

# Financial Statements of the Government of New Zealand

For the Six Months  
Ended 31 December 2005



17 February 2006

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# COMMENTARY

## CROWN FINANCIAL STATEMENTS – DECEMBER 2005

The Government of New Zealand has a series of long term fiscal objectives, including objectives on the 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 its 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 Half Year Economic and Fiscal Update on 19 December 2005.

A summary of the long term objectives are outlined below.

<b>Long-term fiscal objectives</b>	<b>To achieve the objectives of fiscal policy, the Government's high-level focus is on:</b>
<p><b>Operating balance:</b> 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"> <li>• 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.</li> <li>• 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.</li> </ul>
<p><b>Revenue:</b> Ensure sufficient revenue to meet the operating balance objective.</p>	<ul style="list-style-type: none"> <li>• A robust, broad-based tax system that raises revenue in a fair and efficient way.</li> <li>• State Owned Enterprises (SOEs) and Crown entities contributing to surpluses, consistent with their legislation and Government policy.</li> </ul>
<p><b>Expenses:</b> Ensure expenses are consistent with the operating balance objective.</p>	
<p><b>Debt:</b> 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"> <li>• SOEs will have debt structures that reflect best commercial practice. Changes in the level of debt will reflect specific circumstances.</li> <li>• Gross sovereign-issued debt-to-GDP will be reducing during the period ahead of the major demographic changes associated with population ageing.</li> <li>• Net debt, with NZS Fund assets, is expected to fall towards minus 15% of GDP by 2015 (ie, a net financial asset position).</li> </ul>
<p><b>Net worth:</b> Increase net worth consistent with the operating balance objective.</p>	<ul style="list-style-type: none"> <li>• Increasing net worth consistent with the operating balance objective will see net worth at above 50% of GDP by 2015.</li> <li>• The NZS Fund is expected to be 21% of GDP by 2015.</li> <li>• Consistent with the net worth objective, there will also be a focus on quality investment.</li> </ul>

## SUMMARY

The Crown financial statements for the six months ended 31 December 2005 are compared against forecasts based on the 2005 Half Year Economic and Fiscal Update (Half Year Update).

The impact of the Government's student loan policy decision and the subsequent write down to fair value of the student loan portfolio has been incorporated in these results. In addition, the removal of the carbon tax and changes to deforestation projections have increased the Kyoto liability from that reported in the November financial statements.

**Table 1** – Summary Fiscal Indicators

\$ million	December	December	Variance \$m	June 2006 Forecast	June 2005 Actual
	2005 Actual YTD	2005 Forecast YTD			
Net cash flow from core operating and investing activity	234	437	(203)	492	3,104
Gross sovereign-issued debt	34,526	34,396	130	33,275	35,045
% of GDP	23.1	23.0	0.1	21.3	25.0
Net core Crown debt	10,542	11,561	(1,019)	10,597	10,771
% of GDP	7.1	7.7	(0.6)	6.8	7.7
Total Crown debt	37,349	37,180	169	36,054	36,864
Operating balance	4,441	2,821	1,620	5,557	6,247
OBERAC	3,035	2,821	214	5,924	8,873
Net worth	54,426	52,811	1,615	55,555	49,983

**Net cash flow from core operating and investing activity** was \$234 million, \$203 million lower than forecast, reflecting higher capital spending largely due to the purchase of school property being earlier than forecast. This is unlikely to have an impact on the full year forecast figure as spending will reduce over the coming months.

**Gross sovereign-issued debt (GSID)** was \$34.5 billion (23.1% of GDP), similar to forecast.

**Net core Crown debt** was \$10.5 billion, around \$1 billion lower than forecast. This is largely due to higher issues of circulating currency reflecting the usual seasonal demand of currency over the Christmas period of \$719 million and foreign exchange movements.

The **operating balance** of \$4.4 billion was higher than forecast by \$1.6 billion. This largely reflects:

- investment income being higher than forecast by around \$1.7 billion driven mainly by:
  - Meridian Energy's gain on sale of Southern Hydro of around \$0.6 billion (as reported in the November 2005 financial statements)
  - the investment returns of the NZS Fund (around \$0.4 billion), ACC (around \$0.1 billion), EQC (around \$0.1 billion) and GSF (around \$0.1 billion);
- core Crown expenses being \$0.1 billion lower than forecast. This is due to two factors:
  - delays in departmental spending of around \$0.2 billion; and
  - the increase in the Kyoto liability of \$0.1 billion due to the removal of the carbon tax (not forecast at the time of the Half Year Update).

The **OBERAC** was \$3 billion, which was around \$1.4 billion lower than the operating balance, reflecting the removal of Meridian Energy's gain on sale of Southern Hydro and the investment gains on asset portfolios held by NZS Fund, ACC, EQC and GSF.

## Student Loan Policy

In November 2005 the Government agreed that interest will not be charged on student loans where certain criteria, largely related to being domiciled in New Zealand, are met. To better reflect the value of student loans under this no-interest policy, the accounting policy for reporting loans has also been updated. The accounting policy is to initially recognise student loans at their fair value and to subsequently report them at amortised cost. This accounting policy is to apply from 2005/06 and is consistent with the 'loans and receivables' designation under International Accounting Standard 39 (IAS 39) for financial instruments. The Crown will be adopting the New Zealand equivalent to IAS 39 for all financial instruments from 1 July 2007.

The key changes resulting from the no-interest student loan policy and adopting a new accounting policy are:

- there is a one-off write-down in 2005/06 of the existing stock of loans to fair value (around \$1.5 billion)
- the difference between the fair value of new loans and the amount lent is recognised as an expense in the year the loan is provided
- the initial fair value write-down will be unwound (i.e. recognised as income) over the maturity of the loans. The value will be adjusted for any impairment (e.g. non repayments caused, for example by death or bankruptcy of the borrowers).

The methodology and data for measuring the unwind of the fair value write-down and impairment under the new accounting policy is being developed. For this economic and fiscal update, the student loans are presented at their forecast fair value with changes in fair value flowing through the statement of financial performance. These forecast changes in fair value may differ to those actually reported under IAS 39 using the amortised cost approach. Fair values have been calculated using a model constructed for the Ministry of Education. This model applies a number of assumptions on future income levels, repayment behaviour in addition to economic assumptions (the discount rate, inflation and so on). As such, the estimated fair value of existing and new loans at initial recognition is sensitive to changes in these assumptions.

The difference between net interest accrued (interest less provision for write off) under the previous policy and net interest accrued under the new policy has been included as a Budget 2006 policy decision.

Actual results for 2005 were compiled under the previous accounting policy, which was to value the loans at the amounts expected to be ultimately collected in cash.



## **New Zealand's liability under the Kyoto Protocol for the first Commitment Period**

New Zealand is a signatory to the Kyoto Protocol, which imposes binding emission reduction targets on New Zealand, over the First Commitment Period (CP1 – 2008-2012). The Protocol entered into force on 16 February 2005, as a result of Russia's decision to ratify.

The position of each country for CP1 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. Alternatively, countries can choose to hold on to any surplus emission units to count against emission obligations in future commitment periods.

### *New Zealand's projected net emissions position over the First Commitment Period*

The estimate of New Zealand's net position as reported in the 30 June 2005 Crown Financial Statements was a net deficit of 36.2 million tonnes (Mt) of CO<sub>2</sub>-e<sup>1</sup> (under a "median" scenario). This was subsequently updated in the Half Year Update to reflect revised forecasts of deforestation to 21 Mt, which is the Government's deforestation cap under the climate change policy (an increase of 14.7 Mt from 30 June 2005). In addition, the removal of the carbon tax further increased the net liability by 13.1 Mt (as announced on 21 December 2005). Therefore, the estimate incorporated in these accounts of New Zealand's net position is a net deficit of 64 Mt.

### *Accounting for the estimated liability*

New Zealand's liability under the Kyoto Protocol was recognised on the Crown accounts for the first time in May 2005. It was quantified using three variables:

- the quantum of our projected emissions units deficit;
- a price for Kyoto-compliant emission units (in \$US per tonne of carbon dioxide equivalent); and
- the \$US/\$NZ exchange rate.

These have been compiled from a variety of sources. All these variables can be expected to fluctuate over time.

### *Valuing the estimated liability*

Assuming an exchange rate of \$US0.68365 = \$NZ1 (based on 31 December 2005 exchange rate) and a carbon price of \$US6 per unit, the current valuation for purchasing 64 million units on the international market is around \$562 million.

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<sup>1</sup> Carbon dioxide equivalent – the universal unit of measurement used to indicate the global warming potential of each of the six greenhouse gases.

## BREAKDOWN OF INDICATORS

### DEBT

**Core Crown Cash flow from operating and investing activities** (page 48) was \$234 million. This represents \$25.4 billion of receipts (including tax receipts of \$23.8 billion) being utilised on:

- Operating payments including finance costs of \$15.1 billion; and
- Subsidies and transfer payments (e.g. NZ Superannuation and Unemployment benefit) of \$7.5 billion, giving a **cashflow from operating activities** of \$2.8 billion.

This is then used to fund:

- Contributions to the NZS Fund for partially funding future NZS payments of \$1.2 billion
- Purchase of physical assets (e.g. prisons, schools) of \$0.9 billion; and
- Other investment activity (including hospitals, housing, student loans and Reserve Bank reserves) of around \$0.5 billion.

**Gross sovereign issued debt** (page 21) was \$34.5 billion (23.1% of GDP) made up of:

- \$23.5 billion of domestic debt (including Government Stock and Treasury Bills); and
- \$11 billion of foreign denominated debt.

**Net core crown debt** (page 21) was \$10.5 billion made up of:

- Gross sovereign issued debt of \$34.5 billion; offset by financial assets including
- Marketable securities and deposits and cash of \$16.3 billion; and
- Advances (including student loans) of \$7.7 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 BALANCE

The operating balance (page 16) was \$4.4 billion, which represents:

- \$28.1 billion of core Crown revenue (including tax revenue of \$25 billion and \$2.1 billion of investment income)
- \$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
- \$17.8 billion of core crown operating expenses including finance costs
- \$7.5 billion of subsidies and transfer payments; and
- \$0.4 billion of valuation expense movements of GSF and ACC.

The **OBERAC** was \$3 billion, which was \$1.4 billion lower than the operating balance reflecting the removal of Meridian Energy's gain on sale of Southern Hydro and net investment gains on the asset portfolios held by the NZS Fund, ACC, EQC and GSF.

## NET WORTH

Net worth is the difference between assets and liabilities. Net worth is currently \$54.4 billion.

Net worth is affected by two sources: operating balance and revaluations. Revaluations tend to occur at year end and are not forecast as a matter of policy. Therefore the primary driver of variances in net worth during the financial year is the operating balance.

The major assets the Government invests in include:

- Financial assets (including student loans and marketable securities) of \$23.4 billion
- Government Superannuation Fund portfolio of \$3.7 billion
- New Zealand Superannuation Fund of \$8.2 billion
- Physical assets (including prisons and schools) of \$22.4 billion, including \$8.8 billion of revaluations
- Investment in state owned enterprises and Crown entities of \$23.9 billion, including asset portfolios in Accident Compensation Corporation and Earthquake Commission, physical assets including roading, hospitals, housing and liabilities including the ACC outstanding claims liability.<sup>2</sup>

The Government also has liabilities, primarily gross sovereign issued debt (\$34.5 billion), the pension liability of the Government Superannuation Fund (\$15.2 billion) and other liabilities of \$11.4 billion.

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<sup>2</sup> 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 34 to 37.

## COMPARISON WITH PRIOR YEAR

**Table 2** – Comparison with prior year

	31 December 2005 Actual \$m	31 December 2004 Actual \$m	Change \$m	Change %
<b>Statement of Financial Performance</b>				
<b>Core Crown revenue</b>				
Taxation revenue	24,964	23,178	1,786	7.7
Other revenue	3,143	2,200	943	42.9
<b>Total core Crown Revenue</b>	<b>28,107</b>	<b>25,378</b>	<b>2,729</b>	<b>10.8</b>
<b>Core Crown expenses</b>				
Social security and welfare	7,746	7,209	(537)	(7.4)
GSF pension expenses (excl valuation)	827	532	(295)	(55.5)
GSF unfunded liability movement	256	434	178	41.0
Health	4,668	4,188	(480)	(11.5)
Education	5,604	3,977	(1,627)	(40.9)
Core government services	1,023	938	(85)	(9.1)
Law and order	1,069	969	(100)	(10.3)
Defence	674	624	(50)	(8.0)
Transport and communications	767	615	(152)	(24.7)
Economic and industrial services	748	682	(66)	(9.7)
Primary services	205	180	(25)	(13.9)
Heritage, culture and recreation	671	358	(313)	(87.4)
Housing and community development	97	74	(23)	(31.1)
Other	33	14	(19)	(135.7)
Finance costs	1,188	1,142	(46)	(4.0)
Net foreign-exchange losses/(gains)	(47)	18	65	361.1
<b>Total core Crown Expenses</b>	<b>25,529</b>	<b>21,954</b>	<b>(3,575)</b>	<b>(16.3)</b>
ACC unfunded liability movement	(179)	(451)	(272)	(60.3)
Net surplus of SOE/CE's	2,042	1,553	489	31.5
<b>Operating Balance</b>	<b>4,441</b>	<b>4,526</b>	<b>(85)</b>	<b>(1.9)</b>
<b>OBERAC</b>	<b>3,035</b>	<b>4,090</b>	<b>(1,055)</b>	<b>(25.8)</b>
<b>Cash flows from operating and investing</b>	<b>234</b>	<b>91</b>	<b>143</b>	<b>157.1</b>
<b>Debt indicators</b>				
<b>Gross sovereign-issued debt</b>	<b>34,526</b>	<b>36,351</b>	<b>1,825</b>	<b>5.0</b>
<b>Net core Crown debt</b>	<b>10,542</b>	<b>14,528</b>	<b>3,986</b>	<b>27.4</b>

**Taxation revenue** was \$1.8 billion (growth of 7.7%) higher than the six months ended 31 December 2004. 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 \$0.9 billion higher than the previous year, mainly due to higher investment income earned by the NZS Fund and GSF reflecting strong returns in the New Zealand and international equity markets.

