

# Financial Statements of the Government of New Zealand

For the Seven Months  
Ended 31 January 2006



10 March 2006

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# COMMENTARY

## CROWN FINANCIAL STATEMENTS – JANUARY 2006

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 seven months ended 31 January 2006 are compared against forecasts based on the 2005 Half Year Economic and Fiscal Update (Half Year Update).

Since December 2005, 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 the monthly 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	January	January	Variance \$m	June 2006 Forecast	June 2005 Actual
	2006 Actual YTD	2006 Forecast YTD			
Net cash flow from core operating and investing activity	1,099	1,282	(183)	492	3,104
Gross sovereign-issued debt	36,511	34,762	1,749	33,275	35,045
% of GDP	24.4	23.3	1.1	21.3	25.0
Net core Crown debt	10,384	10,575	(191)	10,597	10,771
% of GDP	6.9	7.1	(0.2)	6.8	7.7
Total Crown debt	39,528	37,648	1,880	36,054	36,864
Operating balance	5,544	3,279	2,265	5,557	6,247
OBERAC	3,703	3,279	424	5,924	8,873
Net worth	55,529	53,269	2,260	55,555	49,983

**Net cash flow from core operating and investing activity** was \$1.1 billion, \$0.2 billion lower than forecast, reflecting higher operating spending offset by higher interest receipts. 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 \$36.5 billion (24.4% of GDP), \$1.7 billion higher than forecast. This was largely due to increased borrowing as a result of:

- Higher than forecast level of trading banks' deposits with the Reserve Bank (which was net debt neutral); and
- Higher than forecast rollover of repurchase agreements of securities held by the Reserve Bank (which was also net debt neutral).

**Net core Crown debt** was \$10.4 billion, around \$0.2 billion lower than forecast, due mainly to a higher issue of circulating currency of \$0.2 billion, which was not forecast as a matter of policy.

Since November, the operating balance has been higher than forecast, primarily driven by higher investment income. The **operating balance** of \$5.5 billion in January was higher than forecast by \$2.3 billion. This largely reflects:

- Meridian Energy's gain on sale of Southern Hydro of around \$0.6 billion (as reported in the November 2005 financial statements), which was not forecast;
- Higher than expected investment returns of the NZS Fund (around \$0.7 billion), ACC (around \$0.2 billion), EQC (around \$0.2 billion) and GSF (around \$0.2 billion); and
- core Crown expenses being \$0.3 billion lower than forecast, due to delays in departmental spending (mainly in education and health).

Since the OBERAC removes the investment gains, delays in departmental spending has resulted in the **OBERAC** being \$0.4 billion ahead of forecast, at \$3.7 billion.

The majority of the variance in the operating balance was non-cash in nature and is therefore not reflected in the net cash flow from core operating and investing activity.

## 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 \$US0.68245 = \$NZ1 (based on 31 January 2006 exchange rate) and a carbon price of \$US6 per unit, the current valuation for purchasing 64 million units on the international market is around \$563 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 38) was \$1.1 billion. This represents \$30.4 billion of receipts (including tax receipts of \$28.5 billion) being utilised on:

- Operating payments including finance costs of \$17.7 billion; and
- Subsidies and transfer payments (e.g. NZ Superannuation and Unemployment benefit) of \$8.7 billion, giving a **cashflow from operating activities** of \$3.9 billion.

This is then used to fund:

- Contributions to the NZS Fund for partially funding future NZS payments of \$1.3 billion
- Purchase of physical assets (e.g. prisons, schools) of \$1.0 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 \$36.5 billion (24.4% of GDP) made up of:

- \$22.9 billion of domestic debt (including Government Stock and Treasury Bills); and
- \$13.6 billion of foreign denominated debt.

**Net core crown debt** (page 21) was \$10.4 billion made up of:

- Gross sovereign issued debt of \$36.5 billion; offset by financial assets including
- Marketable securities and deposits and cash of \$18.3 billion; and
- Advances (including student loans) of \$7.8 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 \$5.5 billion, which represents:

- \$32.6 billion of core Crown revenue (including tax revenue of \$28.8 billion and \$2.6 billion of investment income)
- \$2.5 billion net surpluses (after payment of dividend to the Government) of state-owned enterprises and Crown entities (excluding ACC liability revaluation movements); offset by
- \$20.3 billion of core crown operating expenses including finance costs
- \$8.8 billion of subsidies and transfer payments; and
- \$0.5 billion of valuation expense movements of GSF and ACC.

The **OBERAC** was \$3.7 billion, which was \$1.8 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 \$55.5 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 \$25.6 billion
- Government Superannuation Fund portfolio of \$3.7 billion
- New Zealand Superannuation Fund of \$8.6 billion
- Physical assets (including prisons and schools) of \$22.2 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 (\$36.5 billion), the pension liability of the Government Superannuation Fund (\$15.2 billion) and other liabilities of \$10.4 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 24 to 27.

## COMPARISON WITH PRIOR YEAR

**Table 2** – Comparison with prior year

	31 January 2006 Actual \$m	31 January 2005 Actual \$m	Change \$m	Change %
<b>Statement of Financial Performance</b>				
<b>Core Crown revenue</b>				
Taxation revenue	28,809	27,021	1,788	6.6
Other revenue	3,814	2,872	942	32.8
<b>Total core Crown Revenue</b>	<b>32,623</b>	<b>29,893</b>	<b>2,730</b>	<b>9.1</b>
<b>Core Crown expenses</b>				
Social security and welfare	9,046	8,436	(610)	(7.2)
GSF pension expenses (excl valuation)	922	614	(308)	(50.2)
GSF unfunded liability movement	256	435	179	41.1
Health	5,456	4,976	(480)	(9.6)
Education	6,178	4,590	(1,588)	(34.6)
Core government services	1,205	1,085	(120)	(11.1)
Law and order	1,243	1,119	(124)	(11.1)
Defence	782	721	(61)	(8.5)
Transport and communications	901	730	(171)	(23.4)
Economic and industrial services	885	776	(109)	(14.0)
Primary services	238	208	(30)	(14.4)
Heritage, culture and recreation	738	400	(338)	(84.5)
Housing and community development	109	81	(28)	(34.6)
Other	36	15	(21)	(140.0)
Finance costs	1,381	1,342	(39)	(2.9)
Net foreign-exchange losses/(gains)	(51)	10	61	-
<b>Total core Crown Expenses</b>	<b>29,325</b>	<b>25,538</b>	<b>(3,787)</b>	<b>(14.8)</b>
ACC unfunded liability movement	(209)	(526)	(317)	(60.3)
Net surplus of SOE/CE's	2,455	1,444	1,011	70.0
<b>Operating Balance</b>	<b>5,544</b>	<b>5,273</b>	<b>271</b>	<b>5.1</b>
<b>OBERAC</b>	<b>3,703</b>	<b>4,897</b>	<b>(1,194)</b>	<b>(24.4)</b>
<b>Cash flows from operating and investing</b>	<b>1,099</b>	<b>1,775</b>	<b>(676)</b>	<b>(38.1)</b>
<b>Debt indicators</b>				
<b>Gross sovereign-issued debt</b>	<b>36,511</b>	<b>37,035</b>	<b>524</b>	<b>1.4</b>
<b>Net core Crown debt</b>	<b>10,384</b>	<b>13,059</b>	<b>2,675</b>	<b>20.5</b>

**Taxation revenue** was \$1.8 billion (growth of 6.6%) higher than the seven months ended 31 January 2005. 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 \$4.0 billion (growth of 15.8%) higher than the seven months ended 31 January 2005. Significant movements within core Crown functional expenses were:

- **Social security and welfare** expenses were \$0.6 billion 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 \$0.5 billion 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 \$1.6 billion higher than the previous year largely due to the fair value impact of the interest free student loan scheme (refer page 6);
- **Heritage, culture and recreation** expenses were \$0.3 billion 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 \$1.0 billion 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 \$0.7 billion lower than the previous year, mainly due to lower cashflow from operations, higher advances to District Health Boards and higher capital spending on purchase of physical assets.

**Gross sovereign-issued debt (GSID)** was \$0.5 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 \$2.7 billion due to:

- accumulating cash flow from operating activity of \$8.2 billion;
- additional issue of circulating currency of \$0.2 billion; offset by
- purchase of physical assets of \$1.6 billion;
- purchase of investments (excluding RB reserves) of \$2.7 billion (\$2.2 billion in NZSF and \$0.5 billion in Crown entities); and
- student loan fair value write down of \$1.5 billion.





# FINANCIAL STATEMENTS

# STATEMENT OF ACCOUNTING POLICIES

as at 31 January 2006

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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 33.

