,643	Other assets		1,627	1,354	273	20.2	1,441
103,329	96,220	Property, plant & equipment	12	104,626	105,427	(801)	(0.8)	107,895
8,065	7,129	Equity accounted investments ¹		8,425	8,260	165	2.0	8,820
1,751	1,623	Intangible assets and goodwill		1,808	1,839	(31)	(1.7)	2,308
-	-	Forecast for new capital spending		-	-	-	-	184
-	-	Top-down capital adjustment		-	-	-	-	(485)
200,835	184,361	Total assets		208,371	199,895	8,476	4.2	208,619
		Liabilities						
3,530	3,596	Issued currency		3,887	3,605	(282)	(7.8)	3,702
10,895	8,091	Payables	14	8,135	9,486	1,351	14.2	11,936
1,292	1,026	Deferred revenue		1,427	1,439	12	0.8	1,205
46,110	43,634	Borrowings		58,992	45,252	(13,740)	(30.4)	48,618
20,484	17,849	Insurance liabilities	15	21,416	19,900	(1,516)	(7.6)	21,982
8,257	7,469	Retirement plan liabilities		9,233	8,243	(990)	(12.0)	8,332
4,753	4,593	Provisions	16	4,882	4,407	(475)	(10.8)	5,075
95,321	86,258	Total liabilities		107,972	92,332	(15,640)	(16.9)	100,850
105,514	98,103	Total assets less total liabilities		100,399	107,563	(7,164)	(6.7)	107,769
		Net Worth						
46,700	45,450	Taxpayer funds	17	41,013	48,104	(7,091)	(14.7)	48,675
58,566	52,380	Revaluation reserve	17	58,649	58,890	(241)	(0.4)	58,793
(134)	(23)	Other reserves	17	355	187	168	89.8	(81)
105,132	97,807	Total net worth attributable to the Crown		100,017	107,181	(7,164)	(6.7)	107,387
382	296	Net worth attributable to minority in Air New Zealand		382	382	-	-	382
105,514	98,103	Total net worth		100,399	107,563	(7,164)	(6.7)	107,769

¹Tertiary 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 November 2008

As at 30 June 2008 Actual \$m	As at 30 Nov 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
18,516	17,094	Government stock ¹	17,730	17,188	(542)	(3.2)	19,244
1,484	2,791	Treasury bills	1,786	1,282	(504)	(39.3)	1,116
423	374	Government retail stock	589	417	(172)	(41.2)	416
7,750	6,419	Settlement deposits with Reserve Bank	10,347	7,830	(2,517)	(32.1)	7,750
1,591	1,123	Derivatives in loss ²	5,456	871	(4,585)	-	746
955	965	Finance lease liabilities	1,090	1,023	(67)	(6.5)	1,124
15,391	14,868	Other borrowings	21,994	16,641	(5,353)	(32.2)	18,222
46,110	43,634	Total borrowings³	58,992	45,252	(13,740)	(30.4)	48,618
33,192	32,055	Sovereign-guaranteed debt	42,023	30,057	(11,966)	(39.8)	33,378
12,918	11,579	Non sovereign-guaranteed debt	16,969	15,195	(1,774)	(11.7)	15,240
46,110	43,634	Total borrowings³	58,992	45,252	(13,740)	(30.4)	48,618
		Gross and net debt analysis:					
37,336	36,517	Core Crown borrowings	48,214	35,212	(13,002)	(36.9)	37,793
409	811	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(1,302)	556	1,858	334.2	649
37,745	37,328	Gross sovereign-issued debt⁴	46,912	35,768	(11,144)	(31.2)	38,442
50,698	46,917	Less core Crown financial assets ⁵	55,330	44,930	10,400	23.1	48,872
(12,953)	(9,589)	Net core Crown debt (incl NZS Fund)⁶	(8,418)	(9,162)	(744)	(8.1)	(10,430)
12,934	12,136	Add back NZS Fund holdings of core Crown financial assets and NZS Fund fin assets	11,864	14,078	(2,214)	(15.7)	15,637
(19)	2,547	Net core Crown debt (excl NZS Fund)⁷	3,446	4,916	1,470	29.9	5,207
		Gross sovereign-issued debt excluding settlement cash:					
37,745	37,328	Gross sovereign-issued debt ⁴	46,912	35,768	(11,144)	(31.2)	38,442
(7,955)	(6,498)	Less Reserve Bank settlement cash (including Kiwibank)	(10,547)	(8,035)	2,512	31.3	(7,955)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash ⁸	1,600	1,600	-	-	1,600
31,390	32,430	Gross sovereign-issued debt excluding settlement cash	37,965	29,333	(8,632)	(29.4)	32,087

