

Financial Statements of the Government of New Zealand

For the Six Months
Ended 31 December 2004



18 February 2005

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COMMENTARY

CROWN FINANCIAL STATEMENTS – DECEMBER 2004

The Government of New Zealand has a series of long term fiscal objectives, including objectives on operating balance, revenue, expenses, debt and net worth, to maintain fiscal responsibility.

To enable progress towards these long term objectives, the Government has outlined where it's focus will be. Taken together this enables interested parties to assess the picture of the fiscal performance of the Government.

In summary, given the long term debt to GDP objective and a policy of prefunding future expenses (i.e. the purpose of the NZS Fund) it requires a level of operating balance sufficient to generate cashflow to cover capital investment.

Within the full set of financial statements, each individual statement provides a different set of information to assess the overall performance (e.g. expenses in the operating statement gives an indication of size of Government and the cashflow from operating and investing provides the amount left over or required to be financed after all spending, operating and capital, is taken into account).

These financial statements provide a snap-shot of progress towards the long term fiscal objectives and the performance against the latest set of fiscal forecasts released in the December Economic and Fiscal Update on 14 December 2004.

A summary of the long term objectives are outlined below.

Long-term fiscal objectives	To achieve the objectives of fiscal policy, the Government's high-level focus is on:
<p>Operating balance: Operating surplus on average over the economic cycle sufficient to meet the requirements for contributions to the NZS Fund and ensure consistency with the long-term debt objective.</p>	<ul style="list-style-type: none"> Operating surpluses (measured by the OBERAC) during the build-up phase of the NZS Fund. The focus is on core Crown revenues and expenses, with tax-to-GDP and core Crown expenses-to-GDP around current levels. Because the OBERAC surplus includes the net (after-tax) return on the NZS Fund, which the NZS Fund will retain, the Government is effectively targeting OBERAC surpluses excluding the NZS Fund's retained investment returns.
<p>Revenue: Ensure sufficient revenue to meet the operating balance objective.</p>	<ul style="list-style-type: none"> A robust, broad-based tax system that raises revenue in a fair and efficient way. State Owned Enterprises (SOEs) and Crown entities contributing to surpluses, consistent with their legislation and Government policy.
<p>Expenses: Ensure expenses are consistent with the operating balance objective.</p>	
<p>Debt: Manage total debt at prudent levels. Gross sovereign-issued debt as a percentage of GDP slowly reducing over the longer term and passing through 20% of GDP before 2015.</p>	<ul style="list-style-type: none"> SOEs will have debt structures that reflect best commercial practice. Changes in the level of debt will reflect specific circumstances. Gross sovereign-issued debt-to-GDP will be reducing during the period ahead of the major demographic changes associated with population ageing. Net debt, with NZS Fund assets, is expected to fall towards minus 15% of GDP by 2015 (ie, a net financial asset position).
<p>Net worth: Increase net worth consistent with the operating balance objective.</p>	<ul style="list-style-type: none"> Increasing net worth consistent with the operating balance objective will see net worth at above 50% of GDP by 2015. The NZS Fund is expected to be 21% of GDP by 2015. Consistent with the net worth objective, there will also be a focus on quality investment.

SUMMARY

The Crown financial statements for the six months ended 31 December 2004 show that while net debt, the operating balance and OBERAC are ahead of forecast, the overall impact on the cashflow from operating and investing activities is minimal. This is primarily due to the nature of the drivers of the higher than forecast outturns in these indicators (circulating currency and investment valuation gains), which do not have flow on effects to the cashflow position and hence gross debt.

At this stage, the current results suggest that:

- Gross debt and cashflow from operating and investing are on track to meet the full year forecasts.
- Net debt is likely to be lower due to additional issues of circulating currency.
- Operating balance is likely to be higher if investment valuation gains continue (although investment gains on equities are very volatile) and spending delays continue.
- OBERAC is likely to be higher if spending delays continue, although this would be a timing issue which would reduce the 2005/06 operating balance forecast.

Table 1 – Summary Fiscal Indicators

\$ million	December	December	Variance \$m	June 2005 Forecast	June 2004 Actual
	2004 Actual YTD	2004 Forecast YTD			
Net cash flow from core operating and investing activity	91	53	38	1,436	520
Gross sovereign-issued debt	36,351	36,466	(115)	33,846	35,527
% of GDP	25.3	25.4	(0.1)	22.5	25.3
Net core Crown debt	14,528	15,405	(877)	13,065	15,204
Total Crown debt	37,821	38,146	(325)	36,093	36,825
Operating balance	4,526	3,590	936	5,627	7,424
OBERAC	4,090	3,590	500	6,467	6,629
Net worth	39,991	39,056	935	41,109	35,463

BREAKDOWN OF INDICATORS

DEBT

Table 2 – Core Crown cashflow from operating and investing

\$ million	December	December	Variance	
	Actual	Forecast	\$ million	%
Operating activities	2,317	2,367	(50)	(2.1)
Investing activities (including NZS Fund purchases of MSDs & equities, and excluding other net purchases of MSDs)	(2,226)	(2,314)	88	(3.8)
Net cash flow from core operating and investing activity	91	53	38	71.7
Net sale/(purchase) of other marketable securities and deposits	(2,364)	(1,962)	(402)	20.5
Financing activity	1,926	1,415	511	36.1
Net movement in cash	(347)	(494)	147	(29.8)

Cash flow from operating and investing activities (page 50) was \$91 million. This represents \$23.5 billion of receipts (including tax receipts of \$22 billion) being utilised on:

- Operating payments including finance costs of \$14 billion; and
- Subsidies and transfer payments (e.g. NZ Superannuation and Unemployment benefit) of \$7.2 billion, giving a **cashflow from operating activities** of \$2.3 billion.

This is then used to fund:

- Contributions to the NZS Fund for partially funding future NZS payments of \$1.1 billion
- Purchase of physical assets (e.g. prisons, schools) of \$0.8 billion; and
- Other investment activity (including hospitals, housing and student loans) of around \$0.4 billion.

Gross sovereign issued debt (page 51) was \$36.4 billion (25.3% of GDP) made up of:

- \$32.1 billion of domestic debt (including Government Stock and Treasury Bills); and
- \$4.3 billion of foreign denominated debt.

Net core crown debt (page 21) was \$14.5 billion made up of:

- Gross sovereign issued debt of \$36.4 billion; partially offset by financial assets including
- Marketable securities and deposits and cash of \$13.5 billion
- Advances (including student loans) of \$8.4 billion.

The cashflow is the primary driver of the movement in both debt indicators. On a month by month basis, the movement can be seen in net debt only, as the borrowing programme (which drives gross sovereign issued debt) is set on an annual basis, and reviewed six monthly (at the time of the Economic and Fiscal Updates).

OPERATING

Table 3 – Summary Operating Balance by Segment

\$ million	Core Crown	Crown entities	State-owned enterprises	Inter-segment eliminations	Total Crown
Revenue					
December 2004 Actual YTD	25,779	10,823	4,747	(8,625)	32,724
December YTD forecast	25,378	10,660	4,800	(8,564)	32,274
Variance	401	163	(53)	(61)	450
Expenses					
December 2004 Actual YTD	21,954	10,400	4,233	(8,320)	28,267
December YTD forecast	22,121	10,525	4,383	(8,276)	28,753
Variance	(167)	(125)	(150)	(44)	(486)
TEI Surplus and Minority Interest					
December 2004 Actual YTD	-	69	-	-	69
December YTD forecast	-	69	-	-	69
Variance	-	-	-	-	-
Operating balance					
December 2004 Actual YTD	3,825	492	514	(305)	4,526
December YTD forecast	3,257	204	417	(288)	3,590
Variance	568	288	97	(17)	936

The **operating balance** (page 16) was \$4.5 billion, which represents

- \$25.8 billion of core crown revenue (including tax revenue of \$23.2 billion and \$1.6 billion of investment income)
- \$1.2 billion net surpluses (after payment of dividend to the Government) of state-owned enterprises and Crown entities (excluding ACC liability revaluation movements); offset by
- \$14.4 billion of core crown operating expenses including finance costs
- \$7.1 billion of subsidies and transfer payments; and
- \$0.9 billion of valuation expense movements of GSF and ACC.

The **OBERAC** was \$4 billion, which was around \$400 million lower than the operating balance due to the removal of investments valuation gains on the asset portfolios held by ACC, GSF and NZSF.

NET WORTH

Net worth provides an indication of the difference between assets and liabilities. Net worth is currently \$40 billion and is forecast to be \$41.1 billion by June 2005.

Table 4 – Summary of Balance Sheet

\$ million	Core Crown	Crown entities	State-owned enterprises	Inter-segment eliminations	Total Crown
Financial assets	29,999	14,685	3,089	(7,188)	40,585
Property, plant and equipment	18,748	29,027	10,778	-	58,553
Other assets	34,313	6,696	2,279	(23,914)	19,374
Total Assets	83,060	50,408	16,146	(31,102)	118,512
Gross debt	35,426	3,832	5,751	(7,188)	37,821
GSF pension liabilities	13,976	-	-	-	13,976
ACC outstanding claims	-	9,798	-	-	9,798
Other liabilities	10,384	4,619	2,869	(946)	16,926
Total Liabilities	59,786	18,249	8,620	(8,134)	78,521
Crown Balance (net worth)	23,274	32,159	7,526	(22,968)	39,991

The major assets the Government invests in include:

- Financial assets (including student loans and marketable securities) of \$22.2 billion
- Government Superannuation Fund portfolio of \$3.2 billion
- New Zealand Superannuation Fund of \$4.6 billion
- Physical assets (including prisons and schools) of \$18.8 billion, including \$5.8 billion of revaluations
- Investment in State Owned Enterprises and Crown entities of \$23.5 billion, including asset portfolios in Accident Compensation Corporation, Earthquake Commission, roading, hospitals, housing and liabilities including the ACC outstanding claims liability.¹

The Government also has liabilities primarily gross sovereign issued debt (\$36.4 billion), the pension liability of the Government Superannuation Fund (\$14 billion) and other liabilities of \$9.3 billion.

¹ A further breakdown of the nature of the assets and liabilities of State owned enterprises and Crown entities can be found in the statement of segments on pages 36 to 40.

COMPARISON WITH FORECAST

This section provides commentary on significant variances within the current financial statements compared to monthly forecast tracks based on the December Update full year forecasts.

DEBT

Net debt was \$877 million lower than forecasts largely reflecting:

- cashflow from investing activity being \$38 million ahead of forecast; and
- additional issues of circulating currency (which are not forecast as a matter of policy) of \$630 million. A significant portion of this is due to Christmas demands for circulating currency and is likely to reverse in upcoming months.

OPERATING

The **operating balance** was \$936 million ahead of forecast due to:

- Core Crown investment income being higher-than-forecast by around \$400 million reflecting gains by the GSF, NZS Fund and New Zealand Debt Management Office on financial assets;
- State owned enterprises and Crown entities net surpluses were higher-than-forecast by \$368 million reflecting investment gains (including foreign exchange movements) including ACC and delays in spending, primarily in the Crown entity sector; and
- Core Crown expenses being lower-than-forecast by \$167 million, primarily in the health sector.

The investment gains do not have flow on effects to cashflows as the gains are held within the entities (e.g. ACC, NZS Fund and GSF) to use for their intended long term purpose (e.g. Accident claims, partially funding of future superannuation costs).

The **OBERAC** was \$500 million ahead of forecast, primarily due to the variances in the operating balance (mentioned above) excluding the investment income gains. The full year forecast for the OBERAC will be affected by the final amount of spending delays sustained through until 30 June 2005.