## 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 January 2006

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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 seven months ended 31 January 2006

Prior Year 30 June 2005 \$m	Actual 31 January 2005 \$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	26,687	Taxation revenue	1	28,482	28,589	(107)	(0.4)	49,249
3,115	1,817	Levies, fees, fines and penalties	1	1,877	1,866	11	0.6	3,158
<b>49,739</b>	<b>28,504</b>	<b>Total Revenue Levied through the Crown's Sovereign Power</b>	<b>1</b>	<b>30,359</b>	<b>30,455</b>	<b>(96)</b>	<b>(0.3)</b>	<b>52,407</b>
		<b>Earned through the Crown's Operations</b>						
11,331	6,178	Sales of goods and services	2	7,296	6,909	387	5.6	12,225
3,814	2,070	Investment income	3	4,145	2,013	2,132	105.9	3,293
2,181	1,252	Other revenue	4	1,567	1,614	(47)	(2.9)	1,850
<b>17,326</b>	<b>9,500</b>	<b>Total Revenue Earned through the Crown's Operations</b>		<b>13,008</b>	<b>10,536</b>	<b>2,472</b>	<b>23.5</b>	<b>17,368</b>
<b>67,065</b>	<b>38,004</b>	<b>Total Crown Revenue</b>		<b>43,367</b>	<b>40,991</b>	<b>2,376</b>	<b>5.8</b>	<b>69,775</b>
		<b>Expenses</b>						
		<b>By input type</b>						
15,844	9,149	Subsidies and transfer payments	5	9,745	9,861	116	1.2	17,077
13,562	7,849	Personnel expenses	6	8,852	8,885	33	0.4	14,656
25,314	13,253	Operating expenses	7	17,258	16,917	(341)	(2.0)	29,062
-	-	Forecast for future new spending		-	-	-	-	106
2,760	1,589	Finance costs		1,671	1,667	(4)	(0.2)	2,795
(17)	10	Net foreign-exchange (gains)/losses		(102)	(6)	96	-	4
1,410	435	Movement in total GSF liability	14	256	256	-	-	293
2,037	526	Movement in total ACC liability	15	209	209	-	-	358
<b>60,910</b>	<b>32,811</b>	<b>Total Crown Expenses</b>		<b>37,889</b>	<b>37,789</b>	<b>(100)</b>	<b>(0.3)</b>	<b>64,351</b>
<b>6,155</b>	<b>5,193</b>	<b>Revenues less Expenses</b>		<b>5,478</b>	<b>3,202</b>	<b>2,276</b>	<b>6.1</b>	<b>5,424</b>
133	80	Net surplus TEIs		66	77	(11)	(14.3)	133
<b>6,288</b>	<b>5,273</b>	<b>Operating Balance (including minority interest)</b>		<b>5,544</b>	<b>3,279</b>	<b>2,265</b>	<b>69.1</b>	<b>5,557</b>
(41)	-	Minority interest		-	-	-	-	-
<b>6,247</b>	<b>5,273</b>	<b>Operating Balance</b>		<b>5,544</b>	<b>3,279</b>	<b>2,265</b>	<b>69.1</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 seven months ended 31 January 2006

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 January 2005 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
		Note	Actual \$m	Forecast \$m	Variance \$m	%	
<b>Total Crown expenses</b>							
<b>By functional classification</b>							
18,522	9,960		10,370	10,398	28	0.3	18,194
2,442	1,049		1,178	1,119	(59)	(5.3)	1,429
8,444	4,833		5,176	5,256	80	1.5	9,436
8,619	4,852		6,995	6,966	(29)	(0.4)	10,467
2,085	1,038		1,112	1,155	43	3.7	2,019
2,131	1,210		1,333	1,353	20	1.5	2,394
1,229	694		754	722	(32)	(4.4)	1,347
5,948	3,073		3,369	3,509	140	4.0	6,400
4,859	2,429		3,456	3,176	(280)	(8.8)	5,665
1,128	696		748	700	(48)	(6.9)	1,225
2,032	976		1,363	1,302	(61)	(4.7)	2,038
697	386		430	433	3	0.7	781
31	16		36	39	3	7.7	51
2,760	1,589		1,671	1,667	(4)	(0.2)	2,795
(17)	10		(102)	(6)	96	-	4
-	-		-	-	-	-	106
<b>60,910</b>	<b>32,811</b>		<b>37,889</b>	<b>37,789</b>	<b>(100)</b>	<b>(0.3)</b>	<b>64,351</b>
<b>Total Crown Expenses</b>							
<b>Core Crown expenses</b>							
<b>By functional classification</b>							
14,682	8,436		9,046	9,069	23	0.3	15,850
2,442	1,049		1,178	1,119	(59)	(5.3)	1,430
8,813	4,976		5,456	5,554	98	1.8	9,839
7,930	4,590		6,178	6,321	143	2.3	10,033
2,217	1,085		1,205	1,250	45	3.6	2,182
1,977	1,119		1,243	1,260	17	1.3	2,193
1,275	721		782	754	(28)	(3.7)	1,377
1,635	730		901	883	(18)	(2.0)	1,893
1,444	776		885	947	62	6.5	1,711
394	208		238	247	9	3.6	473
991	400		738	691	(47)	(6.8)	1,042
163	81		109	112	3	2.7	218
32	15		36	39	3	7.7	51
2,274	1,342		1,381	1,344	(37)	(2.8)	2,250
(35)	10		(51)	18	69	383.3	17
-	-		-	-	-	-	106
<b>46,234</b>	<b>25,538</b>		<b>29,325</b>	<b>29,608</b>	<b>283</b>	<b>1.0</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 seven months ended 31 January 2006

Prior Year 30 June 2005 \$m	Actual 31 January 2005 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>Cash Flows From Operations</b>							
<b>Cash was provided from</b>							
46,867	26,620	Total tax receipts (refer Note 1)	28,235	28,337	(102)	(0.4)	49,152
2,974	1,967	Total other sovereign receipts (refer Note 1)	2,081	2,051	30	1.5	3,109
1,642	813	Interest	1,090	732	358	48.9	1,156
66	34	Dividends	40	59	(19)	(32.2)	105
11,517	6,241	Sales of goods and services	7,637	7,254	383	5.3	12,443
2,186	1,123	Other operating receipts	1,466	1,586	(120)	(7.6)	2,419
<b>65,252</b>	<b>36,798</b>	<b>Total cash provided from operations</b>	<b>40,549</b>	<b>40,019</b>	<b>530</b>	<b>1.3</b>	<b>68,384</b>
<b>Cash was disbursed to</b>							
15,717	9,139	Subsidies and transfer payments	9,698	9,866	168	1.7	17,334
35,052	19,745	Personnel and operating payments	22,951	22,285	(666)	(3.0)	38,175
2,294	1,202	Finance costs	1,399	1,409	10	0.7	2,209
-	-	Forecast for future new spending	-	-	-	-	106
<b>53,063</b>	<b>30,086</b>	<b>Total cash disbursed to operations</b>	<b>34,048</b>	<b>33,560</b>	<b>(488)</b>	<b>(1.5)</b>	<b>57,824</b>
<b>12,189</b>	<b>6,712</b>	<b>Net Cash Flows From Operations</b>	<b>6,501</b>	<b>6,459</b>	<b>42</b>	<b>0.7</b>	<b>10,560</b>
<b>Cash Flows From Investing Activities</b>							
<b>Cash was provided from</b>							
316	125	Sale of physical assets	1,752	189	1,563	-	310
<b>316</b>	<b>125</b>	<b>Total cash provided from investing activities</b>	<b>1,752</b>	<b>189</b>	<b>1,563</b>	<b>-</b>	<b>310</b>
<b>Cash was disbursed to</b>							
4,862	2,607	Purchase of physical assets	3,320	3,859	539	14.0	7,159
1,061	320	Net increase in advances	940	996	56	5.6	1,947
6,677	6,112	Net purchase/(sale) of marketable securities, deposits & equity investments	5,381	2,087	(3,294)	(157.8)	3,604
-	-	Capital contingency provision	-	-	-	-	65
<b>12,600</b>	<b>9,039</b>	<b>Total cash disbursed to investing activities</b>	<b>9,641</b>	<b>6,942</b>	<b>(2,699)</b>	<b>(38.9)</b>	<b>12,775</b>
<b>(12,284)</b>	<b>(8,914)</b>	<b>Net Cash Flows From Investing Activities</b>	<b>(7,889)</b>	<b>(6,753)</b>	<b>(1,136)</b>	<b>(16.8)</b>	<b>(12,465)</b>
<b>(95)</b>	<b>(2,202)</b>	<b>Net Cash Flows From Operating and Investing Activities</b>	<b>(1,388)</b>	<b>(294)</b>	<b>(1,094)</b>	<b>(372.1)</b>	<b>(1,905)</b>
<b>Cash Flows From Financing Activities</b>							
<b>Cash was Provided From</b>							
188	242	Issues of circulating currency	248	18	230	-	18
1,913	1,096	Net issues/(repayment) of Government stock <sup>1</sup>	1,011	1,245	(234)	(18.8)	(184)
<b>2,101</b>	<b>1,338</b>	<b>Total cash provided from financing activities</b>	<b>1,259</b>	<b>1,263</b>	<b>(4)</b>	<b>(0.3)</b>	<b>(166)</b>
<b>Cash was Disbursed to</b>							
829	(30)	Net repayment/(issues) of other New Zealand- dollar borrowing	812	452	(360)	(79.6)	(402)
951	(945)	Net (issues)/repayment of foreign-currency borrowing	(1,728)	446	2,174	487.4	(752)
<b>1,780</b>	<b>(975)</b>	<b>Total cash disbursed to financing activities</b>	<b>(916)</b>	<b>898</b>	<b>1,814</b>	<b>202.0</b>	<b>(1,154)</b>
<b>321</b>	<b>2,313</b>	<b>Net Cash Flows From Financing Activities</b>	<b>2,175</b>	<b>365</b>	<b>1,810</b>	<b>495.9</b>	<b>988</b>
<b>226</b>	<b>111</b>	<b>Net Movement in Cash</b>	<b>787</b>	<b>71</b>	<b>716</b>	<b>-</b>	<b>(917)</b>
3,450	3,450	<b>Opening Cash Balance</b>	3,710	3,710	-	-	3,710
34	17	Foreign-exchange (losses)/gains on opening cash	(5)	(6)	1	16.7	-
<b>3,710</b>	<b>3,578</b>	<b>Closing Cash Balance</b>	<b>4,492</b>	<b>3,775</b>	<b>717</b>	<b>19.0</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 seven months ended 31 January 2006