Notes on Borrowings

- Government stock includes \$395 million of infrastructure bonds.
- Derivatives are included in either borrowings or marketable securities, deposits and equity investments depending on their balance date value. This treatment leads to fluctuations in individual items within the Statement of Borrowings, primarily due to exchange rate movements.
- Total Borrowings (Gross Debt) is the total borrowings (both sovereign-guaranteed and non sovereign-guaranteed) of the total Crown. This equates to the amount in the total Crown balance sheet and represents the complete picture of whole-of-Crown debt obligations to external parties. Total Borrowings can be split into sovereign-guaranteed and non sovereign-guaranteed debt. This split reflects the fact that borrowings by SOEs and Crown entities is not explicitly guaranteed by the Crown. No debt of SOEs and Crown entities is currently guaranteed by the Crown.
- Gross sovereign-issued debt is debt issued by the sovereign (i.e. core Crown) and includes Government stock held by the NZS Fund, ACC or EQC for example. In other words, the total sovereign-issued debt does not eliminate any internal cross-holdings held by these entities. The Government's debt objective uses this measure of debt.
- Core Crown financial assets exclude receivables.
- Net core Crown debt is the Government sovereign-issued debt less financial assets. This can provide information about the sustainability of the Government's accounts, and is used by some international agencies when determining the creditworthiness of a country. However, as some financial assets are not easily converted into cash, and some are restricted, it is important to view net debt alongside gross sovereign-issued debt.
- Adding back the NZ Superannuation Fund Assets provides the financial liabilities less financial assets of the Core Crown, excluding those assets set aside to meet part of the future cost of New Zealand superannuation.
- The Reserve Bank has used \$1.6 billion of settlement cash to purchase reserves that were to have been funded by DMO borrowing. Therefore the impact of settlement cash on GSID is adjusted by this amount.

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

STATEMENT OF COMMITMENTS

as at 30 November 2008

	As at 30 Nov 2008 \$m	As at 30 June 2008 \$m	As at 30 Nov 2007 \$m
Capital Commitments			
Specialist military equipment	711	873	861
Land and buildings	1,271	1,121	669
Other property, plant and equipment	4,202	4,303	2,683
Other capital commitments	285	304	168
Tertiary Education Institutions	209	209	90
Total capital commitments	6,678	6,810	4,471
Operating Commitments			
Non-cancellable accommodation leases	2,433	2,460	2,139
Other non-cancellable leases	2,530	2,390	2,280
Non-cancellable contracts for the supply of goods and services	2,037	2,157	2,083
Other operating commitments	7,116	7,995	7,708
Tertiary Education Institutions	315	315	303
Total operating commitments	14,431	15,317	14,513
Total commitments	21,109	22,127	18,984
Total Commitments by Segment			
Core Crown	15,534	19,627	16,410
Crown entities	13,917	15,830	10,048
State-owned Enterprises	4,796	4,724	3,493
Inter-segment eliminations	(13,138)	(18,054)	(10,967)
Total commitments	21,109	22,127	18,984

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 30 November 2008

	As at 30 Nov 2008 \$m	As at 30 June 2008 \$m	As at 30 Nov 2007 \$m
Quantifiable Contingent Liabilities			
Guarantees and indemnities	383	286	170
Uncalled capital	3,040	2,205	2,094
Legal proceedings and disputes	512	383	420
Other contingent liabilities	2,446	1,995	2,274
Total quantifiable contingent liabilities	6,381	4,869	4,958
Total Quantifiable Contingent Liabilities by Segment			
Core Crown	6,206	4,685	4,740
Crown entities	108	86	52
State-owned Enterprises	67	98	166
Inter-segment eliminations	-	-	-
Total quantifiable contingent liabilities	6,381	4,869	4,958
Quantifiable Contingent Assets			
Core Crown	389	389	89
Crown entities	-	-	5
Total quantifiable contingent assets	389	389	94