COMPARISON WITH PRIOR YEAR

Table 5 – Comparison with prior year

	31 December 2004 Actual \$m	31 December 2003 Actual \$m	Change \$m	Change %
Statement of Financial Performance				
Total taxation revenue	22,877	21,239	1,638	7.7
Other revenue	9,847	9,000	847	9.4
Total Revenue	32,724	30,239	2,485	8.2
Social security and welfare	8,535	8,054	(481)	(6.0)
GSF pension expenses	966	122	(844)	-
Health	4,083	4,253	170	4.0
Education	4,185	4,100	(85)	(2.1)
Core government services	897	784	(113)	(14.4)
Law and order	1,050	992	(58)	(5.8)
Defence	600	541	(59)	(10.9)
Transport and communications	2,707	2,485	(222)	(8.9)
Economic and industrial services	2,140	2,075	(65)	(3.1)
Primary services	560	531	(29)	(5.5)
Heritage, culture and recreation	833	798	(35)	(4.4)
Housing and community development	336	300	(36)	(12.0)
Other	14	38	24	63.2
Finance costs	1,356	1,258	(98)	(7.8)
Net foreign-exchange losses/(gains)	5	31	26	83.9
Total Expenses	28,267	26,362	(1,905)	(7.2)
Net surplus of TEIs	69	39	30	76.9
Minority interest	-	-	-	-
Operating Balance	4,526	3,916	610	15.6
Debt indicators				
Gross sovereign-issued debt	36,351	39,295	2,944	7.5
Net core Crown debt	14,528	18,429	3,901	21.2

Taxation revenue was \$1.6 billion (growth of 7.7%) higher than the six months ended 31 December 2003. This mainly comprised of growth in source deductions reflecting strength in the labour market, growth in companies tax driven by strong returns and growth in goods and services tax.

Other revenue was \$847 million higher than the previous year, reflecting stronger sales of goods and services in the State owned enterprises sector (which is also reflected in higher expenses in this sector).

Significant movements within total Crown functional expenses were:

- **Social security and welfare** expenses were \$481 million higher than the previous year, largely due to the valuation movement of the ACC unfunded liability;
- **Health** expenses were \$170 million lower than the previous year, due to a difference in the timing of payments from last year (December 2003 included a lump sum payment to district health boards to cover the Christmas period, which did not occur this year) and delays in spending in the current year;

- **Education** expenses were \$85 million higher than the previous year, due to the impact of demand-driven expenses (roll growth) as well as policy initiatives from Budget 2004.
- **Transport and communications** were \$222 million higher than the previous year, due to higher expenses in the state-owned enterprise segment.

Gross sovereign-issued debt (GSID) was \$2.9 billion lower than the previous year mainly due to the maturity of debt which has not been rolled over (including the issuance of additional Treasury Bills to the New Zealand Superannuation Fund which began operations on 30 September 2003).

Net core Crown debt has reduced by \$3.9 billion from the previous year primarily due to cash flows from operations (\$6.9 billion) and issues of circulating currency (\$0.7 billion), offset by purchase of investments (\$2.2 billion) and purchase of physical assets (\$1.4 billion).

ADDITIONAL INFORMATION

Included in the Crown financial statements released today for the first time on a quarterly basis is a maturity profile of Gross sovereign issued debt (Table 6). This will now be published going forward on a quarterly basis to meet International Monetary Fund (IMF) Special Data Dissemination Standards (SDDS) for central Government debt.

SDDS was established by the IMF to guide member countries that have, or that might seek, access to international capital markets in the provision of their economic and financial data to the public. SDDS is expected to enhance the availability of timely and comprehensive statistics and therefore contribute to the pursuit of sound macroeconomic policies; the SDDS is also expected to contribute to the improved functioning of financial markets.

From the January Crown financial statements going forward, the core crown bonds reconciliation (Table 7) will be released on the Treasury Website (www.treasury.govt.nz) within four weeks of the end of the month to comply with the SDDS requirements for central government operations. The first release will be at 9am on Thursday 24 February.

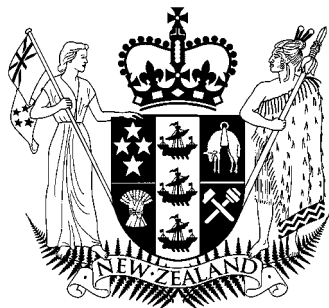
For additional information on the SDDS requirements please refer to the IMF website (<http://dsbb.imf.org/Applications/web/sddsspecfis/>)

Table 6 – Maturity profile of Gross Sovereign issued debt as at 31 December 2004

	< 1 year \$m	1 - 2 years \$m	2 - 5 years \$m	5 - 10 years \$m	> 10 years \$m	Total \$m
New Zealand-Dollar Debt						
Government stock	3,137	6,069	514	9,894	4,348	23,962
Treasury bills	5,515	-	-	-	-	5,515
Loans and foreign-exchange contracts	1,993	-	16	3	-	2,012
Retail stock	468	78	49	-	-	595
Total New Zealand-Dollar Debt	11,113	6,147	579	9,897	4,348	32,084
Foreign-Currency Debt						
United States dollars	(765)	145	(241)	88	152	(621)
Japanese yen	102	-	-	270	-	372
European and other currencies	2,558	423	1,253	261	21	4,516
Total Foreign-Currency Debt	1,895	568	1,012	619	173	4,267
Total Gross Sovereign-Issued Debt	13,008	6,715	1,591	10,516	4,521	36,351

Table 7 – Core Crown Bonds Reconciliation for the six months ended 31 December 2004

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Reconciliation of Net Core Crown Cash Flow From Operations With Net Cash Proceeds From Domestic Bonds							
This statement outlines the Core Crown Bonds reconciliation. Government stock balances and flows between the NZDMO, NZS Fund and the GSF are not eliminated. This presents the complete activity of the NZDMO bond programme.							
Core Crown Cash Flows from Operations							
42,777	20,041	Total tax receipts	22,057	21,975	82	0.4	46,273
428	221	Total other sovereign receipts	253	302	(49)	(16.2)	564
1,129	674	Interest, profits and dividends	832	722	110	15.2	1,250
534	662	Sale of goods & services and other receipts	396	314	82	26.1	786
(14,250)	(7,180)	Subsidies and transfer payments	(7,172)	(7,189)	17	0.2	(14,384)
(23,198)	(12,556)	Personnel and operating costs	(13,108)	(12,781)	(327)	(2.6)	(24,797)
(1,977)	(976)	Finance costs	(941)	(976)	35	3.6	(1,903)
-	-	Forecasts for future new spending	-	-	-	-	(461)
5,443	886	Net Cash Flows From Operations	2,317	2,367	(50)	(2.1)	7,328
Investing flows							
<i>Net advances</i>							
(701)	(186)	Student loans	(157)	(156)	(1)	(0.6)	-
(503)	(45)	Housing New Zealand Corporation	(21)	(30)	9	30.0	-
(614)	(168)	District health boards and RHMU	54	38	16	42.1	-
44	44	Tranz Rail New Zealand Limited	-	-	-	-	-
-	-	NZ Railways Corporation	(15)	-	(15)	-	-
49	21	Other	16	6	10	166.7	(772)
(1,725)	(334)	Total Net Advances	(123)	(142)	19	13.4	(772)
(1,299)	(703)	Net purchase of physical assets	(764)	(825)	61	7.4	(1,705)
<i>Net investments</i>							
(28)	(21)	District health boards	(29)	(46)	17	37.0	-
78	(18)	Housing New Zealand Corporation	(82)	(84)	2	2.4	-
-	-	Air NZ	(149)	(150)	1	0.7	-
(70)	(40)	Other	(26)	(14)	(12)	(85.7)	(650)
(1,879)	(1,005)	Net purchase of MSDs/equities by NZS Fund	(1,053)	(1,053)	-	-	(2,107)
-	-	Purchase of Reserve Bank reserves	-	-	-	-	(500)
-	-	Forecast new capital spending	-	-	-	-	(158)
(1,899)	(1,084)	Net (purchase)/sale of Investments	(1,339)	(1,347)	8	0.6	(3,415)
520	(1,235)	(Required to be financed)/Available for debt repayment	91	53	38	71.7	1,436
<i>Used in:</i>							
541	(1,055)	Other net (purchase)/sale of marketable securities and deposits	(2,364)	(1,962)	(402)	(20.5)	(1,179)
1,061	(2,290)	Total Investing activities	(2,273)	(1,909)	(364)	(19.1)	257
2	29	Net (repayment)/issue of other New Zealand-dollar borrowing	(654)	(525)	(129)	(24.6)	(823)
(216)	154	Net (repayment)/issue of foreign currency borrowing	711	749	(38)	(5.1)	732
(250)	250	Net outflows/(inflow) of cash	347	494	(147)	(29.8)	528
114	109	Issues of circulating currency	658	31	627	-	31
(350)	542		1,062	749	313	41.8	468
711	(1,748)	Net Repayment of/(Cash Proceeds from) Domestic Bonds	(1,211)	(1,160)	(51)	(4.4)	725
Gross Cash Proceeds from Domestic Bonds							
2,212	1,715	Domestic bonds (market)	1,143	1,122	21	1.9	2,052
478	33	Domestic bonds (non-market)	68	38	30	78.9	358
2,690	1,748	Total Gross Cash Proceeds from Domestic Bonds	1,211	1,160	51	4.4	2,410
(3,044)	-	Repayment of domestic bonds (market)	-	-	-	-	(2,797)
(357)	-	Repayment of domestic bonds (non-market)	-	-	-	-	(338)
(711)	1,748	Net (Repayments of)/Cash Proceeds from Domestic Bonds	1,211	1,160	51	4.4	(725)



FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

as at 31 December 2004

1 Reporting Entity

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

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

A schedule of entities included in the Crown reporting entity was set out on pages 88 and 89 of the Financial Statements of the Government of New Zealand for the year ended 30 June 2004.

2 General Accounting Policies

These Financial Statements comply with generally accepted accounting practice. The measurement base applied is historical cost adjusted for revaluations of property, plant and equipment (where appropriate), commercial forests and marketable securities, deposits & 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 and the policies have been applied consistently throughout the period.

3 Specific Accounting Policies

The specific accounting policies of the Crown were described on pages 39 to 45 of the Financial Statements of the Government of New Zealand for the year ended 30 June 2004.

There have been no changes in the accounting policies during the period 1 July 2004 to 31 December 2004.

4 Forecast Results and Assumptions

The forecast results in these Financial Statements have been derived from the forecasts released in the 2004 December Economic and Fiscal Update (2004 DEFU), on 14 December 2004.

The assumptions underlying the preparation of forecasts are set out in the Statement of Accounting Policies and Forecast Assumptions reproduced in full on Treasury's website www.treasury.govt.nz/forecast/defu/2004.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

as at 31 December 2004

5 Comparative Figures

Comparative figures for the previous financial year to 30 June 2004 and comparative year-to-date period are presented in these Financial Statements.

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

6 Outstanding Issues

While the fully consolidated Crown actuals and forecasts include the same reporting entities as previously, there are some issues still to be worked through. These issues may impact on the final form of the fully consolidated Crown forecasts and Crown Financial Statements.

The most significant issue is whether to combine tertiary education institution's (TEIs) in the Crown Financial Statements. The issue is not clear-cut. The Treasury, the Ministry of Education and TEIs are currently working through the issue, as outlined on page 56 of the 30 June 2004 Crown Financial Statements. The forecasts and actuals are continuing with the method of equity accounting TEIs.