Prior Year 30 June 2005 \$m	Actual 31 January 2005 \$m		Current Year Actual vs Forecast				Annual
			Actual	Forecast	Variance		Forecast
			\$m	\$m	\$m	%	\$m
<b>Reconciliation Between the Net Cash Flows from Operations and the Operating Balance</b>							
12,189	6,712	<b>Net Cash Flows from Operations</b>	6,501	6,459	42	1	10,560
		<i>Items included in the operating balance but not in net cash flows from operations</i>					
		<b>Valuation changes</b>					
(1,410)	(435)	(Increase)/decrease in pension liabilities	(256)	(256)	-	-	(293)
(2,037)	(526)	(Increase)/decrease in ACC liabilities	(209)	(209)	-	-	(358)
(53)	-	National Provident Fund guarantee	-	-	-	-	-
(23)	-	Revaluation of commercial forests	-	-	-	-	-
4	12	Unrealised net foreign-exchange (losses)/gains	126	(66)	192	291	(59)
1,020	664	Other valuation changes	886	265	621	234	455
<b>(2,499)</b>	<b>(285)</b>	<b>Total valuation changes</b>	<b>547</b>	<b>(266)</b>	<b>813</b>	<b>305.6</b>	<b>(255)</b>
		<b>Property, plant &amp; equipment asset movements</b>					
(2,528)	(1,423)	Depreciation	(1,528)	(1,561)	33	2.1	(2,779)
-	-	Gain/(loss) on sale of Southern Hydro	630	-	630	-	-
(2)	-	Gain/(loss) on sale of physical assets	-	-	-	-	-
<b>(2,530)</b>	<b>(1,423)</b>	<b>Total property, plant &amp; equipment movements</b>	<b>(898)</b>	<b>(1,561)</b>	<b>663</b>	<b>42.5</b>	<b>(2,779)</b>
		<b>Other Non-cash Items</b>					
(188)	23	Student loans	(1,479)	(1,479)	-	-	(1,704)
(97)	(58)	Amortisation of goodwill	(52)	(52)	-	-	(89)
-	-	Accrued income from NZS Fund	661	237	424	178.9	506
133	80	Other	66	77	(11)	(14.3)	133
<b>(152)</b>	<b>45</b>	<b>Total Other Non-cash Items</b>	<b>(804)</b>	<b>(1,217)</b>	<b>413</b>	<b>33.9</b>	<b>(1,154)</b>
		<b>Movements in Working Capital</b>					
(202)	119	Increase/(decrease) in taxes receivable	483	520	(37)	(7.1)	2
498	(68)	(Decrease)/increase in other receivables	(123)	(670)	547	81.6	(707)
58	13	Increase/(decrease) in inventories	2	50	(48)	(96.0)	90
(1,115)	160	Decrease/(increase) in payables	(164)	(36)	(128)	(355.6)	(200)
<b>(761)</b>	<b>224</b>	<b>Total movements in working capital</b>	<b>198</b>	<b>(136)</b>	<b>334</b>	<b>245.6</b>	<b>(815)</b>
<b>6,247</b>	<b>5,273</b>	<b>Operating Balance</b>	<b>5,544</b>	<b>3,279</b>	<b>2,265</b>	<b>69.1</b>	<b>5,557</b>

## STATEMENT OF MOVEMENTS IN EQUITY

for the seven months ended 31 January 2006

35,463	35,463	<b>Opening Crown Balance</b>	49,983	49,983	-	-	49,983
6,247	5,273	Operating balance for the period	5,544	3,279	2,265	69.1	5,557
41	-	Minority interest in operating balance	-	-	-	-	-
35	-	Increase in minority interest	-	-	-	-	-
8,197	3	Net revaluations	2	7	(5)	(71.4)	15
<b>14,520</b>	<b>5,276</b>	<b>Total Recognised Revenues and Expenses</b>	<b>5,546</b>	<b>3,286</b>	<b>2,260</b>	<b>68.8</b>	<b>5,572</b>
<b>49,983</b>	<b>40,739</b>	<b>Closing Crown Balance</b>	<b>55,529</b>	<b>53,269</b>	<b>2,260</b>	<b>4.2</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 January 2006

Prior Year 30 June 2005 \$m	Actual 31 January 2005 \$m		Note	Current Year Actual vs Forecast				Annual Forecast
				Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>Assets</b>								
3,710	3,578	Cash and bank balances	8	4,492	3,775	717	19.0	2,793
		Marketable securities, deposits & equity investments	8	40,440	35,629	4,811	13.5	35,322
33,062	31,594	Advances	9	7,961	7,856	105	1.3	8,563
8,536	8,024	Receivables	10	11,243	10,733	510	4.8	10,178
10,883	10,638	Inventories		948	996	(48)	(4.8)	1,036
946	901	Other investments	11	231	236	(5)	(2.1)	258
221	211	Property, plant & equipment	12	68,029	69,392	(1,363)	(2.0)	71,770
67,494	58,678	Commercial forests		232	232	-	-	232
232	250	Investment in TEIs		5,077	5,088	(11)	(0.2)	5,185
5,010	4,462	Intangible assets		545	668	(123)	(18.4)	630
737	767	Forecast for new capital		-	-	-	-	65
-	-							
<b>130,831</b>	<b>119,103</b>	<b>Total Assets</b>		<b>139,198</b>	<b>134,605</b>	<b>4,593</b>	<b>3.4</b>	<b>136,032</b>
<b>Liabilities</b>								
14,451	12,758	Payables and provisions	13	13,886	13,672	(214)	(1.6)	14,221
3,197	3,251	Currency issued		3,444	3,215	(229)	(7.1)	3,215
		Borrowings - sovereign guaranteed		30,863	28,797	(2,066)	(7.2)	26,653
28,645	30,998	Borrowings - non-sovereign guaranteed		8,665	8,851	186	2.1	9,401
8,219	7,507	GSF Pension liability	14	15,208	15,208	-	-	15,245
14,952	13,977	ACC liability	15	11,603	11,593	(10)	(0.1)	11,742
11,384	9,873							
<b>80,848</b>	<b>78,364</b>	<b>Total Liabilities</b>		<b>83,669</b>	<b>81,336</b>	<b>(2,333)</b>	<b>(2.9)</b>	<b>80,477</b>
<b>Total Assets less Total Liabilities</b>								
<b>49,983</b>	<b>40,739</b>			<b>55,529</b>	<b>53,269</b>	<b>2,260</b>	<b>4.2</b>	<b>55,555</b>
<b>Net Worth</b>								
21,780	20,777	Taxpayer funds		27,340	25,060	(2,280)	(9.1)	27,552
27,988	19,822	Revaluation reserve	16	27,974	27,994	20	0.1	28,003
215	140	Minority interest		215	215	-	-	-
<b>49,983</b>	<b>40,739</b>	<b>Net Worth</b>		<b>55,529</b>	<b>53,269</b>	<b>2,260</b>	<b>4.2</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 January 2006

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 January 2005 \$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	1,216	Gross contribution	1,348	1,348	-	-	2,337
492	259	Income after tax	661	237	424	178.9	506
<b>6,555</b>	<b>5,431</b>	<b>NZS Fund balance</b>	<b>8,564</b>	<b>8,140</b>	<b>424</b>	<b>5.2</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>38,505</b>	<b>Total Crown gross debt</b>	<b>39,528</b>	<b>37,648</b>	<b>1,880</b>	<b>5.0</b>	<b>36,054</b>
<b>35,045</b>	<b>37,035</b>	<b>Gross sovereign-issued debt</b>	<b>36,511</b>	<b>34,762</b>	<b>1,749</b>	<b>5.0</b>	<b>33,275</b>
		<b>Core Crown Debt</b>					
35,045	37,035	Gross sovereign-issued debt	36,511	34,762	1,749	5.0	33,275
(33,078)	(32,077)	Financial assets	(37,901)	(34,821)	(3,080)	(8.8)	(34,351)
<b>1,967</b>	<b>4,958</b>		<b>(1,390)</b>	<b>(59)</b>	<b>(1,331)</b>	<b>-</b>	<b>(1,076)</b>
8,804	8,101	NZS Fund and GSF financial assets	11,774	10,634	1,140	10.7	11,673
<b>10,771</b>	<b>13,059</b>	<b>Net Core Crown Debt</b>	<b>10,384</b>	<b>10,575</b>	<b>(191)</b>	<b>(1.8)</b>	<b>10,597</b>