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year 5 Months to 30 Jun 2008		5 Months to 30 Nov 2007		Current Year Actual vs Forecast				
Actual \$m	Actual \$m			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
NOTE 1: Revenue Collected Through the Crown's Sovereign Power								
Taxation Revenue (accrual)								
Individuals								
23,345	9,324	PAYE		9,666	9,675	(9)	(0.1)	23,073
5,071	1,948	Other persons		2,015	1,924	91	4.7	4,972
(1,470)	(608)	Refunds		(720)	(648)	(72)	(11.1)	(1,494)
522	230	Fringe benefit tax		206	203	3	1.5	514
27,468	10,894	Total individuals		11,167	11,154	13	0.1	27,065
Corporate Tax								
8,787	2,911	Gross companies tax		2,694	2,940	(246)	(8.4)	7,651
(242)	3	Refunds		(113)	(82)	(31)	(37.8)	(310)
1,506	639	Non-resident withholding tax		749	660	89	13.5	1,549
71	65	Foreign-source dividend w/holding payments		(5)	21	(26)	(123.8)	42
10,122	3,618	Total corporate tax		3,325	3,539	(214)	(6.0)	8,932
Other Income Tax								
2,699	1,033	Resident w/holding tax on interest income		1,143	1,148	(5)	(0.4)	2,822
69	49	Resident w/holding tax on dividend income		6	6	-	-	60
3	1	Estate and gift duties		1	1	-	-	3
2,771	1,083	Total other income tax		1,150	1,155	(5)	(0.4)	2,885
40,361	15,595	Total income tax		15,642	15,848	(206)	(1.3)	38,882
Goods and Services Tax								
20,631	8,144	Gross goods and services tax		8,935	8,994	(59)	(0.7)	21,460
(9,516)	(3,432)	Refunds		(4,325)	(3,807)	(518)	(13.6)	(9,773)
11,115	4,712	Total goods and services tax		4,610	5,187	(577)	(11.1)	11,687
Other Taxation								
819	320	Petroleum fuels excise		345	357	(12)	(3.4)	880
159	72	Tobacco excise		69	84	(15)	(17.9)	151
1,857	784	Customs duty		749	771	(22)	(2.9)	1,889
851	354	Road user charges		372	360	12	3.3	877
573	241	Alcohol excise		254	262	(8)	(3.1)	602
260	87	Gaming duties		89	93	(4)	(4.3)	252
226	97	Motor vehicle fees		90	84	6	7.1	185
46	19	Energy resources levies		17	19	(2)	(10.5)	43
105	34	Approved issuer levy and cheque duty		31	39	(8)	(20.5)	90
4,896	2,008	Total other indirect taxation		2,016	2,069	(53)	(2.6)	4,969
16,011	6,720	Total indirect taxation		6,626	7,256	(630)	(8.7)	16,656
56,372	22,315	Total taxation revenue		22,268	23,104	(836)	(3.6)	55,538
Other Sovereign Revenue (accrual)								
2,718	1,076	ACC levies		1,106	1,118	(12)	(1.1)	2,742
279	129	Fire Service levies		137	138	(1)	(0.7)	303
86	36	EQC levies		36	36	-	-	87
796	302	Other miscellaneous items		367	330	37	11.2	861
3,879	1,543	Total other sovereign revenue		1,646	1,622	24	1.5	3,993
60,251	23,858	Total sovereign revenue		23,914	24,726	(812)	(3.3)	59,531