**Total core Crown expenses** (excluding GSF unfunded liability movement) were \$3.8 billion (growth of 17.4%) higher than the six months ended 31 December 2004. Significant movements within core Crown functional expenses were:

- **Social security and welfare** expenses were \$537 million higher than the previous year mainly due to the indexation of welfare benefits, partially offset by lower unemployment benefits due to the low unemployment rate;
- **Health** expenses were \$480 million higher than the previous year mainly due to the increase in payments to District Health Boards, reflecting increased funding to maintain and improve existing services levels;
- **Education** expenses were \$1,627 million higher than the previous year largely due to the fair value impact of the interest free student loan scheme (refer page 39 of the Half Year Update);
- **Heritage, culture and recreation** expenses were \$313 million higher than the previous year, largely due to the impact on the Kyoto liability of the removal of the carbon tax and changes to deforestation projections.

In addition all other core Crown functional expenses have increased due to policy initiatives from the 2004 and 2005 Budgets.

**Net surplus of SOE/CE's** were \$500 million higher than the previous year, mainly due to the gain on sale of Southern Hydro by Meridian Energy.

**Cash flow from operating and investing activities** were \$143 million higher than the previous year, mainly due to higher cashflow from operations.

**Gross sovereign-issued debt (GSID)** was \$1.8 billion lower than the previous year mainly due to the maturity of debt which has not been rolled over.

**Net core Crown debt** has reduced by \$4 billion due to accumulated cash flows from operations offset by investing activity (e.g. purchase of schools, prisons etc.).

# QUARTERLY SERIES OF KEY INDICATORS

	6 months to December 2005 \$m	3 Months September 2005 \$m	12 Months June 2005 \$m	9 Months March 2005 \$m	6 months to December 2004 \$m	3 Months September 2004 \$m	12 Months June 2004 \$m	9 Months March 2004 \$m	6 months to December 2003 \$m	3 Months September 2003 \$m	12 Months June 2003 \$m	9 Months March 2003 \$m	6 months to December 2002 \$m	3 Months September 2002 \$m	12 Months June 2002 \$m
<b>Statement of Financial Performance</b>															
Tax revenue	24,702	11,879	46,624	35,293	22,877	10,796	42,532	32,550	21,239	10,061	39,785	30,590	20,177	9,506	36,215
% of GDP	16.2%	7.8%	30.9%	23.7%	15.5%	7.4%	29.9%	23.4%	15.6%	7.5%	30.2%	23.5%	15.6%	7.4%	28.8%
Other revenue	12,619	6,096	20,441	14,683	9,847	4,528	17,855	13,407	9,000	4,429	17,242	11,459	7,289	3,508	13,764
<b>Total Revenue</b>	<b>37,321</b>	<b>17,975</b>	<b>67,065</b>	<b>49,976</b>	<b>32,724</b>	<b>15,324</b>	<b>60,387</b>	<b>45,957</b>	<b>30,239</b>	<b>14,490</b>	<b>57,027</b>	<b>42,049</b>	<b>27,466</b>	<b>13,014</b>	<b>49,979</b>
% of GDP	24.5%	11.8%	44.5%	33.5%	22.2%	10.6%	42.4%	33.1%	22.2%	10.8%	43.2%	32.3%	21.3%	10.2%	39.7%
<b>Total Expenses</b>	<b>32,946</b>	<b>15,308</b>	<b>60,910</b>	<b>42,126</b>	<b>28,267</b>	<b>13,796</b>	<b>53,057</b>	<b>38,617</b>	<b>26,362</b>	<b>13,273</b>	<b>55,224</b>	<b>38,651</b>	<b>25,183</b>	<b>12,477</b>	<b>47,653</b>
% of GDP	21.6%	10.0%	40.4%	28.3%	19.2%	9.5%	37.3%	27.8%	19.3%	9.9%	41.9%	29.7%	19.5%	9.8%	37.8%
Net surplus of TEIs	66	-	133	102	69	38	139	59	39	20	151	60	50	36	78
Minority interest	-	-	(41)	-	-	-	(45)	-	-	-	12	-	-	-	(13)
<b>Operating Balance</b>	<b>4,441</b>	<b>2,667</b>	<b>6,247</b>	<b>7,952</b>	<b>4,526</b>	<b>1,566</b>	<b>7,424</b>	<b>7,399</b>	<b>3,916</b>	<b>1,237</b>	<b>1,966</b>	<b>3,458</b>	<b>2,333</b>	<b>573</b>	<b>2,391</b>
% of GDP	2.9%	1.7%	4.1%	5.3%	3.1%	1.1%	5.2%	5.3%	2.9%	0.9%	1.5%	2.7%	1.8%	0.4%	1.9%
<b>OBERAC</b>	<b>3,035</b>	<b>1,880</b>	<b>8,873</b>	<b>7,598</b>	<b>4,090</b>	<b>1,566</b>	<b>6,629</b>	<b>6,759</b>	<b>3,723</b>	<b>1,154</b>	<b>5,580</b>	<b>5,118</b>	<b>2,585</b>	<b>823</b>	<b>2,751</b>
% of GDP	2.0%	1.2%	5.9%	5.1%	2.8%	1.1%	4.7%	4.9%	2.7%	0.9%	4.2%	3.9%	2.0%	0.6%	2.2%
<b>Core Crown Revenue</b>	<b>28,107</b>	<b>13,724</b>	<b>52,065</b>	<b>39,232</b>	<b>25,779</b>	<b>11,897</b>	<b>46,932</b>	<b>35,896</b>	<b>23,389</b>	<b>11,027</b>	<b>43,624</b>	<b>33,039</b>	<b>21,777</b>	<b>10,112</b>	<b>39,907</b>
<b>Core Crown Expenses</b>															
Social security and welfare	7,746	3,819	14,682	10,751	7,209	3,547	14,252	10,589	7,156	3,564	13,907	10,266	6,861	3,430	13,485
GSF pension expenses	1,083	366	2,442	1,224	966	288	660	418	122	322	2,625	1,967	1,010	252	1,409
Health	4,668	2,348	8,813	6,371	4,188	2,119	8,111	5,935	4,350	1,984	7,501	5,558	3,687	1,843	7,032
Education	5,604	2,076	7,930	5,798	3,977	1,984	7,585	5,430	3,764	1,876	7,016	5,214	3,401	1,705	6,473
Core government services	1,023	474	2,217	1,382	938	437	1,741	1,242	836	401	1,780	1,160	788	430	1,540
Other	4,264	1,916	7,911	5,227	3,516	1,692	7,000	4,798	3,171	1,507	6,442	4,366	2,849	1,354	5,838
Finance costs	1,188	578	2,274	1,712	1,142	564	2,252	1,706	1,115	564	2,360	1,620	1,094	526	2,118
Net foreign exchange losses/ (gains)	(47)	34	(35)	11	18	23	7	69	42	27	118	58	52	26	75
<b>Total Core Crown Expenses</b>	<b>25,529</b>	<b>11,611</b>	<b>46,234</b>	<b>32,476</b>	<b>21,954</b>	<b>10,654</b>	<b>41,608</b>	<b>30,187</b>	<b>20,556</b>	<b>10,245</b>	<b>41,749</b>	<b>30,209</b>	<b>19,742</b>	<b>9,566</b>	<b>37,970</b>
<b>Core Crown Cash Flows</b>															
operating and investing activity	234	452	3,104	3,295	91	168	520	1,213	(1,235)	(2,597)	1,217	1,213	(561)	(632)	(111)
<b>Statement of Financial Position</b>															
Property, plant and equipment	67,949	67,975	67,494	59,707	58,553	58,086	57,940	53,062	52,823	52,756	52,667	49,852	49,691	49,415	50,536
Financial assets	50,324	47,310	45,308	41,899	40,585	36,431	35,531	37,010	33,196	32,095	30,338	29,495	27,845	25,077	24,408
Other assets	19,202	18,067	18,029	18,425	19,374	17,620	17,201	17,259	17,419	17,050	18,846	15,866	16,561	14,808	13,116
<b>Total Assets</b>	<b>137,475</b>	<b>133,352</b>	<b>130,831</b>	<b>120,031</b>	<b>118,512</b>	<b>112,137</b>	<b>110,672</b>	<b>107,331</b>	<b>103,438</b>	<b>101,901</b>	<b>99,851</b>	<b>95,213</b>	<b>94,097</b>	<b>89,300</b>	<b>88,060</b>
Total debt	37,349	37,187	36,864	35,355	37,821	37,330	36,825	39,259	39,592	39,547	38,285	38,528	39,068	36,317	36,564
% of GDP	24.5%	24.4%	24.4%	23.7%	25.6%	25.7%	25.9%	28.2%	29.1%	29.6%	29.0%	29.6%	30.3%	28.4%	29.0%
Other liabilities	45,700	43,512	43,984	40,659	40,700	37,754	38,384	36,953	36,247	37,397	37,785	34,411	33,919	33,657	32,676
<b>Total Liabilities</b>	<b>83,049</b>	<b>80,699</b>	<b>80,848</b>	<b>76,014</b>	<b>78,521</b>	<b>75,084</b>	<b>75,209</b>	<b>76,212</b>	<b>75,839</b>	<b>76,944</b>	<b>76,070</b>	<b>72,939</b>	<b>72,987</b>	<b>69,974</b>	<b>69,240</b>
<b>Net Worth</b>	<b>54,426</b>	<b>52,653</b>	<b>49,983</b>	<b>44,017</b>	<b>39,991</b>	<b>37,053</b>	<b>35,463</b>	<b>31,119</b>	<b>27,599</b>	<b>24,957</b>	<b>23,781</b>	<b>22,274</b>	<b>21,110</b>	<b>19,326</b>	<b>18,820</b>
% of GDP	35.7%	34.5%	33.1%	29.5%	27.1%	25.6%	24.9%	22.4%	20.3%	18.7%	18.0%	17.1%	16.4%	15.1%	14.9%
<b>Net Core Crown Debt</b>	<b>10,542</b>	<b>10,319</b>	<b>10,771</b>	<b>11,315</b>	<b>14,528</b>	<b>15,084</b>	<b>15,204</b>	<b>15,285</b>	<b>18,429</b>	<b>20,406</b>	<b>17,577</b>	<b>17,555</b>	<b>19,896</b>	<b>19,731</b>	<b>19,250</b>
% of GDP	6.9%	6.8%	7.1%	7.6%	9.9%	10.4%	10.7%	11.0%	13.5%	15.3%	13.3%	13.5%	15.4%	15.4%	15.3%
<b>Gross Sovereign-Issued Debt</b>	<b>34,526</b>	<b>34,041</b>	<b>35,045</b>	<b>34,123</b>	<b>36,351</b>	<b>35,923</b>	<b>35,527</b>	<b>37,969</b>	<b>39,295</b>	<b>39,465</b>	<b>36,086</b>	<b>36,727</b>	<b>37,371</b>	<b>36,317</b>	<b>36,202</b>
% of GDP	22.6%	22.3%	23.2%	22.9%	24.7%	24.8%	25.0%	27.3%	28.8%	29.5%	27.4%	28.2%	29.0%	28.4%	28.8%
<b>GDP<sup>1</sup></b>	<b>152,527</b>	<b>152,527</b>	<b>150,872</b>	<b>149,036</b>	<b>147,451</b>	<b>145,017</b>	<b>142,333</b>	<b>139,026</b>	<b>136,276</b>	<b>133,735</b>	<b>131,874</b>	<b>130,334</b>	<b>128,944</b>	<b>127,897</b>	<b>125,918</b>

<sup>1</sup> Previous years' GDP figures have been restated where appropriate with updated data.



# FINANCIAL STATEMENTS

# STATEMENT OF ACCOUNTING POLICIES

as at 31 December 2005

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## 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 98 and 99 of the Financial Statements of the Government of New Zealand for the year ended 30 June 2005.

## 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 41 to 48 of the Financial Statements of the Government of New Zealand for the year ended 30 June 2005.

There has been a change in the accounting policy for student loans to better reflect their value under the new no-interest policy. Further information on the nature of the change is disclosed in the Student Loan Policy box on page 6 and the impact of the change is reflected in note 9 on page 43.

## 4 Forecast Results and Assumptions

The forecast results in these Financial Statements have been derived from the forecasts released in the 2005 Half Year Economic and Fiscal Update (Half Year Update), on 19 December 2005.

The assumptions underlying the preparation of forecasts are set out in the Statement of Accounting Policies and Forecast Assumptions reproduced in full on Treasury's website [www.treasury.govt.nz/forecasts/hyefu/2005/](http://www.treasury.govt.nz/forecasts/hyefu/2005/).



## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

*as at 31 December 2005*

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### **5 Comparative Figures**

Comparative figures for the previous financial year to 30 June 2005 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 59 of the 30 June 2005 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 2005

Prior Year 30 June 2005 \$m	Actual 31 December 2004 \$m		Note	Current Year Actual vs Forecast				Annual Forecast
				Actual \$m	Forecast \$m	Variance \$m	%	\$m
		<b>Revenue</b>						
		<b>Levied through the Crown's Sovereign Power</b>						
46,624	22,877	Taxation revenue	1	24,702	24,768	(66)	(0.3)	49,249
3,115	1,547	Levies, fees, fines and penalties	1	1,603	1,602	1	0.1	3,158
<b>49,739</b>	<b>24,424</b>	<b>Total Revenue Levied through the Crown's Sovereign Power</b>	<b>1</b>	<b>26,305</b>	<b>26,370</b>	<b>(65)</b>	<b>(0.2)</b>	<b>52,407</b>
		<b>Earned through the Crown's Operations</b>						
11,331	5,371	Sales of goods and services	2	6,308	6,062	246	4.1	12,225
3,814	1,926	Investment income	3	3,406	1,747	1,659	95.0	3,293
2,181	1,003	Other revenue	4	1,302	1,233	69	5.6	1,850
<b>17,326</b>	<b>8,300</b>	<b>Total Revenue Earned through the Crown's Operations</b>		<b>11,016</b>	<b>9,042</b>	<b>1,974</b>	<b>21.8</b>	<b>17,368</b>
<b>67,065</b>	<b>32,724</b>	<b>Total Crown Revenue</b>		<b>37,321</b>	<b>35,412</b>	<b>1,909</b>	<b>5.4</b>	<b>69,775</b>
		<b>Expenses</b>						
		<b>By input type</b>						
15,844	7,847	Subsidies and transfer payments	5	8,340	8,412	72	0.9	17,077
13,562	6,785	Personnel expenses	6	7,580	7,605	25	0.3	14,656
25,314	11,389	Operating expenses	7	15,180	14,781	(399)	(2.7)	29,062
-	-	Forecast for future new spending		-	-	-	-	106
2,760	1,356	Finance costs		1,458	1,430	(28)	(2.0)	2,795
(17)	5	Net foreign-exchange (gains)/losses		(47)	(6)	41	-	4
1,410	434	Movement in total GSF liability	14	256	256	-	-	293
2,037	451	Movement in total ACC liability	15	179	179	-	-	358
<b>60,910</b>	<b>28,267</b>	<b>Total Crown Expenses</b>		<b>32,946</b>	<b>32,657</b>	<b>(289)</b>	<b>(0.9)</b>	<b>64,351</b>
<b>6,155</b>	<b>4,457</b>	<b>Revenues less Expenses</b>		<b>4,375</b>	<b>2,755</b>	<b>1,620</b>	<b>6.3</b>	<b>5,424</b>
133	69	Net surplus TEIs		66	66	-	-	133
<b>6,288</b>	<b>4,526</b>	<b>Operating Balance (including minority interest)</b>		<b>4,441</b>	<b>2,821</b>	<b>1,620</b>	<b>57.4</b>	<b>5,557</b>
(41)	-	Minority interest		-	-	-	-	-
<b>6,247</b>	<b>4,526</b>	<b>Operating Balance</b>		<b>4,441</b>	<b>2,821</b>	<b>1,620</b>	<b>57.4</b>	<b>5,557</b>

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 2005

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 2005 \$m	Actual 31 December 2004 \$m		Current Year Actual vs Forecast				Annual Forecast
		Note	Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>Total Crown expenses</b>							
<b>By functional classification</b>							
18,522	8,535		8,848	8,888	40	0.5	18,194
2,442	966		1,083	1,019	(64)	(6.3)	1,429
8,444	4,083		4,714	4,528	(186)	(4.1)	9,436
8,619	4,185		5,978	6,160	182	3.0	10,467
2,085	897		942	944	2	0.2	2,019
2,131	1,050		1,149	1,159	10	0.9	2,394
1,229	600		650	620	(30)	(4.8)	1,347
5,948	2,707		2,955	2,992	37	1.2	6,400
4,859	2,140		2,943	2,771	(172)	(6.2)	5,665
1,128	560		612	602	(10)	(1.7)	1,225
2,032	833		1,255	1,154	(101)	(8.8)	2,038
697	336		373	371	(2)	(0.5)	781
31	14		33	25	(8)	(32.0)	51
2,760	1,356		1,458	1,430	(28)	(2.0)	2,795
(17)	5		(47)	(6)	41	-	4
-	-		-	-	-	-	106
<b>60,910</b>	<b>28,267</b>		<b>32,946</b>	<b>32,657</b>	<b>(289)</b>	<b>(0.9)</b>	<b>64,351</b>
<b>Total Crown Expenses</b>							
<b>Core Crown expenses</b>							
<b>By functional classification</b>							
14,682	7,209		7,746	7,741	(5)	(0.1)	15,850
2,442	966		1,083	1,019	(64)	(6.3)	1,430
8,813	4,188		4,668	4,755	87	1.8	9,839
7,930	3,977		5,604	5,697	93	1.6	10,033
2,217	938		1,023	1,025	2	0.2	2,182
1,977	969		1,069	1,075	6	0.6	2,193
1,275	624		674	648	(26)	(4.0)	1,377
1,635	615		767	760	(7)	(0.9)	1,893
1,444	682		748	811	63	7.8	1,711
394	180		205	212	7	3.3	473
991	358		671	612	(59)	(9.6)	1,042
163	74		97	95	(2)	(2.1)	218
32	14		33	26	(7)	(26.9)	51
2,274	1,142		1,188	1,149	(39)	(3.4)	2,250
(35)	18		(47)	18	65	361.1	17
-	-		-	-	-	-	106
<b>46,234</b>	<b>21,954</b>		<b>25,529</b>	<b>25,643</b>	<b>114</b>	<b>0.4</b>	<b>50,665</b>
<b>Total Expenses</b>							

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

# STATEMENT OF CASH FLOWS

for the six months ended 31 December 2005

Prior Year 30 June 2005 \$m	Actual 31 December 2004 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>Cash Flows From Operations</b>							
<b>Cash was provided from</b>							
46,867	21,846	Total tax receipts (refer Note 1)	23,493	23,583	(90)	(0.4)	49,152
2,974	1,722	Total other sovereign receipts (refer Note 1)	1,855	1,813	42	2.3	3,109
1,642	901	Interest	911	629	282	44.8	1,156
66	35	Dividends	38	50	(12)	(24.0)	105
11,517	5,408	Sales of goods and services	6,593	6,313	280	4.4	12,443
2,186	961	Other operating receipts	1,395	1,292	103	8.0	2,419
<b>65,252</b>	<b>30,873</b>	<b>Total cash provided from operations</b>	<b>34,285</b>	<b>33,680</b>	<b>605</b>	<b>1.8</b>	<b>68,384</b>
<b>Cash was disbursed to</b>							
15,717	7,870	Subsidies and transfer payments	8,327	8,523	196	2.3	17,334
35,052	17,984	Personnel and operating payments	19,836	19,143	(693)	(3.6)	38,175
2,294	1,065	Finance costs	1,172	1,195	23	1.9	2,209
-	-	Forecast for future new spending	-	-	-	-	106
<b>53,063</b>	<b>26,919</b>	<b>Total cash disbursed to operations</b>	<b>29,335</b>	<b>28,861</b>	<b>(474)</b>	<b>(1.6)</b>	<b>57,824</b>
<b>12,189</b>	<b>3,954</b>	<b>Net Cash Flows From Operations</b>	<b>4,950</b>	<b>4,819</b>	<b>131</b>	<b>2.7</b>	<b>10,560</b>
<b>Cash Flows From Investing Activities</b>							
<b>Cash was provided from</b>							
316	121	Sale of physical assets	1,741	185	1,556	-	310
<b>316</b>	<b>121</b>	<b>Total cash provided from investing activities</b>	<b>1,741</b>	<b>185</b>	<b>1,556</b>	<b>-</b>	<b>310</b>
<b>Cash was disbursed to</b>							
4,862	2,173	Purchase of physical assets	2,914	3,305	391	11.8	7,159
1,061	286	Net increase in advances	813	921	108	11.7	1,947
6,677	4,134	Net purchase/(sale) of marketable securities, deposits & equity investments	3,212	1,943	(1,269)	(65.3)	3,604
-	-	Capital contingency provision	-	-	-	-	65
<b>12,600</b>	<b>6,593</b>	<b>Total cash disbursed to investing activities</b>	<b>6,939</b>	<b>6,169</b>	<b>(770)</b>	<b>(12.5)</b>	<b>12,775</b>
<b>(12,284)</b>	<b>(6,472)</b>	<b>Net Cash Flows From Investing Activities</b>	<b>(5,198)</b>	<b>(5,984)</b>	<b>786</b>	<b>13.1</b>	<b>(12,465)</b>
<b>(95)</b>	<b>(2,518)</b>	<b>Net Cash Flows From Operating and Investing Activities</b>	<b>(248)</b>	<b>(1,165)</b>	<b>917</b>	<b>78.7</b>	<b>(1,905)</b>
<b>Cash Flows From Financing Activities</b>							
<b>Cash was Provided From</b>							
188	658	Issues of circulating currency	737	18	719	-	18
1,913	1,109	Net issues/(repayment) of Government stock <sup>1</sup>	1,025	1,248	(223)	(17.9)	(184)
<b>2,101</b>	<b>1,767</b>	<b>Total cash provided from financing activities</b>	<b>1,762</b>	<b>1,266</b>	<b>496</b>	<b>39.2</b>	<b>(166)</b>
<b>Cash was Disbursed to</b>							
829	242	Net repayment/(issues) of other New Zealand- dollar borrowing	1,803	495	(1,308)	(264.2)	(402)
951	(732)	Net (issues)/repayment of foreign-currency borrowing	(1,148)	(347)	801	230.8	(752)
<b>1,780</b>	<b>(490)</b>	<b>Total cash disbursed to financing activities</b>	<b>655</b>	<b>148</b>	<b>(507)</b>	<b>(342.6)</b>	<b>(1,154)</b>
<b>321</b>	<b>2,257</b>	<b>Net Cash Flows From Financing Activities</b>	<b>1,107</b>	<b>1,118</b>	<b>(11)</b>	<b>(1.0)</b>	<b>988</b>
<b>226</b>	<b>(261)</b>	<b>Net Movement in Cash</b>	<b>859</b>	<b>(47)</b>	<b>906</b>	<b>-</b>	<b>(917)</b>
3,450	3,450	<b>Opening Cash Balance</b>	3,710	3,710	-	-	3,710
34	13	Foreign-exchange (losses)/gains on opening cash	(3)	(6)	3	50.0	-
<b>3,710</b>	<b>3,202</b>	<b>Closing Cash Balance</b>	<b>4,566</b>	<b>3,657</b>	<b>909</b>	<b>24.9</b>	<b>2,793</b>

<sup>1</sup> 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 2005

Prior Year 30 June 2005 \$m	Actual 31 December 2004 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance		\$m
					\$m	%	
<b>Reconciliation Between the Net Cash Flows from Operations and the Operating Balance</b>							
12,189	3,954	<b>Net Cash Flows from Operations</b>	4,950	4,819	131	3	10,560
		<i>Items included in the operating balance but not in net cash flows from operations</i>					
		<b>Valuation changes</b>					
(1,410)	(434)	(Increase)/decrease in pension liabilities	(256)	(256)	-	-	(293)
(2,037)	(451)	(Increase)/decrease in ACC liabilities	(179)	(179)	-	-	(358)
(53)	-	National Provident Fund guarantee	-	-	-	-	-
(23)	-	Revaluation of commercial forests	-	-	-	-	-
4	(35)	Unrealised net foreign-exchange (losses)/gains	(6)	(77)	71	92	(59)
1,020	741	Other valuation changes	1,027	235	792	337	455
<b>(2,499)</b>	<b>(179)</b>	<b>Total valuation changes</b>	<b>586</b>	<b>(277)</b>	<b>863</b>	<b>311.6</b>	<b>(255)</b>
		<b>Property, plant &amp; equipment asset movements</b>					
(2,528)	(1,251)	Depreciation	(1,313)	(1,335)	22	1.6	(2,779)
-	-	Gain/(loss) on sale of Southern Hydro	630	-	630	-	-
(2)	-	Gain/(loss) on sale of physical assets	-	-	-	-	-
<b>(2,530)</b>	<b>(1,251)</b>	<b>Total property, plant &amp; equipment movements</b>	<b>(683)</b>	<b>(1,335)</b>	<b>652</b>	<b>48.8</b>	<b>(2,779)</b>
		<b>Other Non-cash Items</b>					
(188)	8	Student loans	(1,479)	(1,479)	-	-	(1,704)
(97)	(45)	Amortisation of goodwill	(44)	(45)	1	2.2	(89)
-	-	Accrued income from NZS Fund	466	202	264	130.7	506
133	69	Other	66	55	11	20.0	133
<b>(152)</b>	<b>32</b>	<b>Total Other Non-cash Items</b>	<b>(991)</b>	<b>(1,267)</b>	<b>276</b>	<b>21.8</b>	<b>(1,154)</b>
		<b>Movements in Working Capital</b>					
(202)	1,311	Increase/(decrease) in taxes receivable	1,601	1,421	180	12.7	2
498	885	(Decrease)/increase in other receivables	(345)	(813)	468	57.6	(707)
58	15	Increase/(decrease) in inventories	28	42	(14)	(33.3)	90
(1,115)	(241)	Decrease/(increase) in payables	(705)	231	(936)	(405.2)	(200)
<b>(761)</b>	<b>1,970</b>	<b>Total movements in working capital</b>	<b>579</b>	<b>881</b>	<b>(302)</b>	<b>(34.3)</b>	<b>(815)</b>
<b>6,247</b>	<b>4,526</b>	<b>Operating Balance</b>	<b>4,441</b>	<b>2,821</b>	<b>1,620</b>	<b>57.4</b>	<b>5,557</b>

## STATEMENT OF MOVEMENTS IN EQUITY

for the six months ended 31 December 2005

35,463	35,463	<b>Opening Crown Balance</b>	49,983	49,983	-	-	49,983
6,247	4,526	Operating balance for the period	4,441	2,821	1,620	57.4	5,557
41	-	Minority interest in operating balance	-	-	-	-	-
35	-	Increase in minority interest	-	-	-	-	-
8,197	2	Net revaluations	2	7	(5)	(71.4)	15
<b>14,520</b>	<b>4,528</b>	<b>Total Recognised Revenues and Expenses</b>	<b>4,443</b>	<b>2,828</b>	<b>1,615</b>	<b>57.1</b>	<b>5,572</b>
<b>49,983</b>	<b>39,991</b>	<b>Closing Crown Balance</b>	<b>54,426</b>	<b>52,811</b>	<b>1,615</b>	<b>3.1</b>	<b>55,555</b>