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

# STATEMENT OF BORROWINGS

as at 31 January 2006

Prior Year 30 June 2005 \$m	Actual 31 January 2005 \$m		Current Year Actual vs Forecast				Annual
			Actual	Forecast	Variance		Forecast
			\$m	\$m	\$m	%	\$m
<b>Sovereign-Guaranteed Debt</b>							
<b>New Zealand-Dollar Debt</b>							
16,058	18,086	Government stock	18,174	17,708	(466)	(2.6)	15,894
5,245	5,489	Treasury bills	5,562	5,570	8	0.1	5,240
(6,123)	2,050	Loans and foreign-exchange contracts	(7,014)	1,038	8,052	-	538
583	604	Retail stock	540	573	33	5.8	600
<b>15,763</b>	<b>26,229</b>	<b>Total New Zealand-Dollar Debt</b>	<b>17,262</b>	<b>24,889</b>	<b>7,627</b>	<b>30.6</b>	<b>22,272</b>
<b>Foreign-Currency Debt</b>							
7,906	1,470	United States dollars	6,637	1,974	(4,663)	(236.2)	2,474
252	426	Japanese yen	95	(415)	(510)	(122.9)	(415)
4,724	2,873	European and other currencies	6,869	2,349	(4,520)	(192.4)	2,322
<b>12,882</b>	<b>4,769</b>	<b>Total Foreign-Currency Debt</b>	<b>13,601</b>	<b>3,908</b>	<b>(9,693)</b>	<b>(248.0)</b>	<b>4,381</b>
<b>28,645</b>	<b>30,998</b>	<b>Total Sovereign-Guaranteed Debt</b>	<b>30,863</b>	<b>28,797</b>	<b>(2,066)</b>	<b>(7.2)</b>	<b>26,653</b>
<b>Non-Sovereign-Guaranteed Debt</b>							
5,601	5,045	New Zealand dollars	6,316	6,355	39	0.6	6,500
1,541	1,672	United States dollars	2,088	1,762	(326)	(18.5)	1,978
324	184	Japanese yen	139	-	(139)	-	-
753	606	European and other currencies	122	734	612	83.4	923
<b>8,219</b>	<b>7,507</b>	<b>Total Non-Sovereign Debt</b>	<b>8,665</b>	<b>8,851</b>	<b>186</b>	<b>2.1</b>	<b>9,401</b>
<b>36,864</b>	<b>38,505</b>	<b>Total Borrowings (Gross Debt)</b>	<b>39,528</b>	<b>37,648</b>	<b>(1,880)</b>	<b>(5.0)</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	14,921	New Zealand dollars	10,543	16,803	(6,260)	(37.3)	14,564
9,733	2,674	United States dollars	8,260	3,859	4,401	114.0	4,505
789	689	Japanese yen	379	17	362	-	90
4,455	2,550	European and other currencies	6,737	1,774	4,963	279.8	2,108
702	796	Reserve position at IMF	395	493	(98)	(19.9)	495
2,385	2,213	NZ equity investments	2,661	2,559	102	4.0	3,136
8,511	7,751	Foreign equity investments	11,465	10,124	1,341	13.2	10,424
<b>33,062</b>	<b>31,594</b>	<b>Total Marketable Securities</b>	<b>40,440</b>	<b>35,629</b>	<b>4,811</b>	<b>13.5</b>	<b>35,322</b>
		<b>Deposits &amp; Equity Investments</b>					
		<b>Advances and Cash</b>					
6,465	6,183	Student loans	5,252	5,220	32	0.6	5,540
2,071	1,841	Other advances	2,709	2,636	73	2.8	3,023
3,710	3,578	Cash	4,492	3,775	717	19.0	2,793
<b>12,246</b>	<b>11,602</b>	<b>Total Advances and Cash</b>	<b>12,453</b>	<b>11,631</b>	<b>822</b>	<b>7.1</b>	<b>11,356</b>
<b>45,308</b>	<b>43,196</b>	<b>Total Financial Assets</b>	<b>52,893</b>	<b>47,260</b>	<b>5,633</b>	<b>11.9</b>	<b>46,678</b>
<b>(8,444)</b>	<b>(4,691)</b>	<b>Borrowings less Financial Assets</b>	<b>(13,365)</b>	<b>(9,612)</b>	<b>3,753</b>	<b>39.0</b>	<b>(10,624)</b>
(13)	2,627	Net New Zealand-dollar debt	(2,263)	(219)	2,044	-	(1,133)
(8,431)	(7,318)	Net foreign-currency debt	(11,102)	(9,393)	1,709	18.2	(9,491)
<b>(8,444)</b>	<b>(4,691)</b>	<b>Borrowings less Financial Assets</b>	<b>(13,365)</b>	<b>(9,612)</b>	<b>3,753</b>	<b>39.0</b>	<b>(10,624)</b>

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



## STATEMENT OF COMMITMENTS

as at 31 January 2006

	As at 31 January 2006 \$m	As at 30 June 2005 \$m	As at 31 January 2005 \$m
<b>Capital Commitments</b>			
Specialist military equipment	698	825	938
Land and buildings	1,652	1,440	1,733
Other property, plant and equipment	2,386	2,432	883
Other capital commitments	428	69	110
TEIs	125	125	60
<b>Total Capital Commitments</b>	<b>5,289</b>	<b>4,891</b>	<b>3,724</b>
<b>Operating Commitments</b>			
Non-cancellable accommodation leases	1,774	1,972	1,465
Other non-cancellable leases	2,467	2,606	2,358
Non-cancellable contracts for the supply of goods and services	4,161	1,721	4,095
Other operating commitments	3,361	4,054	2,545
TEIs	1,052	1,052	325
<b>Total Operating Commitments</b>	<b>12,815</b>	<b>11,405</b>	<b>10,788</b>
<b>Total Commitments</b>	<b>18,104</b>	<b>16,296</b>	<b>14,512</b>
<b>Total Commitments by Institutional Segment</b>			
Core Crown	6,790	2,627	4,813
Crown entities	7,886	10,061	7,510
State-owned enterprises	3,428	3,608	2,189
<b>Total Commitments</b>	<b>18,104</b>	<b>16,296</b>	<b>14,512</b>

## STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 January 2006

	As at 31 January 2006 \$m	As at 30 June 2005 \$m	As at 31 January 2005 \$m
<b>Quantifiable Contingent Liabilities</b>			
Guarantees and Indemnities	149	149	208
Uncalled Capital	2,294	2,233	2,210
Legal Proceedings and Disputes	660	586	803
Other Contingent Liabilities	1,666	1,502	1,499
<b>Total Quantifiable Contingent Liabilities</b>	<b>4,769</b>	<b>4,470</b>	<b>4,720</b>
<b>Total Quantifiable Contingent Liabilities by Institutional Segment</b>			
Core Crown	4,635	4,330	4,449
Crown entities	19	36	11
State-owned enterprises	115	104	260
<b>Total Quantifiable Contingent Liabilities</b>	<b>4,769</b>	<b>4,470</b>	<b>4,720</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 SEGMENTS

## Financial Performance and Financial Position by institutional form

### Statement of Financial Performance (institutional form) for the seven months ended 31 January 2006 (actual to forecast)

(\$ million)	Current Year-To-Date Actual vs Forecast			
	Core Crown		Crown entities	
	Actual January 2005/06 \$m	Forecast January 2005/06 \$m	Actual January 2005/06 \$m	Forecast January 2005/06 \$m
<b>Revenue</b>				
Taxation revenue	28,809	28,888	-	-
Other sovereign levied income	396	413	1,513	1,483
Sales of goods and services	507	435	1,029	1,044
Investment income	2,576	1,524	1,115	671
Other revenues	335	434	10,549	10,772
<b>Total revenue</b>	<b>32,623</b>	<b>31,694</b>	<b>14,206</b>	<b>13,970</b>
<b>Expenses by input type</b>				
Subsidies and transfer payments	8,773	8,857	972	1,004
Personnel expenses	3,467	3,459	4,333	4,342
Operating expenses	15,499	15,674	7,204	7,365
Finance costs	1,381	1,344	172	178
FX losses/(gains)	(51)	18	(17)	-
GSF and ACC liability revaluation movts	256	256	209	209
<b>Total expenses</b>	<b>29,325</b>	<b>29,608</b>	<b>12,873</b>	<b>13,098</b>
<b>Expenses by functional classification</b>				
Social security and welfare	9,046	9,069	1,627	1,643
Health	5,456	5,554	4,522	4,597
Education	6,178	6,321	3,849	3,892
Other functional classifications	7,315	7,302	2,720	2,788
Forecast for future new spending	-	-	-	-
Finance costs and FX losses/(gains)	1,330	1,362	155	178
<b>Total expenses</b>	<b>29,325</b>	<b>29,608</b>	<b>12,873</b>	<b>13,098</b>
Net surplus of TEIs	-	-	66	77
Minority interest	-	-	-	-
<b>Operating balance</b>	<b>3,298</b>	<b>2,086</b>	<b>1,399</b>	<b>949</b>