STATEMENT OF FINANCIAL PERFORMANCE

for the six months ended 31 December 2004

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Note	Current Year Actual vs Forecast				Annual Forecast
				Actual \$m	Forecast \$m	Variance \$m	%	\$m
Revenue								
Levied through the Crown's Sovereign Power								
42,532	21,239	Taxation revenue	1	22,877	22,945	(68)	(0.3)	45,669
2,986	1,505	Levies, fees, fines and penalties	1	1,547	1,514	33	2.2	3,002
45,518	22,744	Total Revenue Levied through the Crown's Sovereign Power	1	24,424	24,459	(35)	(0.1)	48,671
Earned through the Crown's Operations								
10,200	5,263	Sales of goods and services	2	5,371	5,416	(45)	(0.8)	11,158
2,653	1,285	Investment income	3	1,926	1,343	583	43.4	2,793
2,016	947	Other revenue	4	1,003	1,056	(53)	(5.0)	2,021
14,869	7,495	Total Revenue Earned through the Crown's Operations		8,300	7,815	485	6.2	15,972
60,387	30,239	Total Crown Revenue		32,724	32,274	450	1.4	64,643
Expenses								
By input type								
15,466	7,721	Subsidies and transfer payments	5	7,847	7,909	62	0.8	15,986
12,501	6,210	Personnel expenses	6	6,785	6,795	10	0.1	13,444
22,662	11,431	Operating expenses	7	11,389	11,863	474	4.0	25,306
-	-	Forecast for future new spending		-	-	-	-	461
2,602	1,258	Finance costs		1,356	1,390	34	2.4	2,703
(29)	31	Net foreign-exchange (gains)/losses		5	(89)	(94)	(105.6)	(89)
(315)	(330)	Movement in total GSF liability	14	434	434	-	-	443
170	41	Movement in total ACC liability	15	451	451	-	-	901
53,057	26,362	Total Crown Expenses		28,267	28,753	486	1.7	59,155
7,330	3,877	Revenues less Expenses		4,457	3,521	936	(0.3)	5,488
139	39	Net surplus TEIs		69	69	-	-	139
7,469	3,916	Operating Balance (including minority interest)		4,526	3,590	936	26.1	5,627
(45)	-	Minority interest		-	-	-	-	-
7,424	3,916	Operating Balance		4,526	3,590	936	26.1	5,627

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

STATEMENT OF FINANCIAL PERFORMANCE (CONTINUED)

for the six months ended 31 December 2004

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

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Current Year Actual vs Forecast				Annual Forecast
		Note	Actual \$m	Forecast \$m	Variance \$m	%	\$m
Total Crown expenses							
By functional classification							
16,038	8,054		8,535	8,623	88	1.0	17,389
660	122		966	962	(4)	(0.4)	1,458
7,623	4,253		4,083	4,218	135	3.2	8,543
8,349	4,100		4,185	4,264	79	1.9	8,786
1,670	784		897	934	37	4.0	1,888
2,022	992		1,050	1,048	(2)	(0.2)	2,150
1,259	541		600	580	(20)	(3.4)	1,229
5,443	2,485		2,707	2,757	50	1.8	5,783
4,070	2,075		2,140	2,238	98	4.4	4,968
1,074	531		560	605	45	7.4	1,269
1,609	798		833	870	37	4.3	1,806
615	300		336	342	6	1.8	689
52	38		14	11	(3)	(27.3)	122
2,602	1,258		1,356	1,390	34	2.4	2,703
(29)	31		5	(89)	(94)	(105.6)	(89)
-	-		-	-	-	-	461
53,057	26,362		28,267	28,753	486	1.7	59,155
Total Crown Expenses							
Core Crown expenses							
By functional classification							
14,252	7,156		7,209	7,269	60	0.8	14,691
660	122		966	962	(4)	(0.4)	1,458
8,111	4,350		4,188	4,341	153	3.5	8,819
7,585	3,764		3,977	3,926	(51)	(1.3)	8,232
1,741	836		938	985	47	4.8	1,977
1,843	901		969	961	(8)	(0.8)	1,971
1,311	569		624	602	(22)	(3.7)	1,283
1,461	559		615	619	4	0.6	1,620
1,192	566		682	691	9	1.3	1,498
368	172		180	190	10	5.3	441
634	298		358	355	(3)	(0.8)	762
139	67		74	82	8	9.8	173
52	39		14	11	(3)	(27.3)	124
2,252	1,115		1,142	1,127	(15)	(1.3)	2,240
7	42		18	-	(18)	-	-
-	-		-	-	-	-	461
41,608	20,556		21,954	22,121	167	0.8	45,751
Total Expenses							

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

STATEMENT OF CASH FLOWS

for the six months ended 31 December 2004

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
		Cash Flows From Operations					
		Cash was provided from					
42,308	19,916	Total tax receipts (refer Note 1)	21,846	21,806	40	0.2	45,691
2,852	1,674	Total other sovereign receipts (refer Note 1)	1,722	1,684	38	2.3	2,954
1,366	717	Interest	901	770	131	17.0	1,349
56	29	Dividends	35	35	-	-	72
10,478	5,289	Sales of goods and services	5,408	5,497	(89)	(1.6)	11,490
1,958	802	Other operating receipts	961	972	(11)	(1.1)	1,599
59,018	28,427	Total cash provided from operations	30,873	30,764	109	0.4	63,155
		Cash was disbursed to					
15,370	7,875	Subsidies and transfer payments	7,870	7,956	86	1.1	15,927
32,398	16,761	Personnel and operating payments	17,984	17,828	(156)	(0.9)	35,077
2,256	1,088	Finance costs	1,065	1,184	119	10.1	2,295
-	-	Forecast for future new spending	-	-	-	-	461
50,024	25,724	Total cash disbursed to operations	26,919	26,968	49	0.2	53,760
8,994	2,703	Net Cash Flows From Operations	3,954	3,796	158	4.2	9,395
		Cash Flows From Investing Activities					
		Cash was provided from					
226	373	Sale of physical assets	121	92	29	31.5	72
226	373	Total cash provided from investing activities	121	92	29	31.5	72
		Cash was disbursed to					
3,761	1,946	Purchase of physical assets	2,173	2,650	477	18.0	5,233
976	585	Net increase in advances	286	445	159	35.7	1,610
		Net purchase/(sale) of marketable securities,			-		
2,556	2,585	deposits & equity investments	4,134	3,047	(1,087)	(35.7)	3,993
-	-	Capital contingency provision	-	-	-	-	158
7,293	5,116	Total cash disbursed to investing activities	6,593	6,142	(451)	(7.3)	10,994
(7,067)	(4,743)	Net Cash Flows From Investing Activities	(6,472)	(6,050)	(422)	(7.0)	(10,922)
1,927	(2,040)	Net Cash Flows From Operating and Investing Activities	(2,518)	(2,254)	(264)	(11.7)	(1,527)
		Cash Flows From Financing Activities					
		Cash was Provided From					
114	108	Issues of circulating currency	658	31	627	-	31
129	1,592	Net issues/(repayment) of Government stock ¹	1,109	1,075	34	3.2	(961)
243	1,700	Total cash provided from financing activities	1,767	1,106	661	59.8	(930)
		Cash was Disbursed to					
241	(36)	Net repayment/(issues) of other New Zealand-dollar borrowing	242	(173)	(415)	(239.9)	(780)
1,120	(124)	Net (issues)/repayment of foreign-currency borrowing	(732)	(738)	(6)	(0.8)	(789)
1,361	(160)	Total cash disbursed to financing activities	(490)	(911)	(421)	(46.2)	(1,569)
(1,118)	1,860	Net Cash Flows From Financing Activities	2,257	2,017	240	11.9	639
809	(180)	Net Movement in Cash	(261)	(237)	(24)	(10.1)	(888)
2,732	2,732	Opening Cash Balance	3,450	3,450	-	-	3,450
(91)	29	Foreign-exchange (losses)/gains on opening cash	13	13	-	-	15
3,450	2,581	Closing Cash Balance	3,202	3,226	(24)	(0.7)	2,577

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

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

STATEMENT OF CASH FLOWS (CONTINUED)

for the six months ended 31 December 2004

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual	Forecast	Variance		
			\$m	\$m	\$m	%	\$m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
8,994	2,703	Net Cash Flows from Operations	3,954	3,796	158	4	9,395
		<i>Items included in the operating balance but not in net cash flows from operations</i>					
		Valuation changes					
315	330	Decrease/(increase) in pension liabilities	(434)	(434)	-	-	(443)
(170)	(41)	(Increase)/decrease in ACC liabilities	(451)	(451)	-	-	(901)
(9)	-	National Provident Fund guarantee	-	-	-	-	-
(40)	-	Revaluation of commercial forests	-	-	-	-	93
(225)	258	Unrealised net foreign-exchange (losses)/gains	(35)	70	(105)	(150)	411
648	-	Other valuation changes	741	248	493	199	-
519	547	Total valuation changes	(179)	(567)	388	68.4	(840)
		Property, plant & equipment asset movements					
(2,347)	(1,151)	Depreciation	(1,251)	(1,258)	7	0.6	(2,596)
15	-	(Loss)/gain on sale of physical assets	-	-	-	-	-
(2,332)	(1,151)	Total property, plant & equipment movements	(1,251)	(1,258)	7	0.6	(2,596)
		Other Non-cash Items					
(80)	(4)	Student loans	8	30	(22)	(73.3)	(68)
(78)	(23)	Amortisation of goodwill	(45)	(46)	1	2.2	(93)
-	-	Accrued income from NZS Fund	-	-	-	-	283
139	11	Other	69	69	-	-	139
(19)	(16)	Total Other Non-cash Items	32	53	(21)	(39.6)	261
-	255	Total other investing and financing items	-	-	-	-	-
		Movements in Working Capital					
468	1,234	(Decrease)/increase in taxes receivable	1,311	1,218	93	7.6	(85)
(24)	(789)	Increase/(decrease) in other receivables	885	370	515	139.2	(73)
48	34	Increase/(decrease) in inventories	15	42	(27)	(64.3)	(3)
(230)	1,099	(Increase)/decrease in payables	(241)	(64)	(177)	(276.6)	(432)
262	1,578	Total movements in working capital	1,970	1,566	404	25.8	(593)
7,424	3,916	Operating Balance	4,526	3,590	936	26.1	5,627

STATEMENT OF MOVEMENTS IN EQUITY

for the six months ended 31 December 2004

23,781	23,687	Opening Crown Balance	35,463	35,463	-	-	35,463
7,424	3,916	Operating balance for the period	4,526	3,590	936	26.1	5,627
45	-	Minority interest in operating balance	-	-	-	-	-
4,213	(4)	Net revaluations	2	3	(1)	(33.3)	19
11,682	3,912	Total Recognised Revenues and Expenses	4,528	3,593	935	26.0	5,646
35,463	27,599	Closing Crown Balance	39,991	39,056	935	2.4	41,109

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

STATEMENT OF FINANCIAL POSITION

as at 31 December 2004

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Note	Current Year Actual vs Forecast				Annual Forecast
				Actual \$m	Forecast \$m	Variance \$m	%	\$m
Assets								
3,450	2,581	Cash and bank balances	8	3,202	3,226	(24)	(0.7)	2,577
		Marketable securities, deposits & equity investments	8	29,442	26,891	2,551	9.5	27,544
24,636	23,942	Advances	9	7,941	8,044	(103)	(1.3)	9,045
7,445	6,673	Receivables	10	12,783	12,175	608	5.0	10,429
10,587	10,588	Inventories		903	930	(27)	(2.9)	955
888	874	Other investments	11	211	255	(44)	(17.3)	256
259	245	Property, plant & equipment	12	58,553	59,057	(504)	(0.9)	60,376
57,940	52,823	Commercial forests		251	251	-	-	251
251	293	Investment in TEIs		4,449	4,449	-	-	4,532
4,367	4,387	Intangible assets		777	797	(20)	(2.5)	731
849	1,032	Forecast for new capital		-	-	-	-	158
-	-							
110,672	103,438	Total Assets		118,512	116,075	2,437	2.1	116,854
Liabilities								
12,486	10,521	Payables and provisions	13	13,259	12,059	(1,200)	(10.0)	12,379
3,009	3,003	Currency issued		3,667	3,040	(627)	(20.6)	3,040
		Borrowings - sovereign guaranteed		30,317	30,615	298	1.0	27,700
29,958	32,389	Borrowings - non-sovereign guaranteed		7,504	7,531	27	0.4	8,393
6,867	7,203	GSF Pension liability	14	13,976	13,976	-	-	13,985
13,542	13,527	ACC liability	15	9,798	9,798	-	-	10,248
9,347	9,196							
75,209	75,839	Total Liabilities		78,521	77,019	(1,502)	(2.0)	75,745
Total Assets less Total Liabilities								
35,463	27,599			39,991	39,056	935	2.4	41,109
Crown Balance								
15,486	11,993	Taxpayer funds		20,030	19,076	(954)	(5.0)	21,252
19,838	15,606	Revaluation reserve	16	19,822	19,841	19	0.1	19,857
139	-	Minority interest		139	139	-	-	-
35,463	27,599	Crown Balance		39,991	39,056	935	2.4	41,109

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

STATEMENT OF FINANCIAL POSITION (CONTINUED)

as at 31 December 2004

Following is an analysis of the NZS Fund and Gross and Net Debt information. The notes to the accounts provide breakdown of other key items.

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
1,884	1,884	Opening balance	3,956	3,956	-	-	3,956
1,879	1,005	Gross contribution	1,053	1,053	-	-	2,107
193	66	Income after tax	252	111	141	127.0	283
3,956	2,955	NZS Fund balance	5,261	5,120	141	2.8	6,346

New Zealand Superannuation Fund

Within MSDs & equity investments is the NZS Fund (except for cross holdings of investments with other parts of the Crown, for example the NZS Fund may hold NZ Government Stock). The following information includes all investments and income, including cross-holdings of NZ Government Stock and accrued interest on such stock.

Gross and Net Debt information

Definitions of debt:

Total Crown gross debt is the total borrowings (both sovereign-guaranteed and non-sovereign guaranteed) of the total Crown. This equates to the amount in the total Crown balance sheet and represents the complete picture of whole-of-Crown debt obligations to external parties.