NOTES TO THE FINANCIAL STATEMENTS

Year 5 Months		Current Year Actual vs Forecast					
to 30 Jun	to 30 Nov					Annual	
2008	2007					Forecast	
Actual	Actual					Forecast	
\$m	\$m		Actual	Forecast	Variance	\$m	
			\$m	\$m	\$m	%	
NOTE 1 (continued): Receipts Collected Through the Crown's Sovereign Power							
Income Tax Receipts (cash)							
Individuals							
22,830	9,313	PAYE	9,791	10,037	(246)	(2.5)	23,041
5,469	2,555	Other persons	1,635	1,526	109	7.1	5,447
(2,171)	(1,067)	Refunds	(1,202)	(1,166)	(36)	(3.1)	(2,369)
489	231	Fringe benefit tax	240	239	1	0.4	507
26,617	11,032	Total individuals	10,464	10,636	(172)	(1.6)	26,626
Corporate Tax							
9,075	4,072	Gross companies tax	2,942	2,756	186	6.7	7,954
(1,026)	(358)	Refunds	(686)	(519)	(167)	(32.2)	(1,150)
1,638	731	Non-resident withholding tax	693	636	57	9.0	1,344
72	59	Foreign-source dividend w/holding payments	(6)	22	(28)	(127.3)	42
9,759	4,504	Total corporate tax	2,943	2,895	48	1.7	8,190
Other Income Tax							
2,616	1,029	Resident w/holding tax on interest income	1,177	1,167	10	0.9	2,823
40	27	Resident w/holding tax on dividend income	33	32	1	3.1	90
2	1	Estate and gift duties	1	1	-	-	3
2,658	1,057	Total other income tax	1,211	1,200	11	0.9	2,916
39,034	16,593	Total income tax	14,618	14,731	(113)	(0.8)	37,732
Goods and Services Tax							
20,085	7,975	Gross goods and services tax	8,458	8,308	150	1.8	20,727
(8,859)	(3,547)	Refunds	(4,038)	(4,004)	(34)	(0.8)	(9,260)
11,226	4,428	Total goods and services tax	4,420	4,304	116	2.7	11,467
Other Taxation							
809	326	Petroleum fuels excise	331	373	(42)	(11.3)	880
160	62	Tobacco excise	64	65	(1)	(1.5)	151
1,946	807	Customs duty	739	721	18	2.5	1,889
851	353	Road user charges	370	358	12	3.4	877
554	226	Alcohol excise	227	241	(14)	(5.8)	602
238	99	Gaming duties	99	101	(2)	(2.0)	248
223	104	Motor vehicle fees	101	84	17	20.2	185
42	21	Energy resources levies	14	19	(5)	(26.3)	48
85	31	Approved issuer levy and cheque duty	56	42	14	33.3	80
4,908	2,029	Total other indirect taxation	2,001	2,004	(3)	(0.1)	4,960
16,134	6,457	Total indirect taxation	6,421	6,308	113	1.8	16,427
55,168	23,050	Total tax receipts collected	21,039	21,039	-	-	54,159
Other Sovereign Receipts (cash)							
2,561	1,302	ACC levies	1,367	1,407	(40)	(2.8)	2,752
281	131	Fire Service levies	137	138	(1)	(0.7)	303
86	39	EQC levies	38	36	2	5.6	87
532	237	Other miscellaneous items	241	249	(8)	(3.2)	595
3,460	1,709	Total other sovereign receipts	1,783	1,830	(47)	(2.6)	3,737
58,628	24,759	Total sovereign receipts	22,822	22,869	(47)	(0.2)	57,896