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

# STATEMENT OF FINANCIAL POSITION

as at 31 December 2005

Prior Year 30 June 2005 \$m	Actual 31 December 2004 \$m		Note	Current Year Actual vs Forecast				Annual Forecast
				Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>Assets</b>								
3,710	3,202	Cash and bank balances	8	4,566	3,657	909	24.9	2,793
		Marketable securities, deposits & equity investments	8	37,905	34,092	3,813	11.2	35,322
33,062	29,442	Advances	9	7,853	7,760	93	1.2	8,563
8,536	7,941	Receivables	10	12,139	11,491	648	5.6	10,178
10,883	12,783	Inventories		974	988	(14)	(1.4)	1,036
946	903	Other investments	11	230	236	(6)	(2.5)	258
221	211	Property, plant & equipment	12	67,949	69,310	(1,361)	(2.0)	71,770
67,494	58,553	Commercial forests		232	232	-	-	232
232	251	Investment in TEIs		5,077	5,077	-	-	5,185
5,010	4,449	Intangible assets		550	675	(125)	(18.5)	630
737	777	Forecast for new capital		-	-	-	-	65
-	-							
<b>130,831</b>	<b>118,512</b>	<b>Total Assets</b>		<b>137,475</b>	<b>133,518</b>	<b>3,957</b>	<b>3.0</b>	<b>136,032</b>
<b>Liabilities</b>								
14,451	13,259	Payables and provisions	13	14,985	13,541	(1,444)	(10.7)	14,221
3,197	3,667	Currency issued		3,934	3,215	(719)	(22.4)	3,215
		Borrowings - sovereign guaranteed		28,892	28,452	(440)	(1.5)	26,653
28,645	30,317	Borrowings - non-sovereign guaranteed		8,457	8,728	271	3.1	9,401
8,219	7,504	GSF Pension liability	14	15,208	15,208	-	-	15,245
14,952	13,976	ACC liability	15	11,573	11,563	(10)	(0.1)	11,742
11,384	9,798							
<b>80,848</b>	<b>78,521</b>	<b>Total Liabilities</b>		<b>83,049</b>	<b>80,707</b>	<b>(2,342)</b>	<b>(2.9)</b>	<b>80,477</b>
<b>Total Assets less Total Liabilities</b>								
<b>49,983</b>	<b>39,991</b>			<b>54,426</b>	<b>52,811</b>	<b>1,615</b>	<b>3.1</b>	<b>55,555</b>
<b>Net Worth</b>								
21,780	20,030	Taxpayer funds		26,237	24,602	(1,635)	(6.6)	27,552
27,988	19,822	Revaluation reserve	16	27,974	27,994	20	0.1	28,003
215	139	Minority interest		215	215	-	-	-
<b>49,983</b>	<b>39,991</b>	<b>Net Worth</b>		<b>54,426</b>	<b>52,811</b>	<b>1,615</b>	<b>3.1</b>	<b>55,555</b>

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

# STATEMENT OF FINANCIAL POSITION (CONTINUED)

as at 31 December 2005

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 2005 \$m	Actual 31 December 2004 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
3,956	3,956	Opening balance	6,555	6,555	-	-	6,555
2,107	1,053	Gross contribution	1,169	1,169	-	-	2,337
492	252	Income after tax	466	202	264	130.7	506
<b>6,555</b>	<b>5,261</b>	<b>NZS Fund balance</b>	<b>8,190</b>	<b>7,926</b>	<b>264</b>	<b>3.3</b>	<b>9,398</b>

## 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.

		<b>Total Crown Debt</b>					
<b>36,864</b>	<b>37,821</b>	<b>Total Crown gross debt</b>	<b>37,349</b>	<b>37,180</b>	<b>169</b>	<b>0.5</b>	<b>36,054</b>
<b>35,045</b>	<b>36,351</b>	<b>Gross sovereign-issued debt</b>	<b>34,526</b>	<b>34,396</b>	<b>130</b>	<b>0.4</b>	<b>33,275</b>
		<b>Core Crown Debt</b>					
35,045	36,351	Gross sovereign-issued debt	34,526	34,396	130	0.4	33,275
(33,078)	(29,819)	Financial assets	(35,322)	(33,268)	(2,054)	(6.2)	(34,351)
<b>1,967</b>	<b>6,532</b>		<b>(796)</b>	<b>1,128</b>	<b>(1,924)</b>	<b>(170.6)</b>	<b>(1,076)</b>
8,804	7,996	NZS Fund and GSF financial assets	11,338	10,433	905	8.7	11,673
<b>10,771</b>	<b>14,528</b>	<b>Net Core Crown Debt</b>	<b>10,542</b>	<b>11,561</b>	<b>(1,019)</b>	<b>(8.8)</b>	<b>10,597</b>

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

# STATEMENT OF BORROWINGS

as at 31 December 2005

Prior Year 30 June 2005 \$m	Actual 31 December 2004 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>Sovereign-Guaranteed Debt</b>							
<b>New Zealand-Dollar Debt</b>							
16,058	18,100	Government stock	18,172	17,730	(442)	(2.5)	15,894
5,245	5,342	Treasury bills	5,240	5,253	13	0.2	5,240
(6,123)	2,013	Loans and foreign-exchange contracts	(6,095)	1,038	7,133	-	538
583	595	Retail stock	540	565	25	4.4	600
<b>15,763</b>	<b>26,050</b>	<b>Total New Zealand-Dollar Debt</b>	<b>17,857</b>	<b>24,586</b>	<b>6,729</b>	<b>27.4</b>	<b>22,272</b>
<b>Foreign-Currency Debt</b>							
7,906	(621)	United States dollars	7,466	1,973	(5,493)	(278.4)	2,474
252	372	Japanese yen	79	(415)	(494)	(119.0)	(415)
4,724	4,516	European and other currencies	3,490	2,308	(1,182)	(51.2)	2,322
<b>12,882</b>	<b>4,267</b>	<b>Total Foreign-Currency Debt</b>	<b>11,035</b>	<b>3,866</b>	<b>(7,169)</b>	<b>(185.4)</b>	<b>4,381</b>
<b>28,645</b>	<b>30,317</b>	<b>Total Sovereign-Guaranteed Debt</b>	<b>28,892</b>	<b>28,452</b>	<b>(440)</b>	<b>(1.5)</b>	<b>26,653</b>
<b>Non-Sovereign-Guaranteed Debt</b>							
5,601	5,062	New Zealand dollars	6,274	6,235	(39)	(0.6)	6,500
1,541	1,654	United States dollars	1,921	1,720	(201)	(11.7)	1,978
324	184	Japanese yen	139	-	(139)	-	-
753	604	European and other currencies	123	773	650	84.1	923
<b>8,219</b>	<b>7,504</b>	<b>Total Non-Sovereign Debt</b>	<b>8,457</b>	<b>8,728</b>	<b>271</b>	<b>3.1</b>	<b>9,401</b>
<b>36,864</b>	<b>37,821</b>	<b>Total Borrowings (Gross Debt)</b>	<b>37,349</b>	<b>37,180</b>	<b>(169)</b>	<b>(0.5)</b>	<b>36,054</b>
<b>Less</b>							
<b>Financial Assets (including restricted assets)</b>							
<b>Marketable Securities, Deposits and Equity Investments</b>							
6,487	13,461	New Zealand dollars	11,293	15,527	(4,234)	(27.3)	14,564
9,733	566	United States dollars	8,882	3,860	5,022	130.1	4,505
789	622	Japanese yen	348	15	333	-	90
4,455	4,119	European and other currencies	3,284	1,728	1,556	90.0	2,108
702	804	Reserve position at IMF	585	493	92	18.7	495
2,385	2,213	NZ equity investments	2,664	2,531	133	5.3	3,136
8,511	7,657	Foreign equity investments	10,849	9,938	911	9.2	10,424
<b>33,062</b>	<b>29,442</b>	<b>Total Marketable Securities</b>	<b>37,905</b>	<b>34,092</b>	<b>3,813</b>	<b>11.2</b>	<b>35,322</b>
		<b>Deposits &amp; Equity Investments</b>					
		<b>Advances and Cash</b>					
6,465	6,157	Student loans	5,178	5,178	-	-	5,540
2,071	1,784	Other advances	2,675	2,582	93	3.6	3,023
3,710	3,202	Cash	4,566	3,657	909	24.9	2,793
<b>12,246</b>	<b>11,143</b>	<b>Total Advances and Cash</b>	<b>12,419</b>	<b>11,417</b>	<b>1,002</b>	<b>8.8</b>	<b>11,356</b>
<b>45,308</b>	<b>40,585</b>	<b>Total Financial Assets</b>	<b>50,324</b>	<b>45,509</b>	<b>4,815</b>	<b>10.6</b>	<b>46,678</b>
<b>(8,444)</b>	<b>(2,764)</b>	<b>Borrowings less Financial Assets</b>	<b>(12,975)</b>	<b>(8,329)</b>	<b>4,646</b>	<b>55.8</b>	<b>(10,624)</b>
(13)	4,393	Net New Zealand-dollar debt	(2,095)	892	2,987	334.9	(1,133)
(8,431)	(7,157)	Net foreign-currency debt	(10,880)	(9,221)	1,659	18.0	(9,491)
<b>(8,444)</b>	<b>(2,764)</b>	<b>Borrowings less Financial Assets</b>	<b>(12,975)</b>	<b>(8,329)</b>	<b>4,646</b>	<b>55.8</b>	<b>(10,624)</b>

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



## STATEMENT OF COMMITMENTS

as at 31 December 2005

	As at 31 December 2005 \$m	As at 30 June 2005 \$m	As at 31 December 2004 \$m
<b>Capital Commitments</b>			
Specialist military equipment	631	825	774
Land and buildings	1,681	1,440	1,768
Other property, plant and equipment	2,369	2,432	912
Other capital commitments	429	69	109
TEIs	125	125	60
<b>Total Capital Commitments</b>	<b>5,235</b>	<b>4,891</b>	<b>3,623</b>
<b>Operating Commitments</b>			
Non-cancellable accommodation leases	1,795	1,972	1,461
Other non-cancellable leases	2,474	2,606	2,366
Non-cancellable contracts for the supply of goods and services	4,172	1,721	4,306
Other operating commitments	3,350	4,054	2,570
TEIs	1,052	1,052	325
<b>Total Operating Commitments</b>	<b>12,843</b>	<b>11,405</b>	<b>11,028</b>
<b>Total Commitments</b>	<b>18,078</b>	<b>16,296</b>	<b>14,651</b>
<b>Total Commitments by Institutional Segment</b>			
Core Crown	6,828	2,627	4,910
Crown entities	7,824	10,061	7,528
State-owned enterprises	3,426	3,608	2,213
<b>Total Commitments</b>	<b>18,078</b>	<b>16,296</b>	<b>14,651</b>

## STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 December 2005

	As at 31 December 2005 \$m	As at 30 June 2005 \$m	As at 31 December 2004 \$m
<b>Quantifiable Contingent Liabilities</b>			
Guarantees and Indemnities	149	149	206
Uncalled Capital	2,289	2,233	2,187
Legal Proceedings and Disputes	652	586	813
Other Contingent Liabilities	1,665	1,502	1,500
<b>Total Quantifiable Contingent Liabilities</b>	<b>4,755</b>	<b>4,470</b>	<b>4,706</b>
<b>Total Quantifiable Contingent Liabilities by Institutional Segment</b>			
Core Crown	4,621	4,330	4,437
Crown entities	19	36	9
State-owned enterprises	115	104	260
<b>Total Quantifiable Contingent Liabilities</b>	<b>4,755</b>	<b>4,470</b>	<b>4,706</b>
<b>Quantifiable Contingent Assets</b>			
Core Crown - Education and Transport	111	107	121
<b>Total Quantifiable Contingent Assets</b>	<b>111</b>	<b>107</b>	<b>121</b>

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

# STATEMENT OF CONTINGENT LIABILITIES AND ASSETS (CONTINUED)

as at 31 December 2005

## Quantifiable Contingent Liabilities

	31 December 2005 \$m	31 December 2004 \$m
Guarantees and indemnities	149	206
Uncalled capital	2,289	2,187
Legal proceedings and disputes	652	813
Other contingent liabilities	1,665	1,500
<b>Total Quantifiable Contingent Liabilities</b>	<b>4,755</b>	<b>4,706</b>
<b>Total Quantifiable Contingent Assets</b>	<b>111</b>	<b>117</b>

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 2005, the Crown had quantifiable contingent assets totalling \$111 million (\$117 million at 31 December 2004). \$98 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.

\$16 million at 31 December 2005 (\$17 million at 31 December 2004).

### *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 2005 (\$10 million at 31 December 2004).

### *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.

\$87 million at 31 December 2005 (\$76 million at 31 December 2004).

### *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 2005 (\$10 million at 31 December 2004).

### *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 2005 (\$11 million at 31 December 2004).

### *Guarantees and indemnities of SOEs and Crown entities*

\$16 million at 31 December 2005 (\$4 million at 31 December 2004).

### *Other guarantees and indemnities*

Nil at 31 December 2005 (\$78 million at 31 December 2004).

### **Uncalled capital**

The Crown's uncalled capital subscriptions are as follows:	<b>Uncalled capital at 31 December 2005 \$m</b>	<b>Uncalled capital at 31 December 2004 \$m</b>
Asian Development Bank	1,076	1,031
European Bank for Reconstruction and Development	12	13
International Bank for Reconstruction and Development	1,201	1,143

### **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.

*Health – legal claims*

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

\$88 million at 31 December 2005 (\$104 million at 31 December 2004).

*Tax in dispute*

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

\$461 million at 31 December 2005 (\$487 million at 31 December 2004).

*Other legal claims against SOEs and Crown entities*

\$5 million at 31 December 2005 (\$7 million at 31 December 2004).

*Other legal claims*

\$98 million at 31 December 2005 (\$215 million at 31 December 2004).

**Other quantifiable contingent liabilities**

*International finance organisations*

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

	31 December 2005 \$m	31 December 2004 \$m
IMF	1,440	1,285

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.

\$24 million at 31 December 2005 (\$4 million at 31 December 2004).

*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.

\$61 million at 31 December 2005 (\$49 million at 31 December 2004).

*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.

\$99 million at 31 December 2005 (\$86 million at 31 December 2004).

*Other quantified contingent liabilities of SOEs and Crown entities*

\$14 million at 31 December 2005 (\$29 million at 31 December 2004).

*Other quantifiable contingent liabilities*

\$26 million at 31 December 2005 (\$27million at 31 December 2004).

## **Unquantifiable Contingent Liabilities**

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

### ***Guarantees and indemnities***

*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 Toll NZ 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*

The Building Industry Authority (BIA) is a joint defendant in a number of claims before the courts and the Weathertight Homes Resolution Service relating to the BIA's previous role as regulator of the building industry. The BIA has been dis-established and absorbed into the Department of Building & Housing and, to prevent conflicts of interest, Treasury has been given responsibility for managing weathertightness related claims against the BIA on behalf of the Crown from 1 July 2005.

### *Crown research institutes (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.

### *District Court Judges, Justices of the Peace, Coroners and Disputes Tribunal*

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.

### *Earthquake Commission (EQC)*

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

### *Electricity Corporation of New Zealand Limited (ECNZ)*

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

The Deed of Assumption and Release between ECNZ, Contact Energy Limited and the Crown provides that the Crown is now longer liable to ECNZ in respect of those assets transferred to it from ECNZ. 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.

*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.