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

Gross sovereign-issued debt is debt issued by the sovereign (i.e., core Crown) and includes Government stock held by the NZS Fund, GSF, 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.

		Total Crown Debt					
36,825	39,592	Total Crown gross debt	37,821	38,146	(325)	(0.9)	36,093
35,527	39,295	Gross sovereign-issued debt	36,351	36,466	(115)	(0.3)	33,846
		Core Crown Debt					
35,527	39,295	Gross sovereign-issued debt	36,351	36,466	(115)	(0.3)	33,846
(26,752)	(24,837)	Financial assets	(29,819)	(28,753)	(1,066)	(3.7)	(29,529)
8,775	14,458		6,532	7,713	(1,181)	(15.3)	4,317
6,429	3,971	NZS Fund and GSF financial assets	7,996	7,692	304	4.0	8,748
15,204	18,429	Net Core Crown Debt	14,528	15,405	(877)	(5.7)	13,065

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

STATEMENT OF BORROWINGS

as at 31 December 2004

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Sovereign-Guaranteed Debt							
New Zealand-Dollar Debt							
17,351	20,011	Government stock	18,100	18,158	58	0.3	15,992
5,525	5,503	Treasury bills	5,342	5,390	48	0.9	5,390
(1,098)	357	Loans and foreign-exchange contracts	2,013	1,617	(396)	(24.5)	1,050
654	713	Retail stock	595	582	(13)	(2.2)	547
22,432	26,584	Total New Zealand-Dollar Debt	26,050	25,747	(303)	(1.2)	22,979
Foreign-Currency Debt							
3,079	1,873	United States dollars	(621)	2,626	3,247	123.6	1,879
1,015	793	Japanese yen	372	557	185	33.2	557
3,432	3,139	European and other currencies	4,516	1,685	(2,831)	(168.0)	2,285
7,526	5,805	Total Foreign-Currency Debt	4,267	4,868	601	12.3	4,721
29,958	32,389	Total Sovereign-Guaranteed Debt	30,317	30,615	298	1.0	27,700
Non-Sovereign-Guaranteed Debt							
4,283	5,564	New Zealand dollars	5,062	5,583	521	9.3	6,341
1,679	951	United States dollars	1,654	1,409	(245)	(17.4)	1,556
351	-	Japanese yen	184	-	(184)	-	-
554	688	European and other currencies	604	539	(65)	(12.1)	496
6,867	7,203	Total Non-Sovereign Debt	7,504	7,531	27	0.4	8,393
36,825	39,592	Total Borrowings (Gross Debt)	37,821	38,146	325	0.9	36,093
Less							
Financial Assets (including restricted assets)							
Marketable Securities, Deposits and Equity Investments							
7,089	8,878	New Zealand dollars	13,461	10,468	2,993	28.6	10,768
4,069	5,597	United States dollars	566	4,039	(3,473)	(86.0)	3,978
1,206	855	Japanese yen	622	858	(236)	(27.5)	641
2,814	2,075	European and other currencies	4,119	817	3,302	404.2	899
1,012	1,129	Reserve position at IMF	804	801	3	0.4	825
1,968	1,599	NZ equity investments	2,213	2,138	75	3.5	2,175
6,478	3,809	Foreign equity investments	7,657	7,770	(113)	(1.5)	8,258
24,636	23,942	Total Marketable Securities	29,442	26,891	2,551	9.5	27,544
		Deposits & Equity Investments					
Advances and Cash							
5,995	5,508	Student loans	6,157	6,183	(26)	(0.4)	6,618
1,450	1,165	Other advances	1,784	1,861	(77)	(4.1)	2,427
3,450	2,581	Cash	3,202	3,226	(24)	(0.7)	2,577
10,895	9,254	Total Advances and Cash	11,143	11,270	(127)	(1.1)	11,622
35,531	33,196	Total Financial Assets	40,585	38,161	2,424	6.4	39,166
1,294	6,396	Borrowings less Financial Assets	(2,764)	(14)	2,750	-	(3,073)
6,862	12,486	Net New Zealand-dollar debt	4,393	7,566	3,173	41.9	4,798
(5,568)	(6,090)	Net foreign-currency debt	(7,157)	(7,580)	(423)	(5.6)	(7,871)
1,294	6,396	Borrowings less Financial Assets	(2,764)	(14)	2,750	-	(3,073)

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

STATEMENT OF COMMITMENTS

as at 31 December 2004

	As at 31 December 2004 \$m	As at 30 June 2004 \$m	As at 31 December 2003 \$m
Capital Commitments			
Specialist military equipment	774	86	131
Land and buildings	1,768	1,611	921
Other property, plant and equipment	912	1,012	470
Other capital commitments	109	400	133
TEIs	60	60	32
Total Capital Commitments	3,623	3,169	1,687
Operating Commitments			
Non-cancellable accommodation leases	1,461	1,492	1,272
Other non-cancellable leases	2,366	2,330	2,598
Non-cancellable contracts for the supply of goods and services	4,306	2,253	3,811
Other operating commitments	2,570	3,567	793
TEIs	325	325	316
Total Operating Commitments	11,028	9,967	8,790
Total Commitments	14,651	13,136	10,477
Total Commitments by Institutional Segment			
Core Crown	4,910	3,530	5,370
Crown entities	7,528	7,413	3,001
State-owned enterprises	2,213	2,193	2,106
Total Commitments	14,651	13,136	10,477

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 December 2004

Quantifiable Contingent Liabilities	As at 31 December 2004 \$m	As at 30 June 2004 \$m	As at 31 December 2003 \$m
Guarantees and Indemnities	206	292	341
Uncalled Capital	2,187	2,528	2,350
Legal Proceedings and Disputes	813	794	431
Other Contingent Liabilities	1,500	1,371	1,178
Total Quantifiable Contingent Liabilities	4,706	4,985	4,300
Total Quantifiable Contingent Liabilities by Institutional Segment			
Core Crown	4,437	4,734	4,143
Crown entities	9	53	10
State-owned enterprises	260	198	147
Total Quantifiable Contingent Liabilities	4,706	4,985	4,300
Quantifiable Contingent Assets			
Core Crown - Education and Transport	121	157	129
Total Quantifiable Contingent Assets	121	157	129

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

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS (CONTINUED)

as at 31 December 2004

Quantifiable Contingent Liabilities

	31 December 2004 \$m	31 December 2003 \$m
Guarantees and indemnities	206	341
Uncalled capital	2,187	2,350
Legal proceedings and disputes	813	431
Other contingent liabilities	1,500	1,178
Total Quantifiable Contingent Liabilities	4,706	4,300
Total Quantifiable Contingent Assets	121	129

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

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

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

Contingent assets are potential assets dependent on a particular event occurring. As at 31 December 2004, the Crown had quantifiable contingent assets totalling \$117 million (\$126 million at 31 December 2003). \$106 million relates to suspensory loans issued by the Ministry of Education to integrated schools.

Guarantees and indemnities

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

Cook Islands – Asian Development Bank (ADB) loans

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

\$17 million at 31 December 2004 (\$17 million at 31 December 2003).

Indemnification of receivers and managers – Terralink Limited

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

\$10 million at 31 December 2004 (\$10 million at 31 December 2003).

Ministry of Justice – Treaty settlements, tax liabilities

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

\$76 million at 31 December 2004 (\$36 million at 31 December 2003).

Mighty River Power Limited – guaranteed payment obligations

Mighty River Power Limited and certain subsidiaries have guaranteed payment obligations in relation to bank borrowings under a Standby and Cash Advances Facility and Revolving Advances Facility. Mighty River Power Limited has guaranteed payment obligations of \$30 million under a letter of credit provided by a bank in favour of TPC Holdings Limited

\$16 million at 31 December 2004 (\$50 million at 31 December 2003).

Solid Energy New Zealand Limited

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

\$42 million at 31 December 2004 (nil at 31 December 2003).

Ministry of Transport – funding guarantee

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

\$10 million at 31 December 2004 (\$10 million at 31 December 2003).

New Zealand Railways Corporation (NZRC) – guaranteed borrowings

Section 10 of the Finance Act 1990 guarantees all loans and swap obligations of the NZRC. In September 2004 the Minister of Finance approved an overdraft facility for the NZRC of up to \$10 million.

\$10 million at 31 December 2004 (nil at 31 December 2003).

Post Office Bank (PostBank) – guaranteed deposits

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

\$11 million at 31 December 2004 (\$13 million at 31 December 2003).

Other guarantees and indemnities of SOEs and Crown entities

\$4 million at 31 December 2004 (\$4 million at 31 December 2003).

Other guarantees and indemnities

\$10 million at 31 December 2004 (\$201 million at 31 December 2003).

Uncalled capital

The Crown's uncalled capital subscriptions are as follows:	Uncalled capital at 31 December 2004 \$m	Uncalled capital at 31 December 2003 \$m
Asian Development Bank	1,031	1,082
European Bank for Reconstruction and Development	13	13
International Bank for Reconstruction and Development	1,143	1,255

Legal proceedings and disputes

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

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

Air New Zealand Limited – legal claim

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

\$107 million at 31 December 2004 (nil at 31 December 2003).

Health – legal claims

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

\$104 million at 31 December 2004 (\$104 million at 31 December 2003).

Tax in dispute

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

\$487 million at 31 December 2004 (\$228 million at 31 December 2003).

Transpower New Zealand Limited

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

\$20 million at 31 December 2004 (nil at 31 December 2003).

Other legal claims against SOEs and Crown entities

\$7 million at 31 December 2004 (\$9 million at 31 December 2003).

Other legal claims

\$88 million at 31 December 2004 (\$90 million at 31 December 2003).

Other quantifiable contingent liabilities

International finance organisations

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

	31 December 2004 \$m	31 December 2003 \$m
IMF	1,285	947

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

Reserve Bank – demonetised currency

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

\$23 million at 31 December 2004 (\$23 million at 31 December 2003).

Social Development – claim for judicial review

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

\$49 million at 31 December 2004 (\$70 million at 31 December 2003).

Transpower New Zealand Limited – other quantifiable contingent liabilities

In the current self-regulating environment, Transpower operates its revenue setting methodology with an Economic Value (EV) framework that analyses economic gains and losses between those attributable to shareholders and those attributable to customers. The balance of the accumulated gain (loss) from monopoly activities attributable to customers (the EV balance) may be passed on to customers over time. Any such transfer would occur after consideration by Directors of the balance of this account and its likely future movement in order to preserve stability and predictability of prices.

\$86 million at 31 December 2004 (\$54 million at 31 December 2003).

Other quantified contingent liabilities of SOEs and Crown entities

\$29 million at 31 December 2004 (\$40 million at 31 December 2003).

Other quantifiable contingent liabilities

\$28 million at 31 December 2004 (\$44 million at 31 December 2003).

Unquantifiable Contingent Liabilities

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

Accident Compensation Corporation (ACC) litigations

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

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

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

Asure New Zealand Limited

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

At Work Insurance Limited

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

Auckland Rail Lease

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

Bona Vacantia property

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

Building Industry Authority litigation

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

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

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

CRIs

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

Ministry of Defence - Litigation

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

Schelde, an unsuccessful respondent to the Project Protector request for proposal, is suing for damages arising out of its failure to secure the contract for the supply of the Project Protector ships for the Royal New Zealand Navy. An estimate of its financial effect is unable to be made.

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

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

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

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

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

District health boards – director indemnity – (DHBs)

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

District Health Boards (DHBs) – Auckland DHB

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

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

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

EQC

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

Electricity Corporation of New Zealand Limited (ECNZ)

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

The Deed of Assumption and Release between ECNZ, Contact Energy Limited and the Crown provides that Contact Energy stands in place of ECNZ in respect of those assets transferred from ECNZ to Contact Energy. As a result of the split of ECNZ in 1999, Ministers have transferred the benefits of the Deed to ECNZ's successors – Meridian Energy Limited, Mighty River Power Limited and Genesis Power Limited.

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

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

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

Ministry of Fisheries – indemnity provided for delivery of registry services

The Crown has indemnified Commercial Fisheries Services Limited against claims made by third parties arising from Commercial Fisheries Services undertaking registry services under contract to the Chief Executive of the Ministry of Fisheries. This indemnity, provided under the Fisheries Acts 1983 and 1996, expires on 30 September 2009.