NOTES TO THE FINANCIAL STATEMENTS

Year 5 Months		Current Year Actual vs Forecast					
to 30 Jun	to 30 Nov					Annual	
2008	2007					Forecast	
Actual	Actual	Actual	Forecast	Variance		Forecast	
\$m	\$m	\$m	\$m	\$m	%	\$m	
		NOTE 2: Interest Revenue and Dividends					
		<i>By type</i>					
2,803	1,218	Interest revenue	1,378	1,597	(219)	(13.7)	3,378
411	119	Dividends	145	199	(54)	(27.1)	450
3,214	1,337	Total interest revenue and dividends	1,523	1,796	(273)	(15.2)	3,828
		<i>By source</i>					
2,344	1,026	Core Crown	872	1,134	(262)	(23.1)	2,647
1,233	472	Crown entities	688	457	231	50.5	1,162
704	291	State-owned Enterprises	551	485	66	13.6	673
(1,067)	(452)	Inter-segment eliminations	(588)	(280)	(308)	(110.0)	(654)
3,214	1,337	Total interest revenue and dividends	1,523	1,796	(273)	(15.2)	3,828
		NOTE 3: Social Assistance and Official Development Assistance					
7,348	3,023	New Zealand superannuation	3,188	3,193	5	0.2	7,785
1,478	613	Domestic purposes benefit	632	630	(2)	(0.3)	1,501
458	197	Unemployment benefit	199	196	(3)	(1.5)	487
1,216	494	Invalids benefit	531	534	3	0.6	1,273
1,897	853	Family tax credit	843	872	29	3.3	2,153
891	368	Accommodation supplement	394	394	-	-	951
582	250	Sickness benefit	248	244	(4)	(1.6)	570
386	194	Student allowances	206	201	(5)	(2.5)	411
278	116	Disability allowances	161	161	-	-	389
1,102	380	KiwiSaver	638	642	4	0.6	1,440
2,376	975	Other social assistance benefits	977	989	12	1.2	2,707
18,012	7,463	Total social assistance	8,017	8,056	39	0.5	19,667
362	147	Official development assistance	200	215	15	7.0	484
18,374	7,610	Total social assistance and official development assistance	8,217	8,271	54	0.7	20,151
		NOTE 4: Personnel Expenses					
5,584	2,237	Core Crown	2,500	2,464	(36)	(1.5)	5,865
8,741	3,567	Crown entities	3,953	3,932	(21)	(0.5)	9,505
2,164	902	State-owned Enterprises	992	996	4	0.4	2,438
(11)	(4)	Inter-segment eliminations	(4)	(3)	1	33.3	(8)
16,478	6,702	Total personnel expenses	7,441	7,389	(52)	(0.7)	17,800
		NOTE 5: Operating Expenses					
		<i>By type</i>					
3,670	1,460	Depreciation and amortisation ¹	1,828	1,861	33	1.8	3,973
30,656	10,860	Other operating expenses	13,186	13,420	234	1.7	33,721
-	-	Forecast new operating spending	-	-	-	-	172
-	-	Top-down expense adjustment	-	(109)	(109)	(100.0)	(1,450)
34,326	12,320	Total operating expenses	15,014	15,172	158	1.0	36,416
		<i>By source</i>					
30,432	12,150	Core Crown	13,261	13,223	(38)	(0.3)	33,518
15,754	5,839	Crown entities	6,533	6,445	(88)	(1.4)	16,028
10,945	3,685	State-owned Enterprises	4,605	4,846	241	5.0	11,426
(22,805)	(9,354)	Inter-segment eliminations	(9,385)	(9,342)	43	0.5	(24,556)
34,326	12,320	Total operating expenses	15,014	15,172	158	1.0	36,416

¹ Refer Note 19 regarding cost of KiwiRail Holdings Limited.

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2008	5 Months to 30 Nov 2007		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		NOTE 6: Interest Expenses					
		<i>By type</i>					
3,015	1,219	Interest on financial liabilities	1,531	1,536	5	0.3	3,219
86	13	Interest unwind on provisions	57	41	(16)	(39.0)	92
3,101	1,232	Total interest expenses	1,588	1,577	(11)	(0.7)	3,311
		<i>By source</i>					
2,460	998	Core Crown	1,036	1,089	53	4.9	2,650
248	92	Crown entities	101	81	(20)	(24.7)	254
870	349	State-owned Enterprises	717	614	(103)	(16.8)	1,022
(477)	(207)	Inter-segment eliminations	(266)	(207)	59	28.5	(615)
3,101	1,232	Total interest expenses	1,588	1,577	(11)	(0.7)	3,311
		NOTE 7: Insurance Expenses					
		<i>By entity</i>					
3,423	1,415	ACC	1,302	1,304	2	0.2	4,020
130	32	EQC	50	16	(34)	(212.5)	39
10	5	Other insurance expenses	12	7	(5)	(71.4)	17
3,563	1,452	Total insurance expenses	1,364	1,327	(37)	(2.8)	4,076
		NOTE 8: Gains and Losses on Financial Instruments					
		<i>By source</i>					
353	307	Core Crown	(2,139)	546	(2,685)	(491.8)	1,287
(743)	159	Crown entities	(723)	198	(921)	(465.2)	412
(37)	(55)	State-owned Enterprises	(276)	10	(286)	-	17
(190)	(39)	Inter-segment eliminations	(142)	(105)	(37)	(35.2)	(254)
(617)	372	Net gains/(losses) on financial instruments	(3,280)	649	(3,929)	-	1,462
		NOTE 9: Gains and Losses on Non-Financial Instruments					
		<i>By type</i>					
(1,098)	(293)	Actuarial gains/(losses) on GSF liability	(989)	-	(989)	-	-
		Actuarial gains/(losses) on ACC outstanding					
(1,709)	(832)	claims	(1,412)	-	(1,412)	-	-
(118)	(187)	Other	(2)	33	(35)	(106.1)	178
(2,925)	(1,312)	Net gains/(losses) on non-financial instruments	(2,403)	33	(2,436)	-	178
		<i>By source</i>					
(1,369)	(561)	Core Crown	(1,059)	(29)	(1,030)	-	33
(1,725)	(834)	Crown entities	(1,408)	(10)	(1,398)	-	(13)
170	83	State-owned Enterprises	64	73	(9)	(12.3)	158
(1)	-	Inter-segment eliminations	-	(1)	1	100.0	-
(2,925)	(1,312)	Net gains/(losses) on non-financial instruments	(2,403)	33	(2,436)	-	178
		NOTE 10: Operating Balance					
		<i>By source</i>					
3,891	1,178	Core Crown	(3,746)	770	(4,516)	-	239
(1,526)	23	Crown entities	(1,526)	622	(2,148)	(345.3)	970
723	318	State-owned Enterprises	203	291	(88)	(30.2)	938
(704)	(235)	Inter-segment eliminations	(654)	(285)	(369)	(129.5)	(238)
2,384	1,284	Total operating balance	(5,723)	1,398	(7,121)	-	1,909