*Geothermal carbon tax indemnity*

As part of the sale and purchase agreement between the Crown and Mighty River Power (MRP), the Crown has agreed to provide an indemnity for the payment of carbon taxes, should legislation be passed that does not allow for an automatic pass-through of the charges to end-users. The indemnity is time bound and contractually limited in the amount that can be claimed. The indemnity is not limited to MRP and will be available to any subsequent owner of the Crown's Kawerau geothermal assets.

*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.

### *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 New Zealand 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 establishes a Crown indemnity to the Securities Commission, the Registrar and Deputy Registrar of Companies, and statutory managers, advisory committee members and investigators appointed under the Act, from liability relating to the exercise of powers under the Act unless bad faith is shown.

### *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)*

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



The Crown has entered into an agreement to provide funding to the Reserve Bank in the event they undertake foreign exchange market interventions under section 16 of the Reserve Bank Act for the purpose of influencing the level of the exchange rate.

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

#### *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***

#### *Abuse Claims*

There is ongoing legal action against the Crown in relation to historical abuse claims. At this stage the number of claimants and outcome of these cases are uncertain.

### *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 3 June 2005 the High Court overturned a decision by the District Court made in 2004 that had upheld an interpretation that a lump sum payment was required to be paid in respect of one claimant. Leave to appeal this decision to the Court of Appeal has been granted to the claimant.

If the Court of Appeal overturns the decision made in the High Court, ACC could be exposed 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.

### *Environmental Liabilities*

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

During 2002/03 departments managing significant Crown properties undertook exercises to establish the nature and quantity of any contaminated sites. These exercises continued into the 2004/05 year. Where appropriate, departmental systems have been implemented to identify, monitor and assess potential contaminated sites.

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

### *Genesis Power Limited*

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

### *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.

### ***Other contingencies***

#### *Foreshore and seabed*

The Foreshore and Seabed Act 2004 (FSA):

- vests the full legal and beneficial ownership of the public foreshore and seabed in the Crown
- provides for the recognition and protection of ongoing customary rights with respect to the public foreshore and seabed
- enables applications to the High Court to investigate if previously held common law rights have been adversely impacted, and if so, providing for those affected either to participate in the administration of a foreshore and seabed reserve or else enter into formal discussions on redress, and
- provides for general rights of public access and recreation in, on, over, and across the public foreshore and seabed and general rights of navigation within the foreshore and seabed.

The public foreshore and seabed means the marine area that is bounded on the landward side by the line of mean high water spring; and on the seaward side by the outer limits of the territorial sea, but does not include land subject to a specified freehold interest (refer section 5 of the FSA).

The FSA codifies the nature of the Crown's ownership interest in the public foreshore and seabed on behalf of the public of New Zealand. Although full legal and beneficial ownership of the public foreshore and seabed has been vested in the Crown, there are significant limitations to the Crown's rights under the FSA. As well as recognising and protecting customary rights, the FSA significantly restricts the Crown's ability to alienate or dispose of any part of the public foreshore and seabed and significantly restricts the Crown's ability to exclude others from entering or engaging in recreational activities or navigating in, on or within the public foreshore and seabed. Because of the complex nature of the Crown's ownership interest in the public foreshore and seabed and because we are unable to obtain a reliable valuation of the Crown's interest, the public foreshore and seabed has not been recognised as an asset in these financial statements.

# STATEMENT OF SEGMENTS

## Financial Performance and Financial Position by institutional form

### Statement of Financial Performance (institutional form) for the six months ended 31 December 2005 (actual to forecast)

(\$ million)	Current Year-To-Date Actual vs Forecast			
	Core Crown		Crown entities	
	Actual December 2005/06 \$m	Forecast December 2005/06 \$m	Actual December 2005/06 \$m	Forecast December 2005/06 \$m
<b>Revenue</b>				
Taxation revenue	24,964	25,022	-	-
Other sovereign levied income	339	356	1,292	1,272
Sales of goods and services	442	437	881	915
Investment income	2,073	1,346	866	584
Other revenues	289	314	9,234	9,231
<b>Total revenue</b>	<b>28,107</b>	<b>27,475</b>	<b>12,273</b>	<b>12,002</b>
<b>Expenses by input type</b>				
Subsidies and transfer payments	7,514	7,545	826	867
Personnel expenses	2,975	2,952	3,695	3,719
Operating expenses	13,643	13,723	6,455	6,332
Finance costs	1,188	1,149	150	152
FX losses/(gains)	(47)	18	(17)	-
GSF and ACC liability revaluation movts	256	256	179	179
<b>Total expenses</b>	<b>25,529</b>	<b>25,643</b>	<b>11,288</b>	<b>11,249</b>
<b>Expenses by functional classification</b>				
Social security and welfare	7,746	7,741	1,391	1,417
Health	4,668	5,308	4,157	3,964
Education	5,605	5,697	3,243	3,340
Other functional classifications	6,370	5,730	2,364	2,376
Forecast for future new spending	-	-	-	-
Finance costs and FX losses/(gains)	1,140	1,167	133	152
<b>Total expenses</b>	<b>25,529</b>	<b>25,643</b>	<b>11,288</b>	<b>11,249</b>
Net surplus of TEIs	-	-	66	66
Minority interest	-	-	-	-
<b>Operating balance</b>	<b>2,578</b>	<b>1,832</b>	<b>1,051</b>	<b>819</b>

### Statement of Financial Position (institutional form) as at 31 December 2005 (actual to forecast)

(\$ million)	Core Crown		Crown entities	
	Actual December 2005/06 \$m	Forecast December 2005/06 \$m	Actual December 2005/06 \$m	Forecast December 2005/06 \$m
	<b>Assets</b>			
Financial assets	35,323	33,268	16,420	15,875
Physical assets	22,416	22,256	32,469	32,714
Investment in SOEs & CE (including TEIs)	23,921	23,858	5,077	5,077
Other assets	10,328	9,783	2,002	2,222
<b>Total assets</b>	<b>91,988</b>	<b>89,165</b>	<b>55,968</b>	<b>55,888</b>
<b>Liabilities</b>				
Borrowings	33,445	33,276	3,886	4,150
Other liabilities	27,662	25,750	16,148	15,966
<b>Total liabilities</b>	<b>61,107</b>	<b>59,026</b>	<b>20,034</b>	<b>20,116</b>
<b>Net worth</b>	<b>30,881</b>	<b>30,139</b>	<b>35,934</b>	<b>35,772</b>
Taxpayer funds	22,084	21,335	20,407	20,236
Revaluation reserves	8,797	8,804	15,527	15,536
Minority interest	-	-	-	-
<b>Net worth</b>	<b>30,881</b>	<b>30,139</b>	<b>35,934</b>	<b>35,772</b>
<b>Analysis of financial assets and borrowings</b>				
Advances and cash	8,087	8,482	2,108	2,109
MSDs and equity investments	27,236	24,786	14,312	13,766
<b>Total financial assets</b>	<b>35,323</b>	<b>33,268</b>	<b>16,420</b>	<b>15,875</b>
Borrowings - Sovereign guaranteed	33,445	33,276	-	-
Borrowings - Non-sovereign guaranteed	-	-	3,886	4,150
<b>Total borrowings</b>	<b>33,445</b>	<b>33,276</b>	<b>3,886</b>	<b>4,150</b>
<b>Borrowings less financial assets</b>	<b>(1,878)</b>	<b>8</b>	<b>(12,534)</b>	<b>(11,725)</b>
<b>Net Crown debt</b>	<b>10,542</b>	<b>11,561</b>	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.	
<b>Gross sovereign-issued debt</b>	<b>34,526</b>	<b>34,396</b>		

# 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 2005 (actual to forecast)

(\$ million)	Current Year-To-Date Actual vs Forecast					
	State-owned enterprises		Inter-segment elimins		Total Crown	
	Actual	Forecast	Actual	Forecast	Actual	Forecast
	December	December	December	December	December	December
	2005/06	2005/06	2005/06	2005/06	2005/06	2005/06
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Revenue</b>						
Taxation revenue	-	-	(262)	(254)	24,702	24,768
Other sovereign levied income	-	-	(28)	(26)	1,603	1,602
Sales of goods and services	5,259	4,961	(274)	(251)	6,308	6,062
Investment income	822	138	(355)	(321)	3,406	1,747
Other revenues	408	432	(8,629)	(8,744)	1,302	1,233
<b>Total revenue</b>	<b>6,489</b>	<b>5,531</b>	<b>(9,548)</b>	<b>(9,596)</b>	<b>37,321</b>	<b>35,412</b>
<b>Expenses by input type</b>						
Subsidies and transfer payments	-	-	-	-	8,340	8,412
Personnel expenses	912	937	(2)	(3)	7,580	7,605
Operating expenses	4,273	4,000	(9,191)	(9,274)	15,180	14,781
Finance costs	248	215	(128)	(86)	1,458	1,430
FX losses/(gains)	17	(24)	-	-	(47)	(6)
GSF and ACC liability revaluation movts	-	-	-	-	435	435
<b>Total expenses</b>	<b>5,450</b>	<b>5,128</b>	<b>(9,321)</b>	<b>(9,363)</b>	<b>32,946</b>	<b>32,657</b>
<b>Expenses by functional classification</b>						
Social security and welfare	-	-	(289)	(270)	8,848	8,888
Health	-	-	(4,111)	(4,744)	4,714	4,528
Education	7	7	(2,877)	(2,884)	5,978	6,160
Other functional classifications	5,177	4,929	(1,916)	(1,378)	11,995	11,657
Forecast for future new spending	-	-	-	-	-	-
Finance costs and FX losses/(gains)	266	192	(128)	(87)	1,411	1,424
<b>Total expenses</b>	<b>5,450</b>	<b>5,128</b>	<b>(9,321)</b>	<b>(9,363)</b>	<b>32,946</b>	<b>32,657</b>
Net surplus of TElS	-	-	-	-	66	66
Minority interest	-	-	-	-	-	-
<b>Operating balance</b>	<b>1,039</b>	<b>403</b>	<b>(227)</b>	<b>(233)</b>	<b>4,441</b>	<b>2,821</b>

## Statement of Financial Position (institutional form) as at 31 December 2005 (actual to forecast)

(\$ million)	State-owned enterprises		Inter-segment elimins		Total Crown	
	Actual	Forecast	Actual	Forecast	Actual	Forecast
	December	December	December	December	December	December
	2005/06	2005/06	2005/06	2005/06	2005/06	2005/06
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>						
Financial assets	5,429	3,703	(6,848)	(7,337)	50,324	45,509
Physical assets	13,064	14,340	-	-	67,949	69,310
Investment in SOEs & CE (including TElS)	-	-	(23,921)	(23,858)	5,077	5,077
Other assets	2,257	2,212	(462)	(595)	14,125	13,622
<b>Total assets</b>	<b>20,750</b>	<b>20,255</b>	<b>(31,231)</b>	<b>(31,790)</b>	<b>137,475</b>	<b>133,518</b>
<b>Liabilities</b>						
Borrowings	6,866	7,091	(6,848)	(7,337)	37,349	37,180
Other liabilities	3,062	2,874	(1,172)	(1,063)	45,700	43,527
<b>Total liabilities</b>	<b>9,928</b>	<b>9,965</b>	<b>(8,020)</b>	<b>(8,400)</b>	<b>83,049</b>	<b>80,707</b>
<b>Net worth</b>	<b>10,822</b>	<b>10,290</b>	<b>(23,211)</b>	<b>(23,390)</b>	<b>54,426</b>	<b>52,811</b>
Taxpayer funds	6,957	6,421	(23,211)	(23,390)	26,237	24,602
Revaluation reserves	3,650	3,654	-	-	27,974	27,994
Minority interest	215	215	-	-	215	215
<b>Net worth</b>	<b>10,822</b>	<b>10,290</b>	<b>(23,211)</b>	<b>(23,390)</b>	<b>54,426</b>	<b>52,811</b>
<b>Analysis of financial assets and borrowings</b>						
Advances and cash	4,378	3,220	(2,154)	(2,394)	12,419	11,417
MSDs and equity investments	1,051	483	(4,694)	(4,943)	37,905	34,092
<b>Total financial assets</b>	<b>5,429</b>	<b>3,703</b>	<b>(6,848)</b>	<b>(7,337)</b>	<b>50,324</b>	<b>45,509</b>
Borrowings - Sovereign guaranteed	-	-	(4,553)	(4,824)	28,892	28,452
Borrowings - Non-sovereign guaranteed	6,866	7,091	(2,295)	(2,513)	8,457	8,728
<b>Total borrowings</b>	<b>6,866</b>	<b>7,091</b>	<b>(6,848)</b>	<b>(7,337)</b>	<b>37,349</b>	<b>37,180</b>
<b>Borrowings less financial assets</b>	<b>1,437</b>	<b>3,388</b>	<b>-</b>	<b>-</b>	<b>(12,975)</b>	<b>(8,329)</b>

# 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 2006 (compared to actual 30 June 2005)

(\$ million)	Prior Year Actual vs Current Year Forecast			
	Core Crown		Crown entities	
	Actual 2005 \$m	Forecast 2006 \$m	Actual 2005 \$m	Forecast 2006 \$m
<b>Revenue</b>				
Taxation revenue	47,118	49,705	-	-
Other sovereign levied income	647	661	2,561	2,546
Sales of goods and services	790	769	1,706	1,766
Investment income	2,811	2,471	1,297	1,106
Other revenues	699	722	17,247	18,421
<b>Total revenue</b>	<b>52,065</b>	<b>54,328</b>	<b>22,811</b>	<b>23,839</b>
<b>Expenses by input type</b>				
Subsidies and transfer payments	14,295	15,362	1,549	1,715
Personnel expenses	4,738	5,373	7,075	7,426
Operating expenses	23,553	27,370	12,033	12,746
Finance costs	2,273	2,250	288	305
FX losses/(gains)	(35)	17	63	10
GSF and ACC liability movements	1,410	293	2,037	358
<b>Total expenses</b>	<b>46,234</b>	<b>50,665</b>	<b>23,045</b>	<b>22,560</b>
<b>Expenses by functional classification</b>				
Social security and welfare	14,682	15,850	4,274	2,786
Health	8,813	9,839	7,478	7,932
Education	7,930	10,033	6,161	6,586
Other functional classifications	12,570	12,570	4,781	4,941
Forecast for future new spending	-	106	-	-
Finance costs and FX losses/(gains)	2,239	2,267	351	315
<b>Total expenses</b>	<b>46,234</b>	<b>50,665</b>	<b>23,045</b>	<b>22,560</b>
Net surplus of TEIs	-	-	133	133
Minority interest	-	-	-	-
<b>Operating balance</b>	<b>5,831</b>	<b>3,663</b>	<b>(101)</b>	<b>1,412</b>