Fletcher Challenge Limited (FCL)

Under the Sale and Purchase Agreement with FCL for the sale of the Forestry Corporation of New Zealand Limited, the Crown has indemnified FCL for the costs of cleaning up environmental contamination. In respect of on-site environmental costs and losses incurred up to settlement date (27 September 1996), FCL will pay the first \$30 million of any clean-up and half of the next \$20 million. The Crown will pay for half of any cost over \$30 million and for all costs over \$50 million. The on-site indemnity runs until 1 January 2020.

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

Genesis Power Ltd (Genesis Energy)

The Crown has entered into a deed with Genesis Energy to share a specified and limited amount of risk around the sufficiency of Genesis Energy's long term supply of gas to cover the Huntly e3p's (a 385 MW combined cycle gas turbine power station) minimum needs. The agreement sees the Crown compensate Genesis Energy in the event it has less gas than it needs.

Housing New Zealand Corporation (HNZC)

The Crown has indemnified the following entities in respect of the accuracy of information provided on the sale of various parcels of HNZC (formerly Housing Corporation of New Zealand) mortgages: ANZ Bank, National Bank (formerly Countrywide Bank) and Westpac Banking Corporation.

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

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

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

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

Indemnities against acts of war and terrorism

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

Kyoto Protocol

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

The Government's climate change response strategy includes a range of measures that are designed to reduce New Zealand's greenhouse gas emissions. New Zealand is a signatory to the Kyoto Protocol which imposes legally binding emission reduction targets on New Zealand. The Protocol will enter into force in February 2005, as a result of the recent decision by Russia to ratify the protocol.

The Government has announced that part of its climate change response strategy will include an emissions charge to be introduced no earlier than 2007, and capped at \$25 per tonne of carbon-dioxide. Negotiated greenhouse agreements are available for some liable firms deemed to be "competitiveness at risk" by the introduction of this charge. The proposed charge would include revenue recycling to return revenue from the charge to taxpayers. However, the net impact of the charge on the operating balance is at present unclear.

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

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

Maui Partners

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

National Provident Fund

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

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

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

New Zealand Railways Corporation

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

The Crown has further indemnified the directors of NZ Railways Corporation against any liability arising from the transfer of the rail network and associated assets and liabilities to the Corporation on 1 September 2004.

Persons exercising investigating powers

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

Ports of Auckland

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

Public Trust

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

Purchasers of Crown operations

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

Reserve Bank of New Zealand (the Reserve Bank)

Section 21(2) of the Reserve Bank Act 1989 requires the Crown to pay the Reserve Bank the amount of any exchange losses incurred by the Reserve Bank as a result of dealing in foreign exchange under sections 17 and 18 of the Act.

State Insurance and Rural Bank – Tax liabilities

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

Synfuels-Waitara Outfall Indemnity

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

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

Tainui Corporation

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

Toll NZ Ltd – purchase of rail network assets

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

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

Transpower New Zealand

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

Works Civil Construction

The Crown has provided an indemnity to the purchasers of Works Civil Construction in relation to the activities of the Ministry of Works and Development prior to 1 April 1989. In addition, an indemnity has been provided against certain costs, claims or damages in relation to the Clyde and Ohaaki power projects.

Works Consultancy Services

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

Other unquantifiable contingent liabilities

Environmental Liabilities

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

Where appropriate, departmental systems have been implemented to identify, monitor and assess potential contaminated sites.

In accordance with FRS 15: *Provisions, Contingent Liabilities and Contingent Assets* any contaminated sites for which costs can be reliably measured have been included in the Statement of Financial Position as provisions. As at 31 December 2004, the value of these provisions was \$9.4 million.

Genesis Power Limited

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

New Zealand Post Primary Teachers' Association

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

Sale of Crown assets

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

Treaty of Waitangi claims

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

Settlement relativity payments

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

STATEMENT OF SEGMENTS

Financial Performance and Financial Position by institutional form

Statement of Financial Performance (institutional form) for the six months ended 31 December 2004 (actual to forecast)

(\$ million)	Current Year-To-Date Actual vs Forecast			
	Core Crown		Crown entities	
	Actual December 2004/05 \$m	Forecast December 2004/05 \$m	Actual December 2004/05 \$m	Forecast December 2004/05 \$m
Revenue				
Taxation revenue	23,178	23,189	-	-
Other sovereign levied income	328	325	1,244	1,212
Sales of goods and services	387	358	873	856
Investment income	1,579	1,171	656	459
Other revenues	307	335	8,050	8,133
Total revenue	25,779	25,378	10,823	10,660
Expenses by input type				
Subsidies and transfer payments	7,079	7,142	768	767
Personnel expenses	2,491	2,461	3,442	3,460
Operating expenses	10,790	10,956	5,550	5,739
Finance costs	1,142	1,127	129	132
FX losses/(gains)	18	1	60	(24)
GSF and ACC liability revaluation movts	434	434	451	451
Total expenses	21,954	22,121	10,400	10,525
Expenses by functional classification				
Social security and welfare	7,209	7,269	1,545	1,566
Health	4,188	4,341	3,512	3,606
Education	3,977	3,926	2,980	3,013
Other functional classifications	5,420	5,458	2,174	2,232
Forecast for future new spending	-	-	-	-
Finance costs and FX losses/(gains)	1,160	1,127	189	108
Total expenses	21,954	22,121	10,400	10,525
Net surplus of TEIs	-	-	69	69
Minority interest	-	-	-	-
Operating balance	3,825	3,257	492	204

Statement of Financial Position (institutional form) as at 31 December 2004 (actual to forecast)

(\$ million)	Core Crown		Crown entities	
	Actual December 2004/05 \$m	Forecast December 2004/05 \$m	Actual December 2004/05 \$m	Forecast December 2004/05 \$m
	Assets			
Financial assets	29,999	28,753	14,685	13,714
Physical assets	18,748	18,910	29,027	29,161
Investment in SOEs & CE (including TEIs)	23,469	23,324	4,449	4,449
Other assets	10,844	10,719	2,247	2,203
Total assets	83,060	81,706	50,408	49,527
Liabilities				
Borrowings	35,426	35,637	3,832	3,801
Other liabilities	24,360	23,343	14,417	13,735
Total liabilities	59,786	58,980	18,249	17,536
Net worth	23,274	22,726	32,159	31,991
Taxpayer funds	17,440	16,883	19,628	19,450
Revaluation reserves	5,834	5,843	12,531	12,541
Net worth	23,274	22,726	32,159	31,991
Analysis of financial assets and borrowings				
Advances and cash	8,899	8,963	1,715	1,778
MSDs and equity investments	21,100	19,790	12,970	11,936
Total financial assets	29,999	28,753	14,685	13,714
Borrowings - Sovereign guaranteed	35,426	35,637	-	-
Borrowings - Non-sovereign guaranteed	-	-	3,832	3,801
Total borrowings	35,426	35,637	3,832	3,801
Borrowings less financial assets	5,427	6,884	(10,853)	(9,913)
Net Crown debt	14,528	15,405		
Gross sovereign-issued debt	36,351	36,466		

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

STATEMENT OF SEGMENTS (CONTINUED)

Financial Performance and Financial Position by institutional form

Statement of Financial Performance (institutional form) for the six months ended 31 December 2004 (actual to forecast)

(\$ million)	Current Year-To-Date Actual vs Forecast					
	State-owned enterprises		Inter-segment elimins		Total Crown	
	Actual December 2004/05 \$m	Forecast December 2004/05 \$m	Actual December 2004/05 \$m	Forecast December 2004/05 \$m	Actual December 2004/05 \$m	Forecast December 2004/05 \$m
Revenue						
Taxation revenue	-	-	(301)	(244)	22,877	22,945
Other sovereign levied income	-	-	(25)	(23)	1,547	1,514
Sales of goods and services	4,314	4,421	(203)	(219)	5,371	5,416
Investment income	89	82	(398)	(369)	1,926	1,343
Other revenues	344	297	(7,698)	(7,709)	1,003	1,056
Total revenue	4,747	4,800	(8,625)	(8,564)	32,724	32,274
Expenses by input type						
Subsidies and transfer payments	-	-	-	-	7,847	7,909
Personnel expenses	855	877	(3)	(3)	6,785	6,795
Operating expenses	3,281	3,369	(8,232)	(8,201)	11,389	11,863
Finance costs	170	203	(85)	(72)	1,356	1,390
FX losses/(gains)	(73)	(66)	-	-	5	(89)
GSF and ACC liability revaluation movts	-	-	-	-	885	885
Total expenses	4,233	4,383	(8,320)	(8,276)	28,267	28,753
Expenses by functional classification						
Social security and welfare	-	-	(219)	(212)	8,535	8,623
Health	-	-	(3,617)	(3,729)	4,083	4,218
Education	-	-	(2,772)	(2,675)	4,185	4,264
Other functional classifications	4,136	4,246	(1,627)	(1,589)	10,103	10,347
Forecast for future new spending	-	-	-	-	-	-
Finance costs and FX losses/(gains)	97	137	(85)	(71)	1,361	1,301
Total expenses	4,233	4,383	(8,320)	(8,276)	28,267	28,753
Net surplus of TEIs	-	-	-	-	69	69
Minority interest	-	-	-	-	-	-
Operating balance	514	417	(305)	(288)	4,526	3,590

Statement of Financial Position (institutional form) as at 31 December 2004 (actual to forecast)

(\$ million)	Current Year-To-Date Actual vs Forecast					
	State-owned enterprises		Inter-segment elimins		Total Crown	
	Actual December 2004/05 \$m	Forecast December 2004/05 \$m	Actual December 2004/05 \$m	Forecast December 2004/05 \$m	Actual December 2004/05 \$m	Forecast December 2004/05 \$m
Assets						
Financial assets	3,089	3,016	(7,188)	(7,322)	40,585	38,161
Physical assets	10,778	10,986	-	-	58,553	59,057
Investment in SOEs & CE (including TEIs)	-	-	(23,469)	(23,324)	4,449	4,449
Other assets	2,279	2,235	(445)	(749)	14,925	14,408
Total assets	16,146	16,237	(31,102)	(31,395)	118,512	116,075
Liabilities						
Borrowings	5,751	6,030	(7,188)	(7,322)	37,821	38,146
Other liabilities	2,869	2,732	(946)	(937)	40,700	38,873
Total liabilities	8,620	8,762	(8,134)	(8,259)	78,521	77,019
Net worth	7,526	7,475	(22,968)	(23,136)	39,991	39,056
Taxpayer funds	6,069	6,018	(22,968)	(23,136)	20,169	19,215
Revaluation reserves	1,457	1,457	-	-	19,822	19,841
Net worth	7,526	7,475	(22,968)	(23,136)	39,991	39,056
Analysis of financial assets and borrowings						
Advances and cash	2,608	2,631	(2,079)	(2,102)	11,143	11,270
MSDs and equity investments	481	385	(5,109)	(5,220)	29,442	26,891
Total financial assets	3,089	3,016	(7,188)	(7,322)	40,585	38,161
Borrowings - Sovereign guaranteed	-	-	(5,109)	(5,022)	30,317	30,615
Borrowings - Non-sovereign guaranteed	5,751	6,030	(2,079)	(2,300)	7,504	7,531
Total borrowings	5,751	6,030	(7,188)	(7,322)	37,821	38,146
Borrowings less financial assets	2,662	3,014	-	-	(2,764)	(15)

STATEMENT OF SEGMENTS (CONTINUED)

Financial Performance and Financial Position by institutional form

Forecast Statement of Financial Performance (institutional form)

for the year ended 30 June 2005 (compared to actual 30 June 2004)

(\$ million)	Prior Year Actual vs Current Year Forecast			
	Core Crown		Crown entities	
	Actual 2004 \$m	Forecast 2005 \$m	Actual 2004 \$m	Forecast 2005 \$m
Revenue				
Taxation revenue	43,008	46,121	-	-
Other sovereign levied income	611	633	2,415	2,416
Sales of goods and services	736	730	1,700	1,697
Investment income	1,999	2,362	984	871
Other revenues	578	735	16,073	16,578
Total revenue	46,932	50,581	21,172	21,562
Expenses by input type				
Subsidies and transfer payments	14,058	14,443	1,408	1,543
Personnel expenses	4,315	4,780	6,566	6,901
Operating expenses	21,291	23,844	11,200	11,675
Finance costs	2,252	2,240	235	257
FX losses/(gains)	7	1	23	(24)
GSF and ACC liability movements	(315)	443	170	901
Total expenses	41,608	45,751	19,602	21,253
Expenses by functional classification				
Social security and welfare	14,252	14,691	2,199	3,129
Health	8,111	8,819	6,613	7,192
Education	7,585	8,232	6,175	6,021
Other functional classifications	9,401	11,307	4,357	4,678
Forecast for future new spending	-	461	-	-
Finance costs and FX losses/(gains)	2,259	2,241	258	233
Total expenses	41,608	45,751	19,602	21,253
Net surplus of TEIs	-	-	139	139
Minority interest	-	-	-	-
Operating balance	5,324	4,830	1,709	448