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2008 \$m	As at 30 Nov 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		NOTE 11: Financial Assets					
3,804	4,168	Cash and cash equivalents	7,980	3,708	4,272	115.2	3,868
7,398	5,635	Tax receivables	7,649	9,228	(1,579)	(17.1)	7,637
6,760	4,487	Trade and other receivables	5,151	5,056	95	1.9	6,842
6,741	6,119	Student loans	6,875	6,870	5	0.1	7,173
5,581	4,766	Kiwibank mortgages	6,589	6,247	342	5.5	8,500
2,787	1,881	Long-term deposits	2,586	2,860	(274)	(9.6)	1,670
188	186	Reserve position at the IMF	357	179	178	99.4	174
626	1,463	Other loans	711	687	24	3.5	1,461
12,964	13,279	Share investments	10,584	14,132	(3,548)	(25.1)	14,293
1,563	2,081	Derivatives in gain	3,282	1,379	1,903	138.0	858
36,651	32,813	Other marketable securities	39,091	31,670	7,421	23.4	34,970
85,063	76,878	Total financial assets	90,855	82,016	8,839	10.8	87,446
		Financial assets by portfolio					
23,228	21,482	Reserve Bank and DMO managed funds	26,904	13,291	13,613	102.4	15,127
13,791	13,090	NZ Superannuation Fund	12,788	14,890	(2,102)	(14.1)	16,563
19,080	16,585	Other core Crown	20,694	24,064	(3,370)	(14.0)	23,194
(563)	(815)	Intra-segment eliminations	(137)	(589)	452	76.7	(660)
55,536	50,342	Total core Crown	60,249	51,656	8,593	16.6	54,224
11,977	10,939	ACC portfolio	10,433	11,280	(847)	(7.5)	12,599
1,872	1,971	EQC portfolio	1,764	1,938	(174)	(9.0)	2,019
4,304	4,227	Other Crown entities	4,406	4,641	(235)	(5.1)	4,645
18,153	17,137	Total Crown entities	16,603	17,859	(1,256)	(7.0)	19,263
11,374	9,399	Total State Owned Enterprises	14,003	12,501	1,502	12.0	13,959
85,063	76,878	Total financial assets by portfolio	90,855	82,016	8,839	10.8	87,446
		NOTE 12: Property, Plant and Equipment					
		<i>By Class of asset</i>					
		Net Carrying Value					
17,609	16,764	Land (valuation)	17,655	18,034	(379)	(2.1)	18,122
22,257	20,906	Buildings (valuation)	22,552	22,661	(109)	(0.5)	22,977
1,887	2,056	Electricity distribution network (cost)	2,003	2,186	(183)	(8.4)	2,255
11,202	10,521	Electricity generation assets (valuation)	11,364	11,431	(67)	(0.6)	11,890
2,071	2,086	Aircraft (excl military) (valuation)	2,000	1,872	128	6.8	2,051
20,947	19,618	State highways (valuation)	21,176	21,140	36	0.2	21,628
11,621	10,580	Rail network (valuation)	12,316	12,318	(2)	-	11,979
3,345	3,074	Specialist military equipment (valuation)	3,329	3,399	(70)	(2.1)	3,421
4,412	3,553	Other plant and equipment (cost)	4,273	4,435	(162)	(3.7)	5,578
7,978	7,062	Specified cultural and heritage assets (valuation)	7,958	7,951	7	0.1	7,994
103,329	96,220	Total net carrying value	104,626	105,427	(801)	(0.8)	107,895