### Statement of Financial Position (institutional form) as at 31 January 2006 (actual to forecast)

(\$ million)	Core Crown		Crown entities	
	Actual January 2005/06 \$m	Forecast January 2005/06 \$m	Actual January 2005/06 \$m	Forecast January 2005/06 \$m
	<b>Assets</b>			
Financial assets	37,901	34,821	16,289	15,987
Physical assets	22,205	22,086	32,622	32,840
Investment in SOEs & CE (including TEIs)	23,937	23,884	5,077	5,088
Other assets	9,673	9,056	1,947	2,210
<b>Total assets</b>	<b>93,716</b>	<b>89,847</b>	<b>55,935</b>	<b>56,125</b>
<b>Liabilities</b>				
Borrowings	35,458	33,639	3,865	4,199
Other liabilities	26,656	25,813	15,786	16,018
<b>Total liabilities</b>	<b>62,114</b>	<b>59,452</b>	<b>19,651</b>	<b>20,217</b>
<b>Net worth</b>	<b>31,602</b>	<b>30,395</b>	<b>36,284</b>	<b>35,908</b>
Taxpayer funds	22,805	21,591	20,758	20,372
Revaluation reserves	8,797	8,804	15,526	15,536
Minority interest	-	-	-	-
<b>Net worth</b>	<b>31,602</b>	<b>30,395</b>	<b>36,284</b>	<b>35,908</b>
<b>Analysis of financial assets and borrowings</b>				
Advances and cash	8,039	8,588	2,131	2,100
MSDs and equity investments	29,862	26,233	14,158	13,887
<b>Total financial assets</b>	<b>37,901</b>	<b>34,821</b>	<b>16,289</b>	<b>15,987</b>
Borrowings - Sovereign guaranteed	35,458	33,639	-	-
Borrowings - Non-sovereign guaranteed	-	-	3,865	4,199
<b>Total borrowings</b>	<b>35,458</b>	<b>33,639</b>	<b>3,865</b>	<b>4,199</b>
<b>Borrowings less financial assets</b>	<b>(2,443)</b>	<b>(1,182)</b>	<b>(12,424)</b>	<b>(11,788)</b>
<b>Net Crown debt</b>	<b>10,384</b>	<b>10,575</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>36,511</b>	<b>34,762</b>		

# STATEMENT OF SEGMENTS (CONTINUED)

Financial Performance and Financial Position by institutional form

## Statement of Financial Performance (institutional form)

for the seven months ended 31 January 2006 (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
	January 2005/06	January 2005/06	January 2005/06	January 2005/06	January 2005/06	January 2005/06
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Revenue</b>						
Taxation revenue	-	-	(327)	(299)	28,482	28,589
Other sovereign levied income	-	-	(32)	(30)	1,877	1,866
Sales of goods and services	6,075	5,723	(315)	(293)	7,296	6,909
Investment income	865	154	(411)	(336)	4,145	2,013
Other revenues	467	514	(9,784)	(10,106)	1,567	1,614
<b>Total revenue</b>	<b>7,407</b>	<b>6,391</b>	<b>(10,869)</b>	<b>(11,064)</b>	<b>43,367</b>	<b>40,991</b>
<b>Expenses by input type</b>						
Subsidies and transfer payments	-	-	-	-	9,745	9,861
Personnel expenses	1,054	1,086	(2)	(2)	8,852	8,885
Operating expenses	5,014	4,604	(10,459)	(10,726)	17,258	16,917
Finance costs	295	247	(177)	(102)	1,671	1,667
FX losses/(gains)	(34)	(24)	-	-	(102)	(6)
GSF and ACC liability revaluation movts	-	-	-	-	465	465
<b>Total expenses</b>	<b>6,329</b>	<b>5,913</b>	<b>(10,638)</b>	<b>(10,830)</b>	<b>37,889</b>	<b>37,789</b>
<b>Expenses by functional classification</b>						
Social security and welfare	-	-	(303)	(314)	10,370	10,398
Health	-	-	(4,802)	(4,895)	5,176	5,256
Education	9	9	(3,041)	(3,256)	6,995	6,966
Other functional classifications	6,058	5,680	(2,314)	(2,262)	13,779	13,508
Forecast for future new spending	-	-	-	-	-	-
Finance costs and FX losses/(gains)	262	224	(178)	(103)	1,569	1,661
<b>Total expenses</b>	<b>6,329</b>	<b>5,913</b>	<b>(10,638)</b>	<b>(10,830)</b>	<b>37,889</b>	<b>37,789</b>
Net surplus of TEIs	-	-	-	-	66	77
Minority interest	-	-	-	-	-	-
<b>Operating balance</b>	<b>1,078</b>	<b>478</b>	<b>(231)</b>	<b>(234)</b>	<b>5,544</b>	<b>3,279</b>

## Statement of Financial Position (institutional form)

as at 31 January 2006 (actual to forecast)

(\$ million)	State-owned enterprises		Inter-segment elimins		Total Crown	
	Actual	Forecast	Actual	Forecast	Actual	Forecast
	January 2005/06	January 2005/06	January 2005/06	January 2005/06	January 2005/06	January 2005/06
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>						
Financial assets	5,636	3,810	(6,933)	(7,358)	52,893	47,260
Physical assets	13,202	14,466	-	-	68,029	69,392
Investment in SOEs & CE (including TEIs)	-	-	(23,937)	(23,884)	5,077	5,088
Other assets	2,222	2,194	(643)	(595)	13,199	12,865
<b>Total assets</b>	<b>21,060</b>	<b>20,470</b>	<b>(31,513)</b>	<b>(31,837)</b>	<b>139,198</b>	<b>134,605</b>
<b>Liabilities</b>						
Borrowings	7,138	7,168	(6,933)	(7,358)	39,528	37,648
Other liabilities	2,953	2,963	(1,254)	(1,106)	44,141	43,688
<b>Total liabilities</b>	<b>10,091</b>	<b>10,131</b>	<b>(8,187)</b>	<b>(8,464)</b>	<b>83,669</b>	<b>81,336</b>
<b>Net worth</b>	<b>10,969</b>	<b>10,339</b>	<b>(23,326)</b>	<b>(23,373)</b>	<b>55,529</b>	<b>53,269</b>
Taxpayer funds	7,103	6,470	(23,326)	(23,373)	27,340	25,060
Revaluation reserves	3,651	3,654	-	-	27,974	27,994
Minority interest	215	215	-	-	215	215
<b>Net worth</b>	<b>10,969</b>	<b>10,339</b>	<b>(23,326)</b>	<b>(23,373)</b>	<b>55,529</b>	<b>53,269</b>
<b>Analysis of financial assets and borrowings</b>						
Advances and cash	4,489	3,339	(2,206)	(2,396)	12,453	11,631
MSDs and equity investments	1,147	471	(4,727)	(4,962)	40,440	35,629
<b>Total financial assets</b>	<b>5,636</b>	<b>3,810</b>	<b>(6,933)</b>	<b>(7,358)</b>	<b>52,893</b>	<b>47,260</b>
Borrowings - Sovereign guaranteed	-	-	(4,595)	(4,842)	30,863	28,797
Borrowings - Non-sovereign guaranteed	7,138	7,168	(2,338)	(2,516)	8,665	8,851
<b>Total borrowings</b>	<b>7,138</b>	<b>7,168</b>	<b>(6,933)</b>	<b>(7,358)</b>	<b>39,528</b>	<b>37,648</b>
<b>Borrowings less financial assets</b>	<b>1,502</b>	<b>3,358</b>	<b>-</b>	<b>-</b>	<b>(13,365)</b>	<b>(9,612)</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 January 2005 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 1: Revenue Collected Through the Crown's Sovereign Power</b>							
<b>Income Tax Revenue (accrual)</b>							
<b>Individuals</b>							
18,324	10,702	Source deductions	11,578	11,498	80	0.7	19,567
4,103	2,337	Other persons	2,444	2,428	16	0.7	4,221
(876)	(485)	Refunds	(531)	(560)	29	5.2	(974)
441	261	Fringe benefit tax	277	279	(2)	(0.7)	458
<b>21,992</b>	<b>12,815</b>	<b>Total Individuals</b>	<b>13,768</b>	<b>13,645</b>	<b>123</b>	<b>0.9</b>	<b>23,272</b>
<b>Corporate Tax</b>							
7,537	4,051	Gross companies tax	4,387	4,735	(348)	(7.3)	8,202
(232)	(69)	Refunds	(74)	(86)	12	14	(200)
927	596	Non-resident withholding tax	609	516	93	18.0	917
188	113	Foreign-source dividend w/holding payments	101	132	(31)	(23.5)	222
<b>8,420</b>	<b>4,691</b>	<b>Total Corporate Tax</b>	<b>5,023</b>	<b>5,297</b>	<b>(274)</b>	<b>(5.2)</b>	<b>9,141</b>
<b>Other Income Tax</b>							
1,501	816	Resident w/holding tax on interest income	1,023	1,000	23	2.3	1,745
59	42	Resident w/holding tax on dividend income	53	49	4	8.2	67
2	1	Estate and gift duties	1	2	(1)	(50.0)	2
<b>1,562</b>	<b>859</b>	<b>Total Other Income Tax</b>	<b>1,077</b>	<b>1,051</b>	<b>26</b>	<b>2.5</b>	<b>1,814</b>
<b>31,974</b>	<b>18,365</b>	<b>Total Income Tax</b>	<b>19,868</b>	<b>19,993</b>	<b>(125)</b>	<b>(0.6)</b>	<b>34,227</b>
<b>Goods and Services Tax</b>							
17,378	9,942	Gross goods and services tax	10,192	10,455	(263)	(2.5)	18,037
(7,180)	(4,174)	Refunds	(4,326)	(4,530)	204	4.5	(7,696)
<b>10,198</b>	<b>5,768</b>	<b>Total Goods and Services Tax</b>	<b>5,866</b>	<b>5,925</b>	<b>(59)</b>	<b>(1.0)</b>	<b>10,341</b>
<b>Other Taxation</b>							
823	480	Petroleum fuels excise	545	518	27	5.2	906
842	517	Tobacco excise	547	540	7	1.3	856
947	500	Customs duty	558	526	32	6.1	1,041
713	400	Road user charges	422	431	(9)	(2.1)	752
491	285	Alcohol excise	305	295	10	3.4	500
281	168	Gaming duties	158	155	3	1.9	268
217	125	Motor vehicle fees	128	129	(1)	(0.8)	224
73	44	Energy resources levies	41	36	5	13.9	70
65	35	Approved issuer levy and cheque duty	44	41	3	7.3	64
<b>4,452</b>	<b>2,554</b>	<b>Total Other Indirect Taxation</b>	<b>2,748</b>	<b>2,671</b>	<b>77</b>	<b>2.9</b>	<b>4,681</b>
<b>14,650</b>	<b>8,322</b>	<b>Total Indirect Taxation</b>	<b>8,614</b>	<b>8,596</b>	<b>18</b>	<b>0.2</b>	<b>15,022</b>
<b>46,624</b>	<b>26,687</b>	<b>Total Tax Revenue Collected</b>	<b>28,482</b>	<b>28,589</b>	<b>(107)</b>	<b>(0.4)</b>	<b>49,249</b>
<b>Other Sovereign Revenues (accrual)</b>							
2,119	1,185	ACC levies	1,227	1,208	19	1.6	2,089
249	156	Fire Service levies	157	154	3	1.9	250
80	46	EQC levies	48	48	-	-	81
667	430	Other miscellaneous items	445	456	(11)	(2.4)	738
<b>3,115</b>	<b>1,817</b>	<b>Total Other Sovereign Revenues</b>	<b>1,877</b>	<b>1,866</b>	<b>11</b>	<b>0.6</b>	<b>3,158</b>
<b>49,739</b>	<b>28,504</b>	<b>Total Sovereign Revenue</b>	<b>30,359</b>	<b>30,455</b>	<b>(96)</b>	<b>(0.3)</b>	<b>52,407</b>

# NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2005 \$m	Actual 31 January 2005 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>NOTE 1: Receipts Collected Through the Crown's Sovereign Power</b>							
<b>Income Tax Receipts (cash)</b>							
<b>Individuals</b>							
18,380	10,578	Source deductions	11,446	11,386	60	0.5	19,524
4,640	2,277	Other persons	2,414	2,426	(12)	(0.5)	4,896
(1,365)	(806)	Refunds	(874)	(949)	75	7.9	(1,636)
432	310	Fringe benefit tax	321	325	(4)	(1.2)	448
<b>22,087</b>	<b>12,359</b>	<b>Total Individuals</b>	<b>13,307</b>	<b>13,188</b>	<b>119</b>	<b>0.9</b>	<b>23,232</b>
<b>Corporate Tax</b>							
8,365	4,606	Gross companies tax	4,710	5,017	(307)	(6.1)	8,790
(735)	(337)	Refunds	(341)	(426)	85	20	(790)
949	649	Non-resident withholding tax	709	592	117	19.8	910
185	95	Foreign-source dividend w/holding payments	102	124	(22)	(17.7)	213
<b>8,764</b>	<b>5,013</b>	<b>Total Corporate Tax</b>	<b>5,180</b>	<b>5,307</b>	<b>(127)</b>	<b>(2.4)</b>	<b>9,123</b>
<b>Other Income Tax</b>							
1,498	816	Resident w/holding tax on interest income	1,027	999	28	2.8	1,746
60	57	Resident w/holding tax on dividend income	84	66	18	27.3	67
2	1	Estate and gift duties	1	1	-	-	2
<b>1,560</b>	<b>874</b>	<b>Total Other Income Tax</b>	<b>1,112</b>	<b>1,066</b>	<b>46</b>	<b>4.3</b>	<b>1,815</b>
<b>32,411</b>	<b>18,246</b>	<b>Total Income Tax</b>	<b>19,599</b>	<b>19,561</b>	<b>38</b>	<b>0.2</b>	<b>34,170</b>
<b>Goods and Services Tax</b>							
16,729	9,566	Gross goods and services tax	10,068	10,201	(133)	(1.3)	17,498
(6,719)	(3,841)	Refunds	(4,200)	(4,195)	(5)	(0.1)	(7,200)
<b>10,010</b>	<b>5,725</b>	<b>Total Goods and Services Tax</b>	<b>5,868</b>	<b>6,006</b>	<b>(138)</b>	<b>(2.3)</b>	<b>10,298</b>
<b>Other Taxation</b>							
812	468	Petroleum fuels excise	530	517	13	2.5	904
838	575	Tobacco excise	606	597	9	1.5	857
968	564	Customs duty	559	563	(4)	(0.7)	1,041
714	400	Road user charges	422	431	(9)	(2.1)	747
483	288	Alcohol excise	310	301	9	3.0	500
287	173	Gaming duties	169	155	14	9.0	273
205	102	Motor vehicle fees	84	129	(45)	(34.9)	229
73	45	Energy resources levies	42	36	6	16.7	67
66	34	Approved issuer levy and cheque duty	46	41	5	12.2	66
<b>4,446</b>	<b>2,649</b>	<b>Total Other Indirect Taxation</b>	<b>2,768</b>	<b>2,770</b>	<b>(2)</b>	<b>(0.1)</b>	<b>4,684</b>
<b>14,456</b>	<b>8,374</b>	<b>Total Indirect Taxation</b>	<b>8,636</b>	<b>8,776</b>	<b>(140)</b>	<b>(1.6)</b>	<b>14,982</b>
<b>46,867</b>	<b>26,620</b>	<b>Total Tax Receipts Collected</b>	<b>28,235</b>	<b>28,337</b>	<b>(102)</b>	<b>(0.4)</b>	<b>49,152</b>
<b>Other Sovereign Receipts (cash)</b>							
2,052	1,410	ACC levies	1,490	1,447	43	3.0	2,201
249	156	Fire Service levies	157	154	3	1.9	250
81	49	EQC levies	50	51	(1)	(2.0)	82
592	352	Other miscellaneous items	384	399	(15)	(3.8)	576
<b>2,974</b>	<b>1,967</b>	<b>Total Other Sovereign Receipts</b>	<b>2,081</b>	<b>2,051</b>	<b>30</b>	<b>1.5</b>	<b>3,109</b>
<b>49,841</b>	<b>28,587</b>	<b>Total Sovereign Receipts</b>	<b>30,316</b>	<b>30,388</b>	<b>(72)</b>	<b>(0.2)</b>	<b>52,261</b>

# NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2005 \$m	Actual 31 January 2005 \$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	838	Interest income	1,136	1,000	136	13.6	1,674
498	286	Student loans	316	273	43	15.8	289
646	383	NZS Fund income	1,008	340	668	196.5	641
87	33	Dividends	40	57	(17)	(29.8)	104
		Gains/(losses) on marketable securities					
221	521	deposits and equity investments	1,007	330	677	205.2	569
-	-	Gain on sale of Southern Hydro	630	-	630	-	-
98	9	Other	8	13	(5)	(38.5)	16
<b>3,814</b>	<b>2,070</b>	<b>Total Investment Income</b>	<b>4,145</b>	<b>2,013</b>	<b>2,132</b>	<b>105.9</b>	<b>3,293</b>

## NOTE 4: Other Revenue

		Unrealised gains arising from changes					
(23)	-	in the value of commercial forests	-	-	-	-	-
102	61	GSF contributions	63	64	(1)	(1.6)	93
51	28	Petroleum royalties	24	33	(9)	(27.3)	61
30	18	Cost recovery income from fisheries	17	17	-	-	30
2,021	1,145	Other	1,463	1,500	(37)	(2.5)	1,666
<b>2,181</b>	<b>1,252</b>	<b>Total Other Operational Revenue</b>	<b>1,567</b>	<b>1,614</b>	<b>(47)</b>	<b>(2.9)</b>	<b>1,850</b>



# NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2005 \$m	Actual 31 January 2005 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 5: Subsidies and Transfer Payments</b>							
		Social Assistance Grants					
6,083	3,541	New Zealand superannuation	3,730	3,725	(5)	(0.1)	6,431
1,549	874	ACC payments	972	1,004	32	3.2	1,715
1,547	926	Domestic purposes benefit	436	450	14	3.1	1,485
831	523	Unemployment benefit	880	880	-	-	720
846	435	Family support	692	715	23	3.2	1,369
359	201	Student allowances	187	211	24	11.4	350
4,182	2,412	Other social assistance grants	2,573	2,567	(6)	(0.2)	4,487
118	72	Subsidies	58	72	14	19.4	140
		Other Transfer Payments					
297	141	Official development assistance	196	208	12	5.8	345
32	24	Other	21	29	8	27.6	35
<b>15,844</b>	<b>9,149</b>	<b>Total Subsidies and Transfer Payments</b>	<b>9,745</b>	<b>9,861</b>	<b>116</b>	<b>1.2</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	614	GSF pension costs	922	863	(59)	(6.8)	1,137
108	63	Other pension expenses	81	63	(18)	(28.6)	126
12,422	7,172	Other personnel expenses	7,849	7,959	110	1.4	13,393
<b>13,562</b>	<b>7,849</b>	<b>Total Personnel Expenses</b>	<b>8,852</b>	<b>8,885</b>	<b>33</b>	<b>0.4</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	463	Buildings	497	501	4	0.8	887
106	61	Electricity distribution networks	62	60	(2)	(3.3)	109
166	91	Electricity generation assets	119	122	3	2.5	209
189	103	Specialist military equipment (SME)	108	108	-	-	189
225	136	State highways	134	134	-	-	230
101	102	Aircraft (excluding SME)	108	110	2	1.8	209
850	437	Other plant and equipment	468	493	25	5.1	889
98	30	Other assets	32	33	1	3.0	57
<b>2,528</b>	<b>1,423</b>	<b>Total depreciation costs</b>	<b>1,528</b>	<b>1,561</b>	<b>33</b>	<b>2.1</b>	<b>2,779</b>
		Other operating expenses:					
789	414	Rental and leasing costs	443	436	(7)	(1.6)	754
984	261	Change in provision for doubtful debts	126	130	4	3.1	327
93	43	Write off of bad debts	33	30	(3)	(10.0)	57
97	58	Goodwill amortised	52	52	-	-	89
1,267	191	Grants paid	447	578	131	22.7	1,099
350	203	Lottery prize payments	229	216	(13)	(6.0)	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	107	100	(7)	(7.0)	284
19,204	10,660	Other operating expenses	12,814	12,335	(479)	(3.9)	21,837
<b>25,314</b>	<b>13,253</b>	<b>Total Operating Expenses</b>	<b>17,258</b>	<b>16,917</b>	<b>(341)</b>	<b>(2.0)</b>	<b>29,062</b>

# NOTES TO THE FINANCIAL STATEMENTS

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

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

### By category:

3,710	3,578	<b>Total cash</b>	<b>4,492</b>	<b>3,775</b>	<b>717</b>	<b>19.0</b>	<b>2,793</b>
21,464	20,834	Marketable securities and deposits	25,919	22,453	3,466	15.4	21,267
10,896	9,964	Equity investments (eg, shares)	14,126	12,683	1,443	11.4	13,560
702	796	Reserve position at the IMF	395	493	(98)	(19.9)	495
<b>33,062</b>	<b>31,594</b>	<b>Total MSDs and Equity Investments</b>	<b>40,440</b>	<b>35,629</b>	<b>4,811</b>	<b>13.5</b>	<b>35,322</b>
<b>36,772</b>	<b>35,172</b>	<b>Cash and MSDs &amp; Equity Investments</b>	<b>44,932</b>	<b>39,404</b>	<b>5,528</b>	<b>14.0</b>	<b>38,115</b>

### By portfolio management:

14,776	15,281	Reserve Bank and DMO managed funds	18,327	15,619	2,708	17.3	14,425
5,571	4,742	NZS Fund	7,833	7,426	407	5.5	8,458
3,233	3,137	Government Superannuation Fund	3,699	3,188	511	16.0	3,215
5,987	1,543	ACC portfolio	6,885	6,651	234	3.5	6,299
1,675	5,485	EQC portfolio	1,961	1,631	330	20.2	1,818
1,820	1,406	Other holdings	1,735	1,114	621	55.7	1,107
<b>33,062</b>	<b>31,594</b>	<b>Total MSDs &amp; Equity Investments</b>	<b>40,440</b>	<b>35,629</b>	<b>4,811</b>	<b>13.5</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 \$8.6 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	5,273	NZS Fund	8,668	8,194	474	5.8	9,398
3,521	3,420	GSF net assets (including portfolio)	3,711	3,543	168	4.7	3,572
8,123	7,611	ACC portfolio	8,366	8,335	31	0.4	8,547
4,557	4,428	EQC portfolio	4,943	4,719	224	4.7	4,850

# NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2005 \$m	Actual 31 January 2005 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>NOTE 9: Advances</b>							
6,465	6,183	Student loans (see analysis below) <sup>1</sup>	5,252	5,220	32	0.6	5,540
1,575	1,308	Kiwibank mortgages	2,210	2,174	36	1.7	2,456
77	74	Residential care loans	75	80	(5)	(6.3)	82
51	49	Maori development rural lending	54	56	(2)	(3.6)	57
368	410	Other	370	326	44	13.5	428
<b>8,536</b>	<b>8,024</b>	<b>Total Advances</b>	<b>7,961</b>	<b>7,856</b>	<b>105</b>	<b>1.3</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	7,862	7,814	48	0.6	8,293
-	-	Adjustment to fair value	(2,610)	(2,594)	(16)	(0.6)	(2,753)
-	-	<b>Total Student Loans</b>	<b>5,252</b>	<b>5,220</b>	<b>32</b>	<b>0.6</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	365	344	21	6.1	1,098
-	-	Fair value write down for new lending	(107)	(100)	(7)	(7.0)	(284)
-	-	Repayments	(298)	(300)	2	0.7	(578)
-	-	Impairments	(10)	(9)	(1)	(11.1)	(15)
-	-	Interest charged	316	273	43	15.8	289
-	-	Residual fair value change	-	26	(26)	(100.0)	44
-	-	<b>Closing Balance</b>	<b>5,252</b>	<b>5,220</b>	<b>32</b>	<b>0.6</b>	<b>5,540</b>

## NOTE 10: Receivables

5,641	5,962	Taxes receivable	6,124	6,161	(37)	(0.6)	5,643
4,610	3,787	Accounts receivable	4,440	3,994	446	11.2	4,242
121	133	Receivable from the sale and purchase of Maui gas	88	89	(1)	(1.1)	79
511	756	Prepayments	591	489	102	20.9	214
<b>10,883</b>	<b>10,638</b>	<b>Total Receivables</b>	<b>11,243</b>	<b>10,733</b>	<b>510</b>	<b>4.8</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	74	83	(9)	(10.8)	105
<b>221</b>	<b>211</b>	<b>Total Other Investments</b>	<b>231</b>	<b>236</b>	<b>(5)</b>	<b>(2.1)</b>	<b>258</b>

## NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2005 \$m	Actual 31 January 2005 \$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	9,766	Land (valuation)	11,521	11,766	(245)	(2.1)	11,803
470	455	Properties intended for sale (valuation)	448	435	13	3.0	440
19,457	18,508	Buildings (valuation)	20,441	20,697	(256)	(1.2)	21,492
2,123	2,086	Electricity distribution network (cost)	2,191	2,250	(59)	(2.6)	2,389
7,260	5,297	Electricity generation assets (valuation)	6,851	7,737	(886)	(11.5)	8,224
1,139	1,404	Aircraft (ex SME) (valuation)	1,762	1,835	(73)	(4.0)	1,867
14,909	13,350	State highways (valuation)	15,526	15,556	(30)	(0.2)	19,026
3,032	2,787	Specialist military equipment (valuation)	3,061	3,098	(37)	(1.2)	3,616
8,987	8,661	Other plant and equipment (cost)	9,086	9,178	(92)	(1.0)	9,269
6,751	5,366	Other assets (valuation)	6,910	6,875	35	0.5	6,876
<b>75,821</b>	<b>67,680</b>	<b>Total Gross Carrying Value</b>	<b>77,797</b>	<b>79,427</b>	<b>(1,630)</b>	<b>(2.1)</b>	<b>85,002</b>
<b>Accumulated Depreciation</b>							
1,324	1,792	Buildings	1,844	2,276	432	19.0	2,176
187	151	Electricity distribution network	239	246	7	2.8	292
169	482	Electricity generation assets	240	273	33	12.1	370
-	101	Aircraft (ex SME)	108	110	2	1.8	-
-	136	State highways	359	359	-	-	3,583
621	574	Specialist military equipment	726	728	2	0.3	808
5,595	5,397	Other plant and equipment	5,813	5,632	(181)	(3.2)	5,633
431	368	Other assets	439	411	(28)	(6.8)	370
<b>8,327</b>	<b>9,001</b>	<b>Total Accumulated Depreciation</b>	<b>9,768</b>	<b>10,035</b>	<b>267</b>	<b>2.7</b>	<b>13,232</b>
<b>Net Carrying Value</b>							
11,693	9,766	Land (valuation)	11,521	11,766	(245)	(2.1)	11,803
470	455	Properties intended for sale (valuation)	448	435	13	3.0	440
18,133	16,716	Buildings (valuation)	18,597	18,421	176	1.0	19,316
1,936	1,935	Electricity distribution network (cost)	1,952	2,004	(52)	(2.6)	2,097
7,091	4,815	Electricity generation assets (valuation)	6,611	7,464	(853)	(11.4)	7,854
1,139	1,303	Aircraft (ex SME) (valuation)	1,654	1,725	(71)	(4.1)	1,867
14,909	13,214	State highways (valuation)	15,167	15,197	(30)	(0.2)	15,443
2,411	2,213	Specialist military equipment (valuation)	2,335	2,370	(35)	(1.5)	2,808
3,392	3,264	Other plant and equipment (cost)	3,273	3,546	(273)	(7.7)	3,636
6,320	4,997	Other assets (valuation)	6,471	6,464	7	0.1	6,506
<b>67,494</b>	<b>58,678</b>	<b>Total Net Carrying Value</b>	<b>68,029</b>	<b>69,392</b>	<b>(1,363)</b>	<b>(2.0)</b>	<b>71,770</b>
<b>By holding</b>							
66,282	58,277	Freehold assets	67,009	68,350	(1,341)	(2.0)	70,754
1,212	401	Leasehold assets	1,020	1,042	(22)	(2.1)	1,016
<b>67,494</b>	<b>58,678</b>	<b>Total Net Carrying Value</b>	<b>68,029</b>	<b>69,392</b>	<b>(1,363)</b>	<b>(2.0)</b>	<b>71,770</b>
<b>NOTE 13: Payables and Provisions</b>							
8,593	7,703	Accounts payable and accruals	8,030	7,765	(265)	(3.4)	8,103
2,778	2,276	Taxes repayable	2,576	2,778	202	7.3	2,742
466	617	Provisions	441	424	(17)	(4.0)	668
310	-	Kyoto liability	563	440	(123)	(28.0)	440
944	891	National Provident Fund guarantee	944	944	-	-	944
1,360	1,271	Provision for employee entitlements	1,332	1,321	(11)	(0.8)	1,324
<b>14,451</b>	<b>12,758</b>	<b>Total Payables and Provisions</b>	<b>13,886</b>	<b>13,672</b>	<b>(214)</b>	<b>(1.6)</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 January 2005 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$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	435	Net projected change	256	256	-	-	293
<b>14,952</b>	<b>13,977</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	141	Net projected change:	289	116	173	149.1	204
(133)	(96)	- Investment valuation changes	(99)	(94)	(5)	(5.3)	(130)
146	45	- Contributions and other income less membership payments	190	22	168	-	74
<b>3,521</b>	<b>3,420</b>	<b>Closing net asset value</b>	<b>3,711</b>	<b>3,543</b>	<b>168</b>	<b>4.7</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	390	Net projected change	66	234	168	71.8	219
<b>11,431</b>	<b>10,557</b>	<b>Net unfunded liability</b>	<b>11,497</b>	<b>11,665</b>	<b>168</b>	<b>1.4</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 January 2005 \$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	526	Net projected change	209	209	-	-	358
-	-	Transfer from other insurer	10	-	(10)	-	-
<b>11,384</b>	<b>9,873</b>	<b>Closing gross liability</b>	<b>11,603</b>	<b>11,593</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	753	Net projected change	815	536	279	52.1	545
<b>7,217</b>	<b>6,722</b>	<b>Closing net asset values</b>	<b>8,032</b>	<b>7,753</b>	<b>279</b>	<b>3.6</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)	227	Net projected change	595	327	(268)	(82.0)	545
<b>(4,167)</b>	<b>(3,151)</b>	<b>Closing reserves position (net liability)</b>	<b>(3,572)</b>	<b>(3,840)</b>	<b>(268)</b>	<b>(7.0)</b>	<b>(3,622)</b>

## NOTES TO THE FINANCIAL STATEMENTS

Prior Year 30 June 2005 \$m	Actual 31 January 2005 \$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	3	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>3</b>	<b>Total Net Revaluations</b>	<b>2</b>	<b>7</b>	<b>(5)</b>	<b>(71.4)</b>	<b>15</b>
(47)	(19)	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 January 2005 \$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	26,804	Total tax receipts	28,533	28,602	(69)	(0.2)	49,873
478	291	Total other sovereign receipts	310	316	(6)	(1.9)	474
1,446	917	Interest, profits and dividends	814	525	289	55.0	880
1,272	475	Sale of goods & services and other receipts	742	812	(70)	(8.6)	1,385
(14,409)	(8,337)	Subsidies and transfer payments	(8,747)	(8,862)	115	1.3	(15,619)
(25,815)	(14,804)	Personnel and operating costs	(16,582)	(16,011)	(571)	(3.6)	(28,102)
(1,983)	(1,094)	Finance costs	(1,161)	(1,155)	(6)	(0.5)	(1,930)
-	-	Forecasts for future new spending	-	-	-	-	(106)
<b>8,560</b>	<b>4,252</b>	<b>Net Cash Flows From Operations</b>	<b>3,909</b>	<b>4,227</b>	<b>(318)</b>	<b>(7.5)</b>	<b>6,855</b>
<b>Investing flows</b>							
<i>Net advances</i>							
(659)	(171)	Student loans	(183)	(202)	19	9.4	(778)
(42)	(28)	Housing New Zealand Corporation	(25)	(32)	7	21.9	(65)
41	47	District health boards and RHMU	(79)	(166)	87	52.4	(251)
-	-	Tranz Rail New Zealand Limited	-	-	-	-	-
(15)	(15)	NZ Railways Corporation	(36)	-	(36)	-	-
47	18	Other	58	37	21	56.8	46
<b>(628)</b>	<b>(149)</b>	<b>Total Net Advances</b>	<b>(265)</b>	<b>(363)</b>	<b>98</b>	<b>27.0</b>	<b>(1,048)</b>
<b>(1,372)</b>	<b>(809)</b>	<b>Net purchase of physical assets</b>	<b>(988)</b>	<b>(961)</b>	<b>(27)</b>	<b>(2.8)</b>	<b>(1,876)</b>
<i>Net investments</i>							
(193)	(32)	District health boards	(9)	(43)	34	79.1	(152)
(76)	(92)	Housing New Zealand Corporation	(150)	(167)	17	10.2	(307)
(150)	(150)	Air NZ	-	-	-	-	-
(164)	(29)	Other	(50)	(63)	13	20.6	(78)
(2,107)	(1,216)	Net purchase of MSDs/equities by NZS Fund	(1,348)	(1,348)	-	-	(2,337)
(766)	-	Purchase of Reserve Bank reserves	-	-	-	-	(500)
-	-	Forecast new capital spending	-	-	-	-	(65)
<b>(3,456)</b>	<b>(1,519)</b>	<b>Net (purchase)/sale of Investments</b>	<b>(1,557)</b>	<b>(1,621)</b>	<b>64</b>	<b>3.9</b>	<b>(3,439)</b>
<b>3,104</b>	<b>1,775</b>	<b>(Required to be financed)/Available for debt repayment</b>	<b>1,099</b>	<b>1,282</b>	<b>(183)</b>	<b>(14.3)</b>	<b>492</b>
<i>Used in:</i>							
(3,119)	(3,938)	Other net (purchase)/sale of marketable securities and deposits	(3,303)	206	(3,509)	-	(161)
<b>(15)</b>	<b>(2,163)</b>	<b>Total Investing activities</b>	<b>(2,204)</b>	<b>1,488</b>	<b>(3,692)</b>	<b>(248.1)</b>	<b>331</b>
(1,455)	(332)	Net (repayment)/issue of other New Zealand-dollar borrowing	879	(1,618)	2,497	154.3	(536)
1,905	926	Net (repayment)/issue of foreign currency borrowing	(621)	(717)	96	13.4	(238)
(93)	103	Net outflows/(inflow) of cash	289	(445)	734	164.9	325
188	242	Issues of circulating currency	248	18	230	-	18
<b>545</b>	<b>939</b>		<b>795</b>	<b>(2,762)</b>	<b>3,557</b>	<b>128.8</b>	<b>(431)</b>
<b>530</b>	<b>(1,224)</b>	<b>Net Repayment of/(Cash Proceeds from) Domestic Bonds</b>	<b>(1,409)</b>	<b>(1,274)</b>	<b>(135)</b>	<b>(10.6)</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	81	Domestic bonds (non-market)	93	20	73	365.0	386
<b>2,605</b>	<b>1,224</b>	<b>Total Gross Cash Proceeds from Domestic Bonds</b>	<b>1,409</b>	<b>1,274</b>	<b>135</b>	<b>10.6</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>1,224</b>	<b>Net (Repayments of)/Cash Proceeds from Domestic Bonds</b>	<b>1,409</b>	<b>1,274</b>	<b>135</b>	<b>10.6</b>	<b>100</b>