Forecast Statement of Financial Position (institutional form)

as at 30 June 2005 (compared to actual 30 June 2004)

(\$ million)	Core Crown		Crown entities	
	Actual 2004 \$m	Forecast 2005 \$m	Actual 2004 \$m	Forecast 2005 \$m
	Assets			
Financial assets	26,752	29,529	13,117	13,807
Physical assets	18,675	19,232	28,884	29,650
Investment in SOEs & CE (including TEIs)	23,162	23,857	4,367	4,532
Other assets	9,088	8,122	2,589	2,507
Total assets	77,677	80,740	48,957	50,496
Liabilities				
Borrowings	34,719	32,873	3,757	3,954
Other liabilities	23,489	23,565	13,539	14,057
Total liabilities	58,208	56,438	17,296	18,011
Net worth	19,469	24,302	31,661	32,485
Taxpayer Funds	13,626	18,459	19,126	19,944
Revaluation reserves	5,843	5,843	12,535	12,541
Minority interest	-	-	-	-
Net worth	19,469	24,302	31,661	32,485
Analysis of financial assets and borrowings				
Advances and cash	8,919	9,156	1,794	1,641
MSDs and equity investments	17,833	20,373	11,323	12,166
Total financial assets	26,752	29,529	13,117	13,807
Borrowings - Sovereign guaranteed	34,719	32,873	-	-
Borrowings - Non-sovereign guaranteed	-	-	3,757	3,954
Total borrowings	34,719	32,873	3,757	3,954
Borrowings less financial assets	7,967	3,344	(9,360)	(9,853)
Net Crown debt	15,204	13,065		
Gross sovereign-issued debt	35,527	33,846		

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

STATEMENT OF SEGMENTS (CONTINUED)

Financial Performance and Financial Position by institutional form

Forecast Statement of Financial Performance (institutional form) for the year ended 30 June 2005 (compared to actual 30 June 2004)

(\$ million)	Prior Year Actual vs Current Year Forecast					
	State-owned enterprises		Inter-segment elimins		Total Crown	
	Actual 2004 \$m	Forecast 2005 \$m	Actual 2004 \$m	Forecast 2005 \$m	Actual 2004 \$m	Forecast 2005 \$m
Revenue						
Taxation revenue	-	-	(476)	(452)	42,532	45,669
Other sovereign levied income	-	-	(40)	(47)	2,986	3,002
Sales of goods and services	8,209	9,167	(445)	(436)	10,200	11,158
Investment income	132	163	(462)	(603)	2,653	2,793
Other revenues	616	664	(15,251)	(15,956)	2,016	2,021
Total revenue	8,957	9,994	(16,674)	(17,494)	60,387	64,643
Expenses by input type						
Subsidies and transfer payments	-	-	-	-	15,466	15,986
Personnel expenses	1,624	1,768	(4)	(5)	12,501	13,444
Operating expenses	6,377	7,145	(16,206)	(16,897)	22,662	25,767
Finance costs	298	362	(183)	(156)	2,602	2,703
FX losses/(gains)	(59)	(66)	-	-	(29)	(89)
GSF and ACC liability revaluation movts	-	-	-	-	(145)	1,344
Total expenses	8,240	9,209	(16,393)	(17,058)	53,057	59,155
Expenses by functional classification						
Social security and welfare	-	-	(413)	(431)	16,038	17,389
Health	-	-	(7,101)	(7,468)	7,623	8,543
Education	-	-	(5,411)	(5,467)	8,349	8,786
Other functional classifications	8,001	8,913	(3,285)	(3,536)	18,474	21,362
Forecast for future new spending	-	-	-	-	-	461
Finance costs and FX losses/(gains)	239	296	(183)	(156)	2,573	2,614
Total expenses	8,240	9,209	(16,393)	(17,058)	53,057	59,155
Net surplus of TEIs	-	-	-	-	139	139
Minority interest	(45)	-	-	-	(45)	-
Operating balance	672	785	(281)	(436)	7,424	5,627

Forecast Statement of Financial Position (institutional form) as at 30 June 2005 (compared to actual 30 June 2004)

(\$ million)	Prior Year Actual vs Current Year Forecast					
	State-owned enterprises		Inter-segment elimins		Total Crown	
	Actual 2004 \$m	Forecast 2005 \$m	Actual 2004 \$m	Forecast 2005 \$m	Actual 2004 \$m	Forecast 2005 \$m
Assets						
Financial assets	2,750	3,445	(7,088)	(7,615)	35,531	39,166
Physical assets	10,381	11,494	-	-	57,940	60,376
Investment in SOEs & CE (including TEIs)	-	-	(23,162)	(23,857)	4,367	4,532
Other assets	2,147	2,459	(990)	(308)	12,834	12,780
Total assets	15,278	17,398	(31,240)	(31,780)	110,672	116,854
Liabilities						
Borrowings	5,437	6,881	(7,088)	(7,615)	36,825	36,093
Other liabilities	2,830	2,779	(1,474)	(749)	38,384	39,652
Total liabilities	8,267	9,660	(8,562)	(8,364)	75,209	75,745
Net worth	7,011	7,738	(22,678)	(23,416)	35,463	41,109
Taxpayer Funds	5,412	6,265	(22,678)	(23,416)	15,486	21,252
Revaluation reserves	1,460	1,473	-	-	19,838	19,857
Minority interest	139	-	-	-	139	-
Net worth	7,011	7,738	(22,678)	(23,416)	35,463	41,109
Analysis of financial assets and borrowings						
Advances and cash	2,305	1,589	(2,123)	(764)	10,895	11,622
MSDs and equity investments	445	1,856	(4,965)	(6,851)	24,636	27,544
Total financial assets	2,750	3,445	(7,088)	(7,615)	35,531	39,166
Borrowings - Sovereign guaranteed	-	-	(4,761)	(5,173)	29,958	27,700
Borrowings - Non-sovereign guaranteed	5,437	6,881	(2,327)	(2,442)	6,867	8,393
Total borrowings	5,437	6,881	(7,088)	(7,615)	36,825	36,093
Borrowings less financial assets	2,687	3,436	-	-	1,294	(3,073)

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 1: Revenue Collected Through the Crown's Sovereign Power							
Income Tax Revenue (accrual)							
Individuals							
16,908	8,329	Source deductions	8,973	8,946	27	0.3	18,175
4,027	2,254	Other persons	2,261	2,221	40	1.8	4,014
(860)	(432)	Refunds	(456)	(447)	(9)	(2.0)	(871)
410	196	Fringe benefit tax	224	223	1	0.4	442
20,485	10,347	Total Individuals	11,002	10,943	59	0.5	21,760
Corporate Tax							
6,099	3,243	Gross companies tax	3,703	3,837	(134)	(3.5)	6,907
(180)	(49)	Refunds	(61)	(70)	9	13	(203)
800	494	Non-resident withholding tax	394	394	-	-	893
139	54	Foreign-source dividend w/holding payments	69	51	18	35.3	133
6,858	3,742	Total Corporate Tax	4,105	4,212	(107)	(2.5)	7,730
Other Income Tax							
1,188	578	Resident w/holding tax on interest income	695	681	14	2.1	1,369
49	23	Resident w/holding tax on dividend income	30	24	6	25.0	61
2	1	Estate and gift duties	1	1	-	-	2
1,239	602	Total Other Income Tax	726	706	20	2.8	1,432
28,582	14,691	Total Income Tax	15,833	15,861	(28)	(0.2)	30,922
Goods and Services Tax							
16,603	7,606	Gross goods and services tax	8,354	8,419	(65)	(0.8)	17,481
(6,885)	(3,247)	Refunds	(3,601)	(3,645)	44	1.2	(7,150)
9,718	4,359	Total Goods and Services Tax	4,753	4,774	(21)	(0.4)	10,331
Other Taxation							
947	454	Petroleum fuels excise	408	401	7	1.7	790
819	515	Tobacco excise	510	532	(22)	(4.1)	828
720	349	Customs duty	450	459	(9)	(2.0)	974
667	328	Road user charges	349	341	8	2.3	720
476	250	Alcohol excise	256	264	(8)	(3.0)	484
261	123	Gaming duties	141	138	3	2.2	281
211	103	Motor vehicle fees	109	110	(1)	(0.9)	216
75	41	Energy resources levies	40	36	4	11.1	65
56	26	Approved issuer levy and cheque duty	28	29	(1)	(3.4)	58
4,232	2,189	Total Other Indirect Taxation	2,291	2,310	(19)	(0.8)	4,416
13,950	6,548	Total Indirect Taxation	7,044	7,084	(40)	(0.6)	14,747
42,532	21,239	Total Tax Revenue Collected	22,877	22,945	(68)	(0.3)	45,669
Other Sovereign Revenues (accrual)							
1,989	1,010	ACC levies	1,010	987	23	2.3	1,981
233	128	Fire Service levies	133	125	8	6.4	235
78	39	EQC levies	40	40	-	-	80
686	328	Other miscellaneous items	364	362	2	0.6	706
2,986	1,505	Total Other Sovereign Revenues	1,547	1,514	33	2.2	3,002
45,518	22,744	Total Sovereign Revenue	24,424	24,459	(35)	(0.1)	48,671

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 1: Receipts Collected Through the Crown's Sovereign Power							
Income Tax Receipts (cash)							
Individuals							
17,012	8,360	Source deductions	9,039	8,970	69	0.8	18,175
4,352	2,069	Other persons	2,144	2,140	4	0.2	4,521
(1,406)	(749)	Refunds	(710)	(705)	(5)	(0.7)	(1,330)
410	197	Fringe benefit tax	206	208	(2)	(1.0)	435
20,368	9,877	Total Individuals	10,679	10,613	66	0.6	21,801
Corporate Tax							
7,169	3,757	Gross companies tax	4,162	4,243	(81)	(1.9)	7,730
(1,088)	(525)	Refunds	(296)	(346)	50	14	(939)
776	451	Non-resident withholding tax	403	354	49	13.8	882
128	48	Foreign-source dividend w/holding payments	81	46	35	76.1	130
6,985	3,731	Total Corporate Tax	4,350	4,297	53	1.2	7,803
Other Income Tax							
1,217	580	Resident w/holding tax on interest income	683	660	23	3.5	1,359
53	24	Resident w/holding tax on dividend income	35	31	4	12.9	61
2	1	Estate and gift duties	1	1	-	-	2
1,272	605	Total Other Income Tax	719	692	27	3.9	1,422
28,625	14,213	Total Income Tax	15,748	15,602	146	0.9	31,026
Goods and Services Tax							
15,768	6,383	Gross goods and services tax	6,909	7,063	(154)	(2.2)	16,893
(6,313)	(2,954)	Refunds	(3,159)	(3,242)	83	2.6	(6,656)
9,455	3,429	Total Goods and Services Tax	3,750	3,821	(71)	(1.9)	10,237
Other Taxation							
944	491	Petroleum fuels excise	400	396	4	1.0	791
800	559	Tobacco excise	573	592	(19)	(3.2)	828
726	360	Customs duty	483	509	(26)	(5.1)	984
668	328	Road user charges	349	343	6	1.7	720
476	223	Alcohol excise	227	226	1	0.4	484
260	126	Gaming duties	144	139	5	3.6	279
223	122	Motor vehicle fees	106	111	(5)	(4.5)	216
75	39	Energy resources levies	40	40	-	-	68
56	26	Approved issuer levy and cheque duty	26	27	(1)	(3.7)	58
4,228	2,274	Total Other Indirect Taxation	2,348	2,383	(35)	(1.5)	4,428
13,683	5,703	Total Indirect Taxation	6,098	6,204	(106)	(1.7)	14,665
42,308	19,916	Total Tax Receipts Collected	21,846	21,806	40	0.2	45,691
Other Sovereign Receipts (cash)							
2,008	1,219	ACC levies	1,242	1,147	95	8.3	1,969
233	129	Fire Service levies	133	125	8	6.4	235
79	42	EQC levies	42	42	-	-	81
532	284	Other miscellaneous items	305	370	(65)	(17.6)	669
2,852	1,674	Total Other Sovereign Receipts	1,722	1,684	38	2.3	2,954
45,160	21,590	Total Sovereign Receipts	23,568	23,490	78	0.3	48,645