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2008 \$m	5 Months to 30 Nov 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 13: NZ Superannuation Fund							
385	135	Revenue	175	146	29	19.9	431
237	136	Less current tax expense	(2)	127	129	101.6	326
34	(65)	Less other expenses ¹	(789)	61	850	-	156
(995)	(207)	Add gains/(losses)	(3,772)	427	(4,199)	-	1,037
(881)	(143)	Operating balance	(2,806)	385	(3,191)	-	986
12,973	12,973	Opening net worth	14,212	14,212	-	-	14,212
2,104	890	Gross contribution from the Crown	950	950	-	-	2,242
(881)	(143)	Operating balance	(2,806)	385	(3,191)	-	986
16	2	Other movements in reserves	20	(1)	21	-	-
14,212	13,722	Closing net worth	12,376	15,546	(3,170)	(20.4)	17,440
<i>comprising:</i>							
13,791	13,090	Financial assets	12,788	14,890	(2,102)	(14.1)	16,563
421	632	Net other assets	(412)	656	(1,068)	(162.8)	877
14,212	13,722	Closing net worth	12,376	15,546	(3,170)	(20.4)	17,440
Core Crown revenue (excl NZS Fund)							
61,819	24,471	Core Crown revenue	24,508	25,343	(835)	(3.3)	61,207
385	135	Less NZS Fund revenue	175	146	29	19.9	431
237	136	Add back NZS Fund intra-segment revenue	(2)	127	(129)	(101.6)	326
61,671	24,472	Core Crown revenue (excl NZS Fund)	24,331	25,324	(993)	(3.9)	61,102
OBEGAL excluding NZS Fund							
5,637	2,161	Total Crown OBEGAL	(175)	576	(751)	(130.4)	(64)
385	135	Less NZS Fund revenue	175	146	29	19.9	431
97	30	Less NZS Fund expenses	40	53	(13)	(24.5)	138
237	136	Add back NZS Fund tax	(2)	127	(129)	(101.6)	326
5,586	2,192	OBEGAL excluding NZS Fund	(312)	610	(922)	(151.1)	(31)

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

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2008 \$m	As at 30 Nov 2007 \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
NOTE 14: Payables							
6,444	4,440	Accounts payable	4,475	5,035	560	11.1	7,485
4,451	3,651	Taxes repayable	3,660	4,451	791	17.8	4,451
10,895	8,091	Total payables	8,135	9,486	1,351	14.2	11,936
NOTE 15: Insurance liabilities							
20,374	17,778	ACC liability	21,227	19,793	(1,434)	(7.2)	21,876
97	59	EQC liability	107	96	(11)	(11.5)	97
13	12	Other insurance liabilities	82	11	(71)	-	9
20,484	17,849	Total insurance liabilities	21,416	19,900	(1,516)	(7.6)	21,982
NOTE 16: Provisions							
562	967	Provision for Kyoto	635	562	(73)	(13.0)	562
907	771	Provision for National Provident Fund	971	937	(34)	(3.6)	978
2,220	1,781	Provision for employee entitlements	2,280	2,171	(109)	(5.0)	2,206
1,064	1,074	Other provisions	996	737	(259)	(35.1)	1,329
4,753	4,593	Total provisions	4,882	4,407	(475)	(10.8)	5,075
NOTE 17: Changes in Net Worth							
44,222	44,169	Opening taxpayers funds	46,700	46,700	-	-	46,700
2,384	1,284	Operating balance excluding minority interest	(5,723)	1,398	(7,121)	-	1,909
94	(3)	Transfers from/(to) other reserves	36	6	30	-	66
46,700	45,450	Closing taxpayers funds	41,013	48,104	(7,091)	(14.7)	48,675
52,442	52,371	Opening revaluation reserve	58,566	58,566	-	-	58,566
6,214	7	Net revaluations	119	330	(211)	(63.9)	292
(90)	2	Transfers from/(to) other reserves	(36)	(6)	(30)	-	(65)
58,566	52,380	Closing revaluation reserve	58,649	58,890	(241)	(0.4)	58,793
(133)	(132)	Opening other reserves	(134)	(134)	-	-	(134)
(1)	109	Net movements	489	321	168	52.3	53
(134)	(23)	Closing other reserves	355	187	168	89.8	(81)