### Forecast Statement of Financial Position (institutional form)

as at 30 June 2006 (compared to actual 30 June 2005)

(\$ million)	Core Crown		Crown entities	
	Actual 2005 \$m	Forecast 2006 \$m	Actual 2005 \$m	Forecast 2006 \$m
	<b>Assets</b>			
Financial assets	33,078	34,351	15,637	16,282
Physical assets	21,987	22,804	32,252	33,760
Investment in SOEs & CE (including TEIs)	23,823	24,399	5,010	5,185
Other assets	8,637	8,255	2,533	2,007
<b>Total assets</b>	<b>87,525</b>	<b>89,809</b>	<b>55,432</b>	<b>57,234</b>
<b>Liabilities</b>				
Borrowings	33,777	31,978	3,867	4,071
Other liabilities	25,442	25,850	16,745	16,368
<b>Total liabilities</b>	<b>59,219</b>	<b>57,828</b>	<b>20,612</b>	<b>20,439</b>
<b>Net worth</b>	<b>28,306</b>	<b>31,981</b>	<b>34,820</b>	<b>36,795</b>
Taxpayer Funds	19,504	23,169	19,288	21,259
Revaluation reserves	8,802	8,812	15,532	15,536
Minority interest	-	-	-	-
<b>Net worth</b>	<b>28,306</b>	<b>31,981</b>	<b>34,820</b>	<b>36,795</b>
<b>Analysis of financial assets and borrowings</b>				
Advances and cash	9,373	8,255	2,098	2,037
MSDs and equity investments	23,705	26,096	13,539	14,245
<b>Total financial assets</b>	<b>33,078</b>	<b>34,351</b>	<b>15,637</b>	<b>16,282</b>
Borrowings - Sovereign guaranteed	33,777	31,978	-	-
Borrowings - Non-sovereign guaranteed	-	-	3,867	4,071
<b>Total borrowings</b>	<b>33,777</b>	<b>31,978</b>	<b>3,867</b>	<b>4,071</b>
<b>Borrowings less financial assets</b>	<b>699</b>	<b>(2,373)</b>	<b>(11,770)</b>	<b>(12,211)</b>
<b>Net Crown debt</b>	<b>10,771</b>	<b>10,597</b>	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.	
<b>Gross sovereign-issued debt</b>	<b>35,045</b>	<b>33,275</b>		

# 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 2006 (compared to actual 30 June 2005)

(\$ million)	Prior Year Actual vs Current Year Forecast					
	State-owned enterprises		Inter-segment elimins		Total Crown	
	Actual 2005 \$m	Forecast 2006 \$m	Actual 2005 \$m	Forecast 2006 \$m	Actual 2005 \$m	Forecast 2006 \$m
<b>Revenue</b>						
Taxation revenue	-	-	(494)	(456)	46,624	49,249
Other sovereign levied income	-	-	(93)	(49)	3,115	3,158
Sales of goods and services	9,275	10,134	(440)	(444)	11,331	12,225
Investment income	332	252	(626)	(536)	3,814	3,293
Other revenues	658	901	(16,423)	(18,194)	2,181	1,850
<b>Total revenue</b>	<b>10,265</b>	<b>11,287</b>	<b>(18,076)</b>	<b>(19,679)</b>	<b>67,065</b>	<b>69,775</b>
<b>Expenses by input type</b>						
Subsidies and transfer payments	-	-	-	-	15,844	17,077
Personnel expenses	1,755	1,862	(6)	(5)	13,562	14,656
Operating expenses	7,180	8,192	(17,452)	(19,140)	25,314	29,168
Finance costs	376	413	(177)	(173)	2,760	2,795
FX losses/(gains)	(45)	(23)	-	-	(17)	4
GSF and ACC liability revaluation movts	-	-	-	-	3,447	651
<b>Total expenses</b>	<b>9,266</b>	<b>10,444</b>	<b>(17,635)</b>	<b>(19,318)</b>	<b>60,910</b>	<b>64,351</b>
<b>Expenses by functional classification</b>						
Social security and welfare	-	-	(434)	(442)	18,522	18,194
Health	-	-	(7,847)	(8,335)	8,444	9,436
Education	13	15	(5,485)	(6,167)	8,619	10,467
Other functional classifications	8,922	10,039	(3,691)	(4,201)	22,582	23,349
Forecast for future new spending	-	-	-	-	-	106
Finance costs and FX losses/(gains)	331	390	(178)	(173)	2,743	2,799
<b>Total expenses</b>	<b>9,266</b>	<b>10,444</b>	<b>(17,635)</b>	<b>(19,318)</b>	<b>60,910</b>	<b>64,351</b>
Net surplus of TEIs	-	-	-	-	133	133
Minority interest	(41)	-	-	-	(41)	-
<b>Operating balance</b>	<b>958</b>	<b>843</b>	<b>(441)</b>	<b>(361)</b>	<b>6,247</b>	<b>5,557</b>

### Forecast Statement of Financial Position (institutional form) as at 30 June 2006 (compared to actual 30 June 2005)

(\$ million)	State-owned enterprises		Inter-segment elimins		Total Crown	
	Actual 2005 \$m	Forecast 2006 \$m	Actual 2005 \$m	Forecast 2006 \$m	Actual 2005 \$m	Forecast 2006 \$m
	<b>Assets</b>					
Financial assets	3,990	3,948	(7,397)	(7,903)	45,308	46,678
Physical assets	13,255	15,206	-	-	67,494	71,770
Investment in SOEs & CE (including TEIs)	-	-	(23,823)	(24,399)	5,010	5,185
Other assets	2,431	2,654	(582)	(517)	13,019	12,399
<b>Total assets</b>	<b>19,676</b>	<b>21,808</b>	<b>(31,802)</b>	<b>(32,819)</b>	<b>130,831</b>	<b>136,032</b>
<b>Liabilities</b>						
Borrowings	6,617	7,908	(7,397)	(7,903)	36,864	36,054
Other liabilities	2,979	3,269	(1,182)	(1,064)	43,984	44,423
<b>Total liabilities</b>	<b>9,596</b>	<b>11,177</b>	<b>(8,579)</b>	<b>(8,967)</b>	<b>80,848</b>	<b>80,477</b>
<b>Net worth</b>	<b>10,080</b>	<b>10,631</b>	<b>(23,223)</b>	<b>(23,852)</b>	<b>49,983</b>	<b>55,555</b>
Taxpayer Funds	6,211	6,976	(23,223)	(23,852)	21,780	27,552
Revaluation reserves	3,654	3,655	-	-	27,988	28,003
Minority interest	215	-	-	-	215	-
<b>Net worth</b>	<b>10,080</b>	<b>10,631</b>	<b>(23,223)</b>	<b>(23,852)</b>	<b>49,983</b>	<b>55,555</b>
<b>Analysis of financial assets and borrowings</b>						
Advances and cash	2,902	3,530	(2,127)	(2,466)	12,246	11,356
MSDs and equity investments	1,088	418	(5,270)	(5,437)	33,062	35,322
<b>Total financial assets</b>	<b>3,990</b>	<b>3,948</b>	<b>(7,397)</b>	<b>(7,903)</b>	<b>45,308</b>	<b>46,678</b>
Borrowings - Sovereign guaranteed	-	-	(5,132)	(5,325)	28,645	26,653
Borrowings - Non-sovereign guaranteed	6,617	7,908	(2,265)	(2,578)	8,219	9,401
<b>Total borrowings</b>	<b>6,617</b>	<b>7,908</b>	<b>(7,397)</b>	<b>(7,903)</b>	<b>36,864</b>	<b>36,054</b>
<b>Borrowings less financial assets</b>	<b>2,627</b>	<b>3,960</b>	<b>-</b>	<b>-</b>	<b>(8,444)</b>	<b>(10,624)</b>

# NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2005 \$m	Actual 31 December 2004 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>NOTE 1: Revenue Collected Through the Crown's Sovereign Power</b>							
<b>Income Tax Revenue (accrual)</b>							
<b>Individuals</b>							
18,324	8,973	Source deductions	9,718	9,689	29	0.3	19,567
4,103	2,261	Other persons	2,369	2,358	11	0.5	4,221
(876)	(456)	Refunds	(542)	(524)	(18)	(3.4)	(974)
441	224	Fringe benefit tax	238	239	(1)	(0.4)	458
<b>21,992</b>	<b>11,002</b>	<b>Total Individuals</b>	<b>11,783</b>	<b>11,762</b>	<b>21</b>	<b>0.2</b>	<b>23,272</b>
<b>Corporate Tax</b>							
7,537	3,703	Gross companies tax	4,210	4,365	(155)	(3.6)	8,202
(232)	(61)	Refunds	(68)	(71)	3	4	(200)
927	394	Non-resident withholding tax	559	551	8	1.5	917
188	69	Foreign-source dividend w/holding payments	72	84	(12)	(14.3)	222
<b>8,420</b>	<b>4,105</b>	<b>Total Corporate Tax</b>	<b>4,773</b>	<b>4,929</b>	<b>(156)</b>	<b>(3.2)</b>	<b>9,141</b>
<b>Other Income Tax</b>							
1,501	695	Resident w/holding tax on interest income	881	859	22	2.6	1,745
59	30	Resident w/holding tax on dividend income	40	37	3	8.1	67
2	1	Estate and gift duties	1	2	(1)	(50.0)	2
<b>1,562</b>	<b>726</b>	<b>Total Other Income Tax</b>	<b>922</b>	<b>898</b>	<b>24</b>	<b>2.7</b>	<b>1,814</b>
<b>31,974</b>	<b>15,833</b>	<b>Total Income Tax</b>	<b>17,478</b>	<b>17,589</b>	<b>(111)</b>	<b>(0.6)</b>	<b>34,227</b>
<b>Goods and Services Tax</b>							
17,378	8,354	Gross goods and services tax	8,695	8,721	(26)	(0.3)	18,037
(7,180)	(3,601)	Refunds	(3,867)	(3,893)	26	0.7	(7,696)
<b>10,198</b>	<b>4,753</b>	<b>Total Goods and Services Tax</b>	<b>4,828</b>	<b>4,828</b>	<b>-</b>	<b>-</b>	<b>10,341</b>
<b>Other Taxation</b>							
823	408	Petroleum fuels excise	459	432	27	6.3	906
842	510	Tobacco excise	539	532	7	1.3	856
947	450	Customs duty	441	436	5	1.1	1,041
713	349	Road user charges	366	376	(10)	(2.7)	752
491	256	Alcohol excise	271	264	7	2.7	500
281	141	Gaming duties	135	132	3	2.3	268
217	109	Motor vehicle fees	111	113	(2)	(1.8)	224
73	40	Energy resources levies	36	32	4	12.5	70
65	28	Approved issuer levy and cheque duty	38	34	4	11.8	64
<b>4,452</b>	<b>2,291</b>	<b>Total Other Indirect Taxation</b>	<b>2,396</b>	<b>2,351</b>	<b>45</b>	<b>1.9</b>	<b>4,681</b>
<b>14,650</b>	<b>7,044</b>	<b>Total Indirect Taxation</b>	<b>7,224</b>	<b>7,179</b>	<b>45</b>	<b>0.6</b>	<b>15,022</b>
<b>46,624</b>	<b>22,877</b>	<b>Total Tax Revenue Collected</b>	<b>24,702</b>	<b>24,768</b>	<b>(66)</b>	<b>(0.3)</b>	<b>49,249</b>
<b>Other Sovereign Revenues (accrual)</b>							
2,119	1,010	ACC levies	1,044	1,037	7	0.7	2,089
249	133	Fire Service levies	137	131	6	4.6	250
80	40	EQC levies	41	41	-	-	81
667	364	Other miscellaneous items	381	393	(12)	(3.1)	738
<b>3,115</b>	<b>1,547</b>	<b>Total Other Sovereign Revenues</b>	<b>1,603</b>	<b>1,602</b>	<b>1</b>	<b>0.1</b>	<b>3,158</b>
<b>49,739</b>	<b>24,424</b>	<b>Total Sovereign Revenue</b>	<b>26,305</b>	<b>26,370</b>	<b>(65)</b>	<b>(0.2)</b>	<b>52,407</b>



# NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2005 \$m	Actual 31 December 2004 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 1: Receipts Collected Through the Crown's Sovereign Power</b>							
<b>Income Tax Receipts (cash)</b>							
<b>Individuals</b>							
18,380	9,039	Source deductions	9,828	9,751	77	0.8	19,524
4,640	2,144	Other persons	2,267	2,285	(18)	(0.8)	4,896
(1,365)	(710)	Refunds	(802)	(836)	34	4.1	(1,636)
432	206	Fringe benefit tax	214	216	(2)	(0.9)	448
<b>22,087</b>	<b>10,679</b>	<b>Total Individuals</b>	<b>11,507</b>	<b>11,416</b>	<b>91</b>	<b>0.8</b>	<b>23,232</b>
<b>Corporate Tax</b>							
8,365	4,162	Gross companies tax	4,437	4,581	(144)	(3.1)	8,790
(735)	(296)	Refunds	(301)	(360)	59	16	(790)
949	403	Non-resident withholding tax	468	505	(37)	(7.3)	910
185	81	Foreign-source dividend w/holding payments	72	110	(38)	(34.5)	213
<b>8,764</b>	<b>4,350</b>	<b>Total Corporate Tax</b>	<b>4,676</b>	<b>4,836</b>	<b>(160)</b>	<b>(3.3)</b>	<b>9,123</b>
<b>Other Income Tax</b>							
1,498	683	Resident w/holding tax on interest income	860	845	15	1.8	1,746
60	35	Resident w/holding tax on dividend income	41	39	2	5.1	67
2	1	Estate and gift duties	1	1	-	-	2
<b>1,560</b>	<b>719</b>	<b>Total Other Income Tax</b>	<b>902</b>	<b>885</b>	<b>17</b>	<b>1.9</b>	<b>1,815</b>
<b>32,411</b>	<b>15,748</b>	<b>Total Income Tax</b>	<b>17,085</b>	<b>17,137</b>	<b>(52)</b>	<b>(0.3)</b>	<b>34,170</b>
<b>Goods and Services Tax</b>							
16,729	6,909	Gross goods and services tax	7,378	7,480	(102)	(1.4)	17,498
(6,719)	(3,159)	Refunds	(3,447)	(3,471)	24	0.7	(7,200)
<b>10,010</b>	<b>3,750</b>	<b>Total Goods and Services Tax</b>	<b>3,931</b>	<b>4,009</b>	<b>(78)</b>	<b>(1.9)</b>	<b>10,298</b>
<b>Other Taxation</b>							
812	400	Petroleum fuels excise	455	444	11	2.5	904
838	573	Tobacco excise	606	596	10	1.7	857
968	483	Customs duty	493	471	22	4.7	1,041
714	349	Road user charges	366	376	(10)	(2.7)	747
483	227	Alcohol excise	247	239	8	3.3	500
287	144	Gaming duties	139	132	7	5.3	273
205	106	Motor vehicle fees	97	113	(16)	(14.2)	229
73	40	Energy resources levies	37	32	5	15.6	67
66	26	Approved issuer levy and cheque duty	37	34	3	8.8	66
<b>4,446</b>	<b>2,348</b>	<b>Total Other Indirect Taxation</b>	<b>2,477</b>	<b>2,437</b>	<b>40</b>	<b>1.6</b>	<b>4,684</b>
<b>14,456</b>	<b>6,098</b>	<b>Total Indirect Taxation</b>	<b>6,408</b>	<b>6,446</b>	<b>(38)</b>	<b>(0.6)</b>	<b>14,982</b>
<b>46,867</b>	<b>21,846</b>	<b>Total Tax Receipts Collected</b>	<b>23,493</b>	<b>23,583</b>	<b>(90)</b>	<b>(0.4)</b>	<b>49,152</b>
<b>Other Sovereign Receipts (cash)</b>							
2,052	1,242	ACC levies	1,339	1,286	53	4.1	2,201
249	133	Fire Service levies	137	131	6	4.6	250
81	42	EQC levies	43	44	(1)	(2.3)	82
592	305	Other miscellaneous items	336	352	(16)	(4.5)	576
<b>2,974</b>	<b>1,722</b>	<b>Total Other Sovereign Receipts</b>	<b>1,855</b>	<b>1,813</b>	<b>42</b>	<b>2.3</b>	<b>3,109</b>
<b>49,841</b>	<b>23,568</b>	<b>Total Sovereign Receipts</b>	<b>25,348</b>	<b>25,396</b>	<b>(48)</b>	<b>(0.2)</b>	<b>52,261</b>

# NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2005 \$m	Actual 31 December 2004 \$m	Current Year Actual vs Forecast				Annual Forecast \$m
		Actual \$m	Forecast \$m	Variance \$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

2,264	711	Interest income	973	840	133	15.8	1,674
498	244	Student loans	270	270	-	-	289
646	396	NZS Fund income	736	290	446	153.8	641
87	31	Dividends	38	50	(12)	(24.0)	104
		Gains/(losses) on marketable securities					
221	535	deposits and equity investments	751	285	466	163.5	569
-	-	Gain on sale of Southern Hydro	630	-	630	-	-
98	9	Other	8	12	(4)	(33.3)	16
<b>3,814</b>	<b>1,926</b>	<b>Total Investment Income</b>	<b>3,406</b>	<b>1,747</b>	<b>1,659</b>	<b>95.0</b>	<b>3,293</b>

## NOTE 4: Other Revenue

		Unrealised gains arising from changes					
(23)	-	in the value of commercial forests	-	-	-	-	-
102	53	GSF contributions	52	55	(3)	(5.5)	93
51	21	Petroleum royalties	21	27	(6)	(22.2)	61
30	16	Cost recovery income from fisheries	14	15	(1)	(6.7)	30
2,021	913	Other	1,215	1,136	79	7.0	1,666
<b>2,181</b>	<b>1,003</b>	<b>Total Other Operational Revenue</b>	<b>1,302</b>	<b>1,233</b>	<b>69</b>	<b>5.6</b>	<b>1,850</b>

# NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2005 \$m	Actual 31 December 2004 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>NOTE 5: Subsidies and Transfer Payments</b>							
Social Assistance Grants							
6,083	3,028	New Zealand superannuation	3,189	3,183	(6)	(0.2)	6,431
1,549	768	ACC payments	826	867	41	4.7	1,715
1,547	791	Domestic purposes benefit	751	752	1	0.1	1,485
831	439	Unemployment benefit	364	378	14	3.7	720
846	377	Family support	616	602	(14)	(2.3)	1,369
359	194	Student allowances	182	205	23	11.2	350
4,182	2,052	Other social assistance grants	2,194	2,190	(4)	(0.2)	4,487
118	64	Subsidies	50	62	12	19.4	140
Other Transfer Payments							
297	119	Official development assistance	156	157	1	0.6	345
32	15	Other	12	16	4	25.0	35
<b>15,844</b>	<b>7,847</b>	<b>Total Subsidies and Transfer Payments</b>	<b>8,340</b>	<b>8,412</b>	<b>72</b>	<b>0.9</b>	<b>17,077</b>

## 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).

1,032	532	GSF pension costs	827	763	(64)	(8.4)	1,137
108	54	Other pension expenses	54	64	10	15.6	126
12,422	6,199	Other personnel expenses	6,699	6,778	79	1.2	13,393
<b>13,562</b>	<b>6,785</b>	<b>Total Personnel Expenses</b>	<b>7,580</b>	<b>7,605</b>	<b>25</b>	<b>0.3</b>	<b>14,656</b>

## 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:							
793	397	Buildings	427	428	1	0.2	887
106	52	Electricity distribution networks	53	51	(2)	(3.9)	109
166	79	Electricity generation assets	104	105	1	1.0	209
189	87	Specialist military equipment (SME)	92	93	1	1.1	189
225	116	State highways	115	115	-	-	230
101	88	Aircraft (excluding SME)	93	94	1	1.1	209
850	402	Other plant and equipment	402	421	19	4.5	889
98	30	Other assets	27	28	1	3.6	57
<b>2,528</b>	<b>1,251</b>	<b>Total depreciation costs</b>	<b>1,313</b>	<b>1,335</b>	<b>22</b>	<b>1.6</b>	<b>2,779</b>
Other operating expenses:							
789	360	Rental and leasing costs	379	374	(5)	(1.3)	754
984	244	Change in provision for doubtful debts	124	88	(36)	(40.9)	327
93	38	Write off of bad debts	29	25	(4)	(16.0)	57
97	45	Goodwill amortised	44	45	1	2.2	89
1,267	165	Grants paid	400	479	79	16.5	1,099
350	170	Lottery prize payments	190	190	-	-	357
2	-	Loss/(gain) on sale of assets	-	-	-	-	-
-	-	Write down of existing student loans to fair value	1,479	1,479	-	-	1,479
-	-	Write down of new loans to fair value	84	84	-	-	284
19,204	9,116	Other operating expenses	11,138	10,683	(455)	(4.3)	21,837
<b>25,314</b>	<b>11,389</b>	<b>Total Operating Expenses</b>	<b>15,180</b>	<b>14,782</b>	<b>(398)</b>	<b>(2.7)</b>	<b>29,062</b>

# NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2005 \$m	Actual 31 December 2004 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>NOTE 8: Cash and Marketable Securities, Deposits &amp; Equity Investments</b>							
<b>By category:</b>							
3,710	3,202	<b>Total cash</b>	4,566	3,657	909	24.9	2,793
21,464	18,768	Marketable securities and deposits	23,807	21,130	2,677	12.7	21,267
10,896	9,870	Equity investments (eg, shares)	13,513	12,469	1,044	8.4	13,560
702	804	Reserve position at the IMF	585	493	92	18.7	495
<b>33,062</b>	<b>29,442</b>	<b>Total MSDs and Equity Investments</b>	<b>37,905</b>	<b>34,092</b>	<b>3,813</b>	<b>11.2</b>	<b>35,322</b>
<b>36,772</b>	<b>32,644</b>	<b>Cash and MSDs &amp; Equity Investments</b>	<b>42,471</b>	<b>37,749</b>	<b>4,722</b>	<b>12.5</b>	<b>38,115</b>
<b>By portfolio management:</b>							
14,776	13,230	Reserve Bank and DMO managed funds	16,274	14,353	1,921	13.4	14,425
5,571	4,612	NZS Fund	7,335	7,236	99	1.4	8,458
3,233	3,172	Government Superannuation Fund	3,624	3,197	427	13.4	3,215
5,987	1,549	ACC portfolio	7,178	6,599	579	8.8	6,299
1,675	5,618	EQC portfolio	1,887	1,620	267	16.5	1,818
1,820	1,261	Other holdings	1,607	1,087	520	47.8	1,107
<b>33,062</b>	<b>29,442</b>	<b>Total MSDs &amp; Equity Investments</b>	<b>37,905</b>	<b>34,092</b>	<b>3,813</b>	<b>11.2</b>	<b>35,322</b>

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 net assets in this fund total \$8.2 billion. The Government's contributions to the NZS Fund are calculated over a 40-year rolling horizon to ensure Superannuation entitlements over the next 40 years can be met.

### Government Superannuation Fund

The GSF Authority administers the financial assets of the GSF totalling over \$3.7 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 \$11.6 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)

6,555	5,120	NZS Fund	8,164	8,001	163	2.0	9,398
3,521	3,452	GSF net assets (including portfolio)	3,659	3,553	106	3.0	3,572
8,123	7,775	ACC portfolio	8,671	8,276	395	4.8	8,547
4,557	4,423	EQC portfolio	4,851	4,692	159	3.4	4,850

# NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2005 \$m	Actual 31 December 2004 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m %		\$m
<b>NOTE 9: Advances</b>							
6,465	6,157	Student loans (see analysis below) <sup>1</sup>	5,178	5,178	-	-	5,540
1,575	1,268	Kiwibank mortgages	2,159	2,105	54	2.6	2,456
77	74	Residential care loans	73	79	(6)	(7.6)	82
51	49	Maori development rural lending	54	56	(2)	(3.6)	57
368	393	Other	389	342	47	13.7	428
<b>8,536</b>	<b>7,941</b>	<b>Total Advances</b>	<b>7,853</b>	<b>7,760</b>	<b>93</b>	<b>1.2</b>	<b>8,563</b>

<sup>1</sup> The annual forecast for student loans reflects the change in accounting policy which requires student loans to be initially recorded at fair value and subsequently reported at amortised cost (refer page 6 for further information). Prior year comparatives have not been restated for the change.

## Analysis of Student Loans

### Stock

-	-	Nominal loan balance	7,751	7,751	-	-	8,293
-	-	Adjustment to fair value	(2,573)	(2,573)	-	-	(2,753)
-	-	<b>Total Student Loans</b>	<b>5,178</b>	<b>5,178</b>	-	-	<b>5,540</b>

### Movements

-	-	Opening balance	6,465	6,465	-	-	6,465
-	-	Fair value adjustment on 31 October balance	(1,479)	(1,479)	-	-	(1,479)
-	-	New lending over the year	310	310	-	-	1,098
-	-	Fair value write down for new lending	(84)	(84)	-	-	(284)
-	-	Repayments	(296)	(296)	-	-	(578)
-	-	Impairments	(8)	(8)	-	-	(15)
-	-	Interest charged	270	270	-	-	289
-	-	Residual fair value change	-	-	-	-	44
-	-	<b>Closing Balance</b>	<b>5,178</b>	<b>5,178</b>	-	-	<b>5,540</b>

## NOTE 10: Receivables

5,641	7,154	Taxes receivable	7,242	7,062	180	2.5	5,643
4,610	4,223	Accounts receivable	4,201	3,999	202	5.1	4,242
121	139	Receivable from the sale and purchase of Maui gas	91	94	(3)	(3.2)	79
511	1,267	Prepayments	605	336	269	80.1	214
<b>10,883</b>	<b>12,783</b>	<b>Total Receivables</b>	<b>12,139</b>	<b>11,491</b>	<b>648</b>	<b>5.6</b>	<b>10,178</b>

## NOTE 11: Other Investments

74	72	International Bank for Reconstruction and Developments	76	74	2	2.7	74
79	78	Asian Development Bank	81	79	2	2.5	79
68	61	Other	73	83	(10)	(12.0)	105
<b>221</b>	<b>211</b>	<b>Total Other Investments</b>	<b>230</b>	<b>236</b>	<b>(6)</b>	<b>(2.5)</b>	<b>258</b>

# NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2005 \$m	Actual 31 December 2004 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 12: Property, Plant and Equipment</b>							
<b>By Type</b>							
<b>Gross Carrying Value</b>							
11,693	9,780	Land (valuation)	11,520	11,754	(234)	(2.0)	11,803
470	446	Properties intended for sale (valuation)	448	435	13	3.0	440
19,457	18,368	Buildings (valuation)	20,404	20,587	(183)	(0.9)	21,492
2,123	2,081	Electricity distribution network (cost)	2,179	2,229	(50)	(2.2)	2,389
7,260	5,233	Electricity generation assets (valuation)	6,835	7,664	(829)	(10.8)	8,224
1,139	1,398	Aircraft (ex SME) (valuation)	1,620	1,777	(157)	(8.8)	1,867
14,909	13,300	State highways (valuation)	15,456	15,488	(32)	(0.2)	19,026
3,032	2,902	Specialist military equipment (valuation)	3,282	3,298	(16)	(0.5)	3,616
8,987	8,582	Other plant and equipment (cost)	9,039	9,096	(57)	(0.6)	9,269
6,751	5,338	Other assets (valuation)	6,861	6,820	41	0.6	6,876
<b>75,821</b>	<b>67,428</b>	<b>Total Gross Carrying Value</b>	<b>77,644</b>	<b>79,148</b>	<b>(1,504)</b>	<b>(1.9)</b>	<b>85,002</b>
<b>Accumulated Depreciation</b>							
1,324	1,729	Buildings	1,824	2,203	379	17.2	2,176
187	143	Electricity distribution network	232	237	5	2.1	292
169	471	Electricity generation assets	227	257	30	11.7	370
-	88	Aircraft (ex SME)	93	94	1	1.1	-
-	117	State highways	340	340	-	-	3,583
621	559	Specialist military equipment	711	713	2	0.3	808
5,595	5,401	Other plant and equipment	5,832	5,584	(248)	(4.4)	5,633
431	367	Other assets	436	410	(26)	(6.3)	370
<b>8,327</b>	<b>8,875</b>	<b>Total Accumulated Depreciation</b>	<b>9,695</b>	<b>9,838</b>	<b>143</b>	<b>1.5</b>	<b>13,232</b>
<b>Net Carrying Value</b>							
11,693	9,780	Land (valuation)	11,520	11,754	(234)	(2.0)	11,803
470	446	Properties intended for sale (valuation)	448	435	13	3.0	440
18,133	16,639	Buildings (valuation)	18,580	18,384	196	1.1	19,316
1,936	1,938	Electricity distribution network (cost)	1,947	1,992	(45)	(2.3)	2,097
7,091	4,762	Electricity generation assets (valuation)	6,608	7,407	(799)	(10.8)	7,854
1,139	1,310	Aircraft (ex SME) (valuation)	1,527	1,683	(156)	(9.3)	1,867
14,909	13,183	State highways (valuation)	15,116	15,148	(32)	(0.2)	15,443
2,411	2,343	Specialist military equipment (valuation)	2,571	2,585	(14)	(0.5)	2,808
3,392	3,181	Other plant and equipment (cost)	3,207	3,512	(305)	(8.7)	3,636
6,320	4,971	Other assets (valuation)	6,425	6,410	15	0.2	6,506
<b>67,494</b>	<b>58,553</b>	<b>Total Net Carrying Value</b>	<b>67,949</b>	<b>69,310</b>	<b>(1,361)</b>	<b>(2.0)</b>	<b>71,770</b>
<b>By holding</b>							
66,282	58,151	Freehold assets	66,927	68,271	(1,344)	(2.0)	70,754
1,212	402	Leasehold assets	1,022	1,039	(17)	(1.6)	1,016
<b>67,494</b>	<b>58,553</b>	<b>Total Net Carrying Value</b>	<b>67,949</b>	<b>69,310</b>	<b>(1,361)</b>	<b>(2.0)</b>	<b>71,770</b>
<b>NOTE 13: Payables and Provisions</b>							
8,593	7,915	Accounts payable and accruals	8,854	7,511	(1,343)	(17.9)	8,103
2,778	2,543	Taxes repayable	2,873	2,778	(95)	(3.4)	2,742
466	623	Provisions	441	552	111	20.1	668
310	-	Kyoto liability	562	440	(122)	(27.7)	440
		National Provident Fund					
944	891	guarantee	944	944	-	-	944
		Provision for employee					
1,360	1,287	entitlements	1,311	1,316	5	0.4	1,324
<b>14,451</b>	<b>13,259</b>	<b>Total Payables and Provisions</b>	<b>14,985</b>	<b>13,541</b>	<b>(1,444)</b>	<b>(10.7)</b>	<b>14,221</b>

# 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 2005 for inclusion within the 2005 Half Year Economic and Fiscal Update (2005 Half Year Update). The GSF liability arises from closed schemes for past and present public sector employees (set out in the GSF Act 1956). A Projected Aggregate Funding Method, based on balance-date membership data, is used for the valuation. This method requires the benefits payable from the GSF in respect of past service to be estimated and then discounted back to the valuation date.

The GSF liability included in the 2005 Half Year Update was calculated using discount rates derived from the market yield curve as at the balance date (31 October 2005). This resulted in a long-term after-tax discount rate of 3.9% (3.8% at 30 June 2005). The principal long-term financial assumptions used in the calculation were an inflation rate of 2.25%, and an annual salary increases rate, before any promotional effects, of 3.0%.

### Presentation and forecast approach

The projected GSF gross liability is included within total liabilities. The GSF has available to it a portfolio of assets that partially offset the GSF 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 Half Year and Budget Economic and Fiscal Updates. Within the monthly Crown financial statements the projected GSF 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 2005 \$m	Actual 31 December 2004 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>GSF liability and asset information</b>							
<b>GSF liability</b>							
13,542	13,542	Opening GSF liability	14,952	14,952	-	-	14,952
1,410	434	Net projected change	256	256	-	-	293
<b>14,952</b>	<b>13,976</b>	<b>Closing GSF liability</b>	<b>15,208</b>	<b>15,208</b>	<b>-</b>	<b>-</b>	<b>15,245</b>
<b>Less net assets available to the GSF scheme</b>							
3,375	3,375	Opening net asset value	3,521	3,521	-	-	3,521
279	168	Net projected change:					
		- Investment valuation changes	226	99	127	128.3	204
		- Contributions and other income less					
(133)	(91)	membership payments	(88)	(67)	(21)	(31.3)	(130)
146	77	Total projected change	138	32	106	331.3	74
<b>3,521</b>	<b>3,452</b>	<b>Closing net asset value</b>	<b>3,659</b>	<b>3,553</b>	<b>106</b>	<b>3.0</b>	<b>3,595</b>
<b>Net unfunded liability of the GSF schemes</b>							
10,167	10,167	Opening unfunded liability	11,431	11,431	-	-	11,431
1,264	357	Net projected change	118	224	106	47.3	219
<b>11,431</b>	<b>10,524</b>	<b>Net unfunded liability</b>	<b>11,549</b>	<b>11,655</b>	<b>106</b>	<b>0.9</b>	<b>11,650</b>

# 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 2005 (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 2.3% (unchanged from 30 June 2005) and discount rate of 5.98% (5.75% at 30 June 2005). 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 2005 \$m	Actual 31 December 2004 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>ACC liability and asset information</b>							
<b>Gross ACC liability</b>							
9,347	9,347	Opening gross liability	11,384	11,384	-	-	11,384
2,037	451	Net projected change	179	179	-	-	358
-	-	Transfer from other insurer	10	-	(10)	-	-
<b>11,384</b>	<b>9,798</b>	<b>Closing gross liability</b>	<b>11,573</b>	<b>11,563</b>	<b>10</b>	<b>0.1</b>	<b>11,742</b>
<b>Less net assets available to ACC</b>							
5,969	5,969	Opening net asset value	7,217	7,217	-	-	7,217
1,248	661	Net projected change	639	281	358	127.4	545
<b>7,217</b>	<b>6,630</b>	<b>Closing net asset values</b>	<b>7,856</b>	<b>7,498</b>	<b>358</b>	<b>4.8</b>	<b>7,762</b>
<b>Net ACC reserves (net liability)</b>							
(3,378)	(3,378)	Opening reserves position	(4,167)	(4,167)	-	-	(4,167)
(789)	210	Net projected change	449	281	(168)	(59.8)	545
<b>(4,167)</b>	<b>(3,168)</b>	<b>Closing reserves position (net liability)</b>	<b>(3,718)</b>	<b>(3,886)</b>	<b>(168)</b>	<b>(4.3)</b>	<b>(3,622)</b>



## NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2005 \$m	Actual 31 December 2004 \$m	Current Year Actual vs Forecast				Annual Forecast
		Actual \$m	Forecast \$m	Variance		\$m
				\$m	%	

### NOTE 16: Revaluation Reserves

#### *Movement in Asset Revaluation Reserves*

19,838	19,838	<b>Opening Balance</b>	27,988	27,988	-	-	27,988
		<b>Net Revaluations</b>					
3,368	2	Land and buildings	2	1	1	100.0	11
1,417	-	State highways	-	-	-	-	-
341	-	TEIs	-	-	-	-	-
1,986	-	Electricity generation assets	-	-	-	-	-
1,085	-	Other assets	-	6	(6)	(100.0)	4
<b>8,197</b>	<b>2</b>	<b>Total Net Revaluations</b>	<b>2</b>	<b>7</b>	<b>(5)</b>	<b>(71.4)</b>	<b>15</b>
(47)	(18)	Transfers to taxpayer funds	(16)	(1)	(15)	-	-
<b>27,988</b>	<b>19,822</b>	<b>Closing Asset Revaluation Reserve</b>	<b>27,974</b>	<b>27,994</b>	<b>(20)</b>	<b>(0.1)</b>	<b>28,003</b>

# NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2005 \$m	Actual 31 December 2004 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>Reconciliation of Net Core Crown Cash Flow From Operations With Net Cash Proceeds From Domestic Bonds</b>							
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.							
<b>Core Crown Cash Flows from Operations</b>							
47,571	22,057	Total tax receipts	23,752	23,803	(51)	(0.2)	49,873
478	253	Total other sovereign receipts	273	280	(7)	(2.5)	474
1,446	832	Interest, profits and dividends	718	477	241	50.5	880
1,272	396	Sale of goods & services and other receipts	669	702	(33)	(4.7)	1,385
(14,409)	(7,172)	Subsidies and transfer payments	(7,547)	(7,656)	109	1.4	(15,619)
(25,815)	(13,108)	Personnel and operating costs	(14,131)	(13,760)	(371)	(2.7)	(28,102)
(1,983)	(941)	Finance costs	(974)	(966)	(8)	(0.8)	(1,930)
-	-	Forecasts for future new spending	-	-	-	-	(106)
<b>8,560</b>	<b>2,317</b>	<b>Net Cash Flows From Operations</b>	<b>2,760</b>	<b>2,880</b>	<b>(120)</b>	<b>(4.2)</b>	<b>6,855</b>
<b>Investing flows</b>							
<i>Net advances</i>							
(659)	(157)	Student loans	(165)	(150)	(15)	(10.0)	(778)
(42)	(21)	Housing New Zealand Corporation	(25)	(32)	7	21.9	(65)
41	54	District health boards and RHMU	(75)	(158)	83	52.5	(251)
-	-	Tranz Rail New Zealand Limited	-	-	-	-	-
(15)	(15)	NZ Railways Corporation	(36)	-	(36)	-	-
47	16	Other	48	33	15	45.5	46
<b>(628)</b>	<b>(123)</b>	<b>Total Net Advances</b>	<b>(253)</b>	<b>(307)</b>	<b>54</b>	<b>17.6</b>	<b>(1,048)</b>
<b>(1,372)</b>	<b>(764)</b>	<b>Net purchase of physical assets</b>	<b>(901)</b>	<b>(757)</b>	<b>(144)</b>	<b>(19.0)</b>	<b>(1,876)</b>
<i>Net investments</i>							
(193)	(29)	District health boards	9	(10)	19	190.0	(152)
(76)	(82)	Housing New Zealand Corporation	(150)	(151)	1	0.7	(307)
(150)	(149)	Air NZ	-	-	-	-	-
(164)	(26)	Other	(62)	(49)	(13)	(26.5)	(78)
(2,107)	(1,053)	Net purchase of MSDs/equities by NZS Fund	(1,169)	(1,169)	-	-	(2,337)
(766)	-	Purchase of Reserve Bank reserves	-	-	-	-	(500)
-	-	Forecast new capital spending	-	-	-	-	(65)
<b>(3,456)</b>	<b>(1,339)</b>	<b>Net (purchase)/sale of Investments</b>	<b>(1,372)</b>	<b>(1,379)</b>	<b>7</b>	<b>0.5</b>	<b>(3,439)</b>
<b>3,104</b>	<b>91</b>	<b>(Required to be financed)/Available for debt repayment</b>	<b>234</b>	<b>437</b>	<b>(203)</b>	<b>(46.5)</b>	<b>492</b>
<i>Used in:</i>							
(3,119)	(2,364)	Other net (purchase)/sale of marketable securities and deposits	(1,611)	47	(1,658)	-	(161)
<b>(15)</b>	<b>(2,273)</b>	<b>Total Investing activities</b>	<b>(1,377)</b>	<b>484</b>	<b>(1,861)</b>	<b>(384.5)</b>	<b>331</b>
(1,455)	(654)	Net (repayment)/issue of other New Zealand-dollar borrowing	366	(763)	1,129	148.0	(536)
1,905	711	Net (repayment)/issue of foreign currency borrowing	(1,438)	(760)	(678)	(89.2)	(238)
(93)	347	Net outflows/(inflow) of cash	321	(253)	574	226.9	325
188	658	Issues of circulating currency	737	18	719	-	18
<b>545</b>	<b>1,062</b>		<b>(14)</b>	<b>(1,758)</b>	<b>1,744</b>	<b>99.2</b>	<b>(431)</b>
<b>530</b>	<b>(1,211)</b>	<b>Net Repayment of/(Cash Proceeds from) Domestic Bonds</b>	<b>(1,391)</b>	<b>(1,274)</b>	<b>(117)</b>	<b>(9.2)</b>	<b>(100)</b>
<b>Gross Cash Proceeds from Domestic Bonds</b>							
2,146	1,143	Domestic bonds (market)	1,316	1,254	62	4.9	2,663
459	68	Domestic bonds (non-market)	75	20	55	275.0	386
<b>2,605</b>	<b>1,211</b>	<b>Total Gross Cash Proceeds from Domestic Bonds</b>	<b>1,391</b>	<b>1,274</b>	<b>117</b>	<b>9.2</b>	<b>3,049</b>
(2,797)	-	Repayment of domestic bonds (market)	-	-	-	-	(2,574)
(338)	-	Repayment of domestic bonds (non-market)	-	-	-	-	(375)
<b>(530)</b>	<b>1,211</b>	<b>Net (Repayments of)/Cash Proceeds from Domestic Bonds</b>	<b>1,391</b>	<b>1,274</b>	<b>117</b>	<b>9.2</b>	<b>100</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Maturity profile as at 31 December 2005

This statement outlines the maturity of Gross sovereign issued 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
<b>New Zealand-Dollar Debt</b>						
Government stock	6,104	-	5,215	9,557	2,767	23,643
Treasury bills	5,403	-	-	-	-	5,403
Loans and foreign-exchange contracts	(4,551)	(22)	(227)	(683)	(613)	(6,096)
Retail stock	461	47	32	-	-	540
<b>Total New Zealand-Dollar Debt</b>	<b>7,417</b>	<b>25</b>	<b>5,020</b>	<b>8,874</b>	<b>2,154</b>	<b>23,490</b>
<b>Foreign-Currency Debt</b>						
United States dollars	5,878	(101)	(45)	1,061	673	7,466
Japanese yen	50	(33)	(46)	108	-	79
European and other currencies	1,585	183	1,290	316	117	3,491
<b>Total Foreign-Currency Debt</b>	<b>7,513</b>	<b>49</b>	<b>1,199</b>	<b>1,485</b>	<b>790</b>	<b>11,036</b>
<b>Total Gross Sovereign-Issued Debt</b>	<b>14,930</b>	<b>74</b>	<b>6,219</b>	<b>10,359</b>	<b>2,944</b>	<b>34,526</b>