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m	Current Year Actual vs Forecast				Annual Forecast
		Actual \$m	Forecast \$m	Variance \$m %		\$m

NOTE 2: Sale of Goods and Services

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

NOTE 3: Investment Income

Investment Income							
1,428	596	Interest income	1,107	843	264	31.3	1,769
447	184	Student loans	244	246	(2)	(0.8)	503
76	26	Dividends	31	37	(6)	(16.2)	69
		Gains/(losses) on marketable securities					
701	250	deposits and equity investments	535	217	318	146.5	451
1	229	Other	9	-	9	-	1
2,653	1,285	Total Investment Income	1,926	1,343	583	43.4	2,793

NOTE 4: Other Revenue

(40)	-	Unrealised gains arising from changes in the value of commercial forests	-	-	-	-	-
110	53	GSF contributions	53	47	6	12.8	92
18	22	Petroleum royalties	21	10	11	110.0	29
22	-	Cost recovery income from fisheries	16	16	-	-	31
1,906	872	Other	913	983	(70)	(7.1)	1,869
2,016	947	Total Other Operational Revenue	1,003	1,056	(53)	(5.0)	2,021

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 5: Subsidies and Transfer Payments							
		Social Assistance Grants					
5,889	2,937	New Zealand superannuation	3,028	3,028	-	-	6,082
1,407	716	ACC payments	768	768	-	-	1,543
1,569	783	Domestic purposes benefit	791	793	2	0.3	1,564
1,084	582	Unemployment benefit	439	445	6	1.3	851
833	423	Family support	377	398	21	5.3	911
380	200	Student allowances	194	195	1	0.5	389
3,931	1,925	Other social assistance grants	2,052	2,053	1	-	4,201
110	55	Subsidies	64	75	11	14.7	144
		Other Transfer Payments					
238	91	Official development assistance	119	133	14	10.5	264
25	9	Other	15	21	6	28.6	37
15,466	7,721	Total Subsidies and Transfer Payments	7,847	7,909	62	0.8	15,986

NOTE 6: Personnel Expenses

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

975	452	GSF pension costs	532	528	(4)	(0.8)	1,015
90	43	Other pension expenses	54	51	(3)	(5.9)	106
11,436	5,715	Other personnel expenses	6,199	6,216	17	0.3	12,323
12,501	6,210	Total Personnel Expenses	6,785	6,795	10	0.1	13,444

NOTE 7: Operating Expenses

Operating expenses relate to those expenses incurred in the course of undertaking the functions and activities of every entity included in the Crown financial statements, excluding those separately identified in the Statement of Financial Performance and other notes. Items disclosed separately are those required by accounting standards (and are expanded on further in the annual Crown financial statements). These include depreciation, rental costs and goodwill amortised.

Other operating costs is the large residual. Most of it represents the payment made for services provided by third parties (roading maintenance for example) or for raw materials (fuel, medicines or inventory for example). It also includes other day-to-day operating costs.

		Depreciation expenses:					
749	359	Buildings	397	395	(2)	(0.5)	825
103	56	Electricity distribution networks	52	50	(2)	(4.0)	101
146	70	Electricity generation assets	79	85	6	7.1	183
180	89	Specialist military equipment (SME)	87	92	5	5.4	186
219	105	State highways	116	116	-	-	233
91	102	Aircraft (excluding SME)	88	90	2	2.2	116
789	323	Other plant and equipment	402	400	(2)	(0.5)	886
70	47	Other assets	30	30	-	-	66
2,347	1,151	Total depreciation costs	1,251	1,258	7	0.6	2,596
		Other operating expenses:					
775	347	Rental and leasing costs	360	351	(9)	(2.6)	722
459	226	Change in provision for doubtful debts	244	234	(10)	(4.3)	528
84	40	Write off of bad debts	38	36	(2)	(5.6)	69
78	23	Goodwill amortised	45	46	1	2.2	93
309	141	Grants paid	165	149	(16)	(10.7)	326
347	189	Lottery prize payments	170	164	(6)	(3.7)	337
(15)	-	Loss/(gain) on sale of assets	-	-	-	-	-
18,278	9,314	Other operating expenses	9,116	9,625	509	5.3	20,635
22,662	11,431	Total Operating Expenses	11,389	11,863	474	4.0	25,306

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m	Current Year Actual vs Forecast				Annual Forecast
		Actual \$m	Forecast \$m	Variance \$m	%	\$m

NOTE 8: Cash and Marketable Securities, Deposits & Equity Investments

By category:

3,450	2,581	Total cash	3,202	3,226	(24)	(0.7)	2,577
15,178	17,405	Marketable securities and deposits	18,768	16,182	2,586	16.0	16,287
8,446	5,408	Equity investments (eg, shares)	9,870	9,908	(38)	(0.4)	10,432
1,012	1,129	Reserve position at the IMF	804	801	3	0.4	825
24,636	23,942	Total MSDs and Equity Investments	29,442	26,891	2,551	9.5	27,544
28,086	26,523	Cash and MSDs & Equity Investments	32,644	30,117	2,527	8.4	30,121

By portfolio management:

11,313	13,710	Reserve Bank and DMO managed funds	13,230	12,070	1,160	9.6	11,592
3,410	1,090	NZS Fund	4,612	4,656	(44)	(0.9)	5,711
3,019	2,871	Government Superannuation Fund	3,172	3,036	136	4.5	3,037
1,589	1,499	EQC portfolio	1,549	1,647	(98)	(6.0)	4,768
4,276	3,617	ACC portfolio	5,618	4,661	957	20.5	1,705
1,029	1,155	Other holdings	1,261	821	440	53.6	731
24,636	23,942	Total MSDs & Equity Investments	29,442	26,891	2,551	9.5	27,544

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

Nature of financial assets – some are restricted in their purpose

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

New Zealand Superannuation Fund

The assets of the NZS Fund is the Government's means of building up assets to partially pre-fund future NZS expenses and may only be used for NZ Superannuation. The assets in this fund total \$5.3 billion, which have largely been invested in New Zealand Treasury Bills, and is therefore eliminated from the Statement of Financial Position as it is an internal Government holding. The Government's contributions to the NZS Fund are calculated over a 40-year rolling horizon to ensure Superannuation entitlements over the next 40 years can be met.

Government Superannuation Fund

The GSF Authority administers the financial assets of the GSF totalling over \$3.4 billion. These assets result from contributions by beneficiaries built up through time and can only be applied to the ongoing payment of GSF benefits (as provided by the GSF Act). Also refer Note 14 Outstanding Liability associated with GSF benefits.

EQC – Natural Disaster Fund (NDF)

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

ACC portfolio

The ACC manages the ACC scheme. At present there is a substantial outstanding claims liability associated with past claims of around \$9.8 billion. To manage the payment of these claims in the future, ACC is building up a matching portfolio of assets. The target is to have the residual claims fully funded by 2014. Also refer Note 15 Outstanding Claims Liability.

Individual portfolio information (including cross holdings of NZ Government Stock, excluding cash holdings)

3,956	2,955	NZS Fund	5,120	5,148	(28)	(0.5)	6,346
3,375	3,299	GSF net assets (including portfolio)	3,452	3,362	90	2.7	3,375
6,176	5,470	ACC portfolio	7,775	6,732	1,043	15.5	6,886
4,367	4,208	EQC portfolio	4,423	4,529	(106)	(2.3)	4,684

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m %		
NOTE 9: Advances							
5,995	5,508	Student loans (see analysis below)	6,157	6,183	(26)	(0.4)	6,618
1,038	795	Kiwibank mortgages	1,268	1,324	(56)	(4.2)	1,851
72	67	Residential care loans	74	74	-	-	77
48	47	Maori development rural lending	49	51	(2)	(3.9)	48
25	28	Forestry encouragement loans	25	24	1	4.2	-
6	5	Catchment authorities	4	5	(1)	(20.0)	-
261	223	Other	364	383	(19)	(5.0)	451
7,445	6,673	Total Advances	7,941	8,044	(103)	(1.3)	9,045
Analysis of Student Loans							
Outstanding balance							
6,821	6,355	Total loans outstanding (including interest)	7,098	7,117	(19)	(0.3)	7,512
(826)	(847)	Total provisions (capital and interest)	(941)	(934)	(7)	(0.7)	(894)
5,995	5,508	Total Student Loans	6,157	6,183	(26)	(0.4)	6,618
Movement during the year							
5,370	5,370	Opening balance	5,995	5,995	-	-	5,995
999	273	Amount advanced in current year	295	302	(7)	(2.3)	998
447	218	Interest accrued on outstanding loan balances	244	245	(1)	(0.4)	503
(294)	(131)	Repayment of base capital	(141)	(144)	3	2.1	(314)
(216)	(93)	Repayment of accrued interest	(115)	(103)	(12)	(11.7)	(238)
(319)	(130)	Interest written off and movement in provision for interest write-offs and doubtful debts	(122)	(114)	(8)	(7.0)	(333)
8	1	Other movements	1	2	(1)	(50.0)	7
5,995	5,508	Closing Balance	6,157	6,183	(26)	(0.4)	6,618
NOTE 10: Receivables							
5,843	6,609	Taxes receivable	7,154	7,061	93	1.3	5,758
4,294	3,361	Accounts receivable	4,223	4,006	217	5.4	4,285
156	193	Receivable from the sale and purchase of Maui gas	139	137	2	1.5	134
294	425	Prepayments	1,267	971	296	30.5	252
10,587	10,588	Total Receivables	12,783	12,175	608	5.0	10,429
NOTE 11: Other Investments							
82	79	International Bank for Reconstruction and Developments	72	83	(11)	(13.3)	83
89	81	Asian Development Bank	78	89	(11)	(12.4)	89
88	85	Other	61	83	(22)	(26.5)	84
259	245	Total Other Investments	211	255	(44)	(17.3)	256

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance		
					\$m	%	
NOTE 12: Property, Plant and Equipment							
By Type							
Gross Carrying Value							
9,509	6,774	Land (valuation)	9,780	9,716	64	0.7	9,524
464	456	Properties intended for sale (valuation)	446	449	(3)	(0.7)	487
18,138	19,398	Buildings (valuation)	18,368	18,531	(163)	(0.9)	19,297
2,409	2,161	Electricity distribution network (valuation)	2,081	2,147	(66)	(3.1)	2,237
4,915	1,263	Electricity generation assets (cost)	5,233	5,344	(111)	(2.1)	5,610
1,149	1,335	Aircraft (ex SME) (valuation)	1,398	1,427	(29)	(2.0)	1,530
13,082	12,732	State highways (valuation)	13,300	13,321	(21)	(0.2)	13,606
2,780	2,720	Specialist military equipment (valuation)	2,902	2,938	(36)	(1.2)	3,114
8,402	8,970	Other plant and equipment (cost)	8,582	8,822	(240)	(2.7)	9,209
5,262	5,230	Other assets (valuation)	5,339	5,189	150	2.9	5,274
66,110	61,039	Total Gross Carrying Value	67,429	67,884	(455)	(0.7)	69,888
Accumulated Depreciation							
1,356	1,782	Buildings	1,729	1,676	(53)	(3.2)	1,984
451	196	Electricity distribution network	143	150	7	4.7	202
416	201	Electricity generation assets	471	476	5	1.1	432
-	102	Aircraft (ex SME)	88	90	2	2.2	116
-	105	State highways	117	117	-	-	233
482	393	Specialist military equipment	559	559	-	-	650
5,141	5,018	Other plant and equipment	5,401	5,414	13	0.2	5,600
324	419	Other assets	367	345	(22)	(6.4)	295
8,170	8,216	Total Accumulated Depreciation	8,875	8,827	(48)	(0.5)	9,512
Net Carrying Value							
9,509	6,774	Land (valuation)	9,780	9,716	64	0.7	9,524
464	456	Properties intended for sale (valuation)	446	449	(3)	(0.7)	487
16,782	17,616	Buildings (valuation)	16,639	16,855	(216)	(1.3)	17,313
1,958	1,965	Electricity distribution network (valuation)	1,938	1,997	(59)	(3.0)	2,035
4,499	1,062	Electricity generation assets (cost)	4,762	4,868	(106)	(2.2)	5,178
1,149	1,233	Aircraft (ex SME) (valuation)	1,310	1,337	(27)	(2.0)	1,414
13,082	12,627	State highways (valuation)	13,183	13,204	(21)	(0.2)	13,373
2,298	2,327	Specialist military equipment (valuation)	2,343	2,379	(36)	(1.5)	2,464
3,261	3,952	Other plant and equipment (cost)	3,181	3,408	(227)	(6.7)	3,609
4,938	4,811	Other assets (valuation)	4,972	4,844	128	2.6	4,979
57,940	52,823	Total Net Carrying Value	58,553	59,057	(504)	(0.9)	60,376
By holding							
57,357	52,396	Freehold assets	58,151	58,604	(453)	(0.8)	60,011
583	427	Leasehold assets	402	453	(51)	(11.3)	365
57,940	52,823	Total Net Carrying Value	58,553	59,057	(504)	(0.9)	60,376
NOTE 13: Payables and Provisions							
7,493	5,917	Accounts payable and accruals	7,915	7,018	(897)	(12.8)	7,278
2,355	2,046	Taxes repayable	2,543	2,344	(199)	(8.5)	2,326
485	527	Provisions	623	625	2	0.3	657
891	882	National Provident Fund guarantee	891	891	-	-	891
1,262	1,149	Provision for employee entitlements	1,287	1,181	(106)	(9.0)	1,227
12,486	10,521	Total Payables and Provisions	13,259	12,059	(1,200)	(10.0)	12,379

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14: GSF Liability

Calculation information

The Government Superannuation Fund (GSF) assets and liabilities have been calculated by the Government Actuary as at 31 October 2004 for inclusion within the 2004 December Economic and Fiscal Update (2004 DEFU). The liability arises from closed schemes for past and present public sector employees (set out in the GSF Act 1956). A projected Aggregate Funding method is used for the valuation, based on membership data as at the balance date. The funding method requires the benefits payable from the GSF in respect of past service to be calculated and then discounted back to the valuation date.