NOTES TO THE FINANCIAL STATEMENTS

Year 5 Months		Current Year Actual vs Forecast					
to 30 Jun	to 30 Nov					Annual	
2008	2007					Forecast	
\$m	\$m	Actual	Forecast	Variance	%	\$m	
		\$m	\$m	\$m			
NOTE 18: Reconciliation of core Crown operating cash flows to residual core Crown cash							
Core Crown Cash Flows from Operations							
55,975	23,493	Total tax receipts	20,976	21,211	(235)	(1.1)	54,851
486	222	Total other sovereign receipts	227	237	(10)	(4.2)	536
2,128	915	Interest, profits and dividends	788	846	(58)	(6.9)	2,009
1,411	686	Sale of goods & services and other receipts	956	659	297	45.1	1,641
(19,562)	(8,010)	Subsidies and transfer payments	(9,377)	(9,173)	(204)	(2.2)	(22,045)
(30,792)	(13,581)	Personnel and operating costs	(14,398)	(14,391)	(7)	-	(35,043)
(2,354)	(1,064)	Finance costs	(1,022)	(1,060)	38	3.6	(2,441)
-	-	Forecast for future new operating spending	-	-	-	-	(172)
-	-	Top-down expense adjustment	-	109	(109)	(100.0)	1,450
7,292	2,661	Net cash flows from core Crown operations	(1,850)	(1,562)	(288)	(18.4)	786
(1,433)	(468)	Net purchase of physical assets	(630)	(682)	52	7.6	(2,001)
(1,254)	(447)	Net increase in advances	(380)	(198)	(182)	(91.9)	(903)
(444)	(84)	Net purchase of investments	(1,853)	(1,902)	49	2.6	(1,850)
(2,104)	(888)	Contribution to NZ Superannuation Fund	(950)	(950)	-	-	(2,242)
-	-	Forecast for future new capital spending	-	-	-	-	(184)
-	-	Top-down capital adjustment	-	-	-	-	485
2,057	774	Residual cash	(5,663)	(5,294)	(369)	(7.0)	(5,909)
Financed by:							
(3,595)	(1,831)	Other net sale/(purchase) of marketable securities and deposits	2,886	6,504	(3,618)	(55.6)	4,493
(1,538)	(1,057)	Total operating and investing activities	(2,777)	1,210	(3,987)	(329.5)	(1,416)
Used in:							
(1,585)	(1,701)	Net (repayment)/issue of other New Zealand dollar borrowing	6,738	74	6,664	-	440
901	1,326	Net (repayment)/issue of foreign currency borrowing	(1,245)	(419)	(826)	(197.1)	(602)
86	153	Issues of circulating currency	357	72	285	395.8	172
249	323	Decrease/(increase) in cash	(2,159)	(28)	(2,131)	-	(29)
(349)	101		3,691	(301)	3,992	-	(19)
(1,887)	(956)	Net cash inflow/(outflow) to be offset by domestic bonds	914	909	5	0.6	(1,435)
Gross Cash Proceeds from Domestic Bonds							
1,757	872	Domestic bonds (market)	1,787	1,743	44	2.5	4,048
130	84	Domestic bonds (non-market)	450	499	(49)	(9.8)	738
1,887	956	Total gross cash proceeds from domestic bonds	2,237	2,242	(5)	(0.2)	4,786
-	-	Repayment of domestic bonds (market)	(2,700)	(2,700)	-	-	(2,900)
-	-	Repayment of domestic bonds (non-market)	(451)	(451)	-	-	(451)
-	-	Total repayment of domestic bonds	(3,151)	(3,151)	-	-	(3,351)
1,887	956	Net (repayments of)/cash proceeds from domestic bonds	(914)	(909)	(5)	(0.6)	1,435

NOTES TO THE FINANCIAL STATEMENTS

Note 19: Acquisition of Toll (NZ) Limited

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

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

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

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

In the five month period to 30 November 2008, revenue earned by KiwiRail Holdings Limited of \$278 million and an operating deficit of \$4 million has been included in the financial statements of the Government.

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

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

As the likelihood that the guarantees will be called is considered remote, they do not meet the definition of a contingent liability and is therefore excluded from the statement of contingent liabilities and assets on page 23.

Retail Deposit Scheme

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

As at 30 November 2008, 60 financial institutions had joined the scheme and deposits totalling \$122 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.

Wholesale Funding Guarantee Facility

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

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

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

As at 30 November 2008, no wholesale deposits had been guaranteed.