The GSF liability included in the 2004 DEFU was calculated using discount rates derived from the market yield curve as at the balance date (31 October 2004). This resulted in a long-term after-tax discount rate of 4.1% (4.4% at 30 June 2004). The other principal long-term financial assumptions used in the calculation remain unchanged from 30 June 2004, which were an inflation rate of 2.0%, and an annual salary increases rate, before any promotional effects of 3.0%.

Presentation and forecast approach

The projected gross liability is included within total liabilities. The GSF has available to it a portfolio of assets that partially offset the gross liability. The assets (less cross holdings of NZ Government stock) are included in the asset portion of the Crown's overall balance sheet.

Regular revaluations occur as part of Crown forecasting processes for the December and Budget Economic and Fiscal Updates. Within the monthly Crown financial statements the projected liability will be assumed to be static. The asset position is based on forecasts of contributions, investment returns (based on an expected long-run average rate of return) and benefit payments.

The assets of the GSF scheme will fluctuate during the year due to changes in the market value of its investments, particularly the equity investments. These movements will be reflected in the monthly accounts as part of investment income (movements in asset values) and will likely differ from the monthly forecasts. Movements in the value of the assets will also reflect differences in contribution income and benefit payments.

Volatility in monthly results

The forecasts assume a constant long-term rate of return, reflecting a forecast of the long-term average rate of return for a given portfolio mix. The actual results will almost always differ from the long-run average, particularly reflecting the short-term volatility of equity asset values. Such volatility is to be expected. The key objective is that over the longer-term, the long-run average rate of return is achieved.

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
GSF liability and asset information							
Gross GSF liability							
13,857	13,857	Opening gross liability	13,542	13,542	-	-	13,542
(315)	(330)	Net projected change	434	434	-	-	443
13,542	13,527	Closing gross liability	13,976	13,976	-	-	13,985
Less net assets available to the GSF scheme							
3,182	3,182	Opening asset value	3,375	3,375	-	-	3,375
Net projected change:							
315	179	- Investment valuation changes	168	58	110	189.7	159
(122)	(62)	- Contributions and other income less membership payments	(91)	(71)	(20)	(28.2)	(125)
193	117	Total projected change	77	(13)	90	-	34
3,375	3,299	Closing net asset values	3,452	3,362	90	2.7	3,409
Net unfunded liability of the GSF schemes							
10,675	10,675	Opening unfunded liability	10,167	10,167	-	-	10,167
(508)	(447)	Net projected change	357	447	90	20.1	409
10,167	10,228	Net unfunded liability	10,524	10,614	90	0.8	10,576

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15: ACC Claims Liability

Calculation information

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

Key economic variables that impact on changes to the valuation are the long-term Labour Cost Index (LCI) of 2.5% (2.5% at 30 June 2004) and discount rate of 6.2% (6.5% at 30 June 2004). The other key variable in each valuation is the assumed rate at which long-term claimants will leave the scheme over the period. This assessment is largely based on scheme history.

Presentation approach

The projected gross liability is included within total liabilities. The ACC has available to it a portfolio of assets that partially offset the gross liability. The assets (less cross holdings of NZ Government stock) are included in the asset portion of the Crown's overall balance sheet.

Within the monthly Crown financial statements, the projected liability is presumed to move from the opening position to the projected closing position evenly each month. This is reflected in the actual monthly accounts and is updated as part of regular valuations performed for Crown forecast purposes. The assets held by ACC may fluctuate due to changes in asset values, particularly the equity markets. These movements will also be reflected in the monthly accounts as part of investment income (movements in asset values).

Volatility in monthly results

The forecasts presume a rate of return, reflecting a forecast of the long-term average rate of return for a given portfolio mix. The actual results will almost always differ from the long-run average, particularly reflecting the short-term volatility of equity asset values. Such volatility is to be expected. The key objective is that over the longer-term, the long-run average rate of return is achieved.

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
ACC liability and asset information							
Gross ACC liability							
9,155	9,155	Opening gross liability	9,347	9,347	-	-	9,347
192	41	Net projected change	451	451	-	-	901
9,347	9,196	Closing gross liability	9,798	9,798	-	-	10,248
Less net assets available to ACC							
4,901	4,901	Opening net asset value	5,969	5,969	-	-	5,969
1,068	536	Net projected change	661	377	284	75.3	719
5,969	5,437	Closing net asset values	6,630	6,346	284	4.5	6,688
Net ACC reserves (net liability)							
(4,254)	(4,254)	Opening reserves position	(3,378)	(3,378)	-	-	(3,378)
876	495	Net projected change	210	(74)	(284)	(383.8)	(182)
(3,378)	(3,759)	Closing reserves position (net liability)	(3,168)	(3,452)	(284)	(8.2)	(3,560)

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance		
					\$m	%	
NOTE 16: Revaluation Reserves							
<i>Movement in Asset Revaluation Reserves</i>							
15,624	15,624	Opening Balance	19,838	19,838	-	-	19,838
Net Revaluations							
3,855	-	Land and buildings	2	3	(1)	(33.3)	18
308	(8)	State highways	-	-	-	-	-
-	-	TEIs	-	-	-	-	-
50	4	Other assets	-	-	-	-	1
4,213	(4)	Total Net Revaluations	2	3	(1)	(33.3)	19
1	(14)	Transfers to taxpayer funds	(18)	-	(18)	-	-
19,838	15,606	Closing Asset Revaluation Reserve	19,822	19,841	(19)	(0.1)	19,857

NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2004 \$m	Actual 31 December 2003 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
Reconciliation of Net Core Crown Cash Flow From Operations With Net Cash Proceeds From Domestic Bonds							
This statement outlines the Core Crown Bonds reconciliation. Government stock balances and flows between the NZDMO, NZS Fund and the GSF are not eliminated. This presents the complete activity of the NZDMO bond programme.							
Core Crown Cash Flows from Operations							
42,777	20,041	Total tax receipts	22,057	21,975	82	0.4	46,273
428	221	Total other sovereign receipts	253	302	(49)	(16.2)	564
1,129	674	Interest, profits and dividends	832	722	110	15.2	1,250
534	662	Sale of goods & services and other receipts	396	314	82	26.1	786
(14,250)	(7,180)	Subsidies and transfer payments	(7,172)	(7,189)	17	0.2	(14,384)
(23,198)	(12,556)	Personnel and operating costs	(13,108)	(12,781)	(327)	(2.6)	(24,797)
(1,977)	(976)	Finance costs	(941)	(976)	35	3.6	(1,903)
-	-	Forecasts for future new spending	-	-	-	-	(461)
5,443	886	Net Cash Flows From Operations	2,317	2,367	(50)	(2.1)	7,328
Investing flows							
<i>Net advances</i>							
(701)	(186)	Student loans	(157)	(156)	(1)	(0.6)	-
(503)	(45)	Housing New Zealand Corporation	(21)	(30)	9	30.0	-
(614)	(168)	District health boards and RHMU	54	38	16	42.1	-
44	44	Tranz Rail New Zealand Limited	-	-	-	-	-
-	-	NZ Railways Corporation	(15)	-	(15)	-	-
49	21	Other	16	6	10	166.7	(772)
(1,725)	(334)	Total Net Advances	(123)	(142)	19	13.4	(772)
(1,299)	(703)	Net purchase of physical assets	(764)	(825)	61	7.4	(1,705)
<i>Net investments</i>							
(28)	(21)	District health boards	(29)	(46)	17	37.0	-
78	(18)	Housing New Zealand Corporation	(82)	(84)	2	2.4	-
-	-	Air NZ	(149)	(150)	1	0.7	-
(70)	(40)	Other	(26)	(14)	(12)	(85.7)	(650)
(1,879)	(1,005)	Net purchase of MSDs/equities by NZS Fund	(1,053)	(1,053)	-	-	(2,107)
-	-	Purchase of Reserve Bank reserves	-	-	-	-	(500)
-	-	Forecast new capital spending	-	-	-	-	(158)
(1,899)	(1,084)	Net (purchase)/sale of Investments	(1,339)	(1,347)	8	0.6	(3,415)
520	(1,235)	(Required to be financed)/Available for debt repayment	91	53	38	71.7	1,436
<i>Used in:</i>							
541	(1,055)	Other net (purchase)/sale of marketable securities and deposits	(2,364)	(1,962)	(402)	(20.5)	(1,179)
1,061	(2,290)	Total Investing activities	(2,273)	(1,909)	(364)	(19.1)	257
2	29	Net (repayment)/issue of other New Zealand-dollar borrowing	(654)	(525)	(129)	(24.6)	(823)
(216)	154	Net (repayment)/issue of foreign currency borrowing	711	749	(38)	(5.1)	732
(250)	250	Net outflows/(inflow) of cash	347	494	(147)	(29.8)	528
114	109	Issues of circulating currency	658	31	627	-	31
(350)	542		1,062	749	313	41.8	468
711	(1,748)	Net Repayment of/(Cash Proceeds from) Domestic Bonds	(1,211)	(1,160)	(51)	(4.4)	725
Gross Cash Proceeds from Domestic Bonds							
2,212	1,715	Domestic bonds (market)	1,143	1,122	21	1.9	2,052
478	33	Domestic bonds (non-market)	68	38	30	78.9	358
2,690	1,748	Total Gross Cash Proceeds from Domestic Bonds	1,211	1,160	51	4.4	2,410
(3,044)	-	Repayment of domestic bonds (market)	-	-	-	-	(2,797)
(357)	-	Repayment of domestic bonds (non-market)	-	-	-	-	(338)
(711)	1,748	Net (Repayments of)/Cash Proceeds from Domestic Bonds	1,211	1,160	51	4.4	(725)

NOTES TO THE FINANCIAL STATEMENTS

Maturity profile as at 31 December 2004

This statement outlines the maturity of core Crown debt within the following periods:

	< 1 year \$m	1 - 2 years \$m	2 - 5 years \$m	5 - 10 years \$m	> 10 years \$m	Total \$m
New Zealand-Dollar Debt						
Government stock	3,137	6,069	514	9,894	4,348	23,962
Treasury bills	5,515	-	-	-	-	5,515
Loans and foreign-exchange contracts	1,993	-	16	3	-	2,012
Retail stock	468	78	49	-	-	595
Total New Zealand-Dollar Debt	11,113	6,147	579	9,897	4,348	32,084
Foreign-Currency Debt						
United States dollars	(765)	145	(241)	88	152	(621)
Japanese yen	102	-	-	270	-	372
European and other currencies	2,558	423	1,253	261	21	4,516
Total Foreign-Currency Debt	1,895	568	1,012	619	173	4,267
Total Gross Sovereign-Issued Debt	13,008	6,715	1,591	10,516	4,521	36,351