

# Financial Statements of the Government of New Zealand

For the Eight Months Ended  
29 February 2008



Prepared by The Treasury  
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New Zealand Government



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# CONTENTS

## Commentary

Summary	2
Fiscal Strategy Perspective	6
Year-on-year Perspective	9

## Financial Statements

Statement of Accounting Policies	12
<i>This section outlines the summary accounting policies underpinning the preparation of the financial statements of Government. It refers readers to the Treasury website where the accounting policies are set out in full.</i>	
Statement of Financial Performance	14
<i>The statement outlines the operating results of the total Government (i.e. revenues and expenses of all departments + Reserve Bank + NZS Fund (core Crown), SOEs (including Air New Zealand) and Crown entities). Expense by functional class is also shown for total Crown and core Crown.</i>	
Statement of Cash Flows	16
<i>The statement sets out the cash flows that result from the operating, investing and financing activity of the Government. The net cash flows from operations are reconciled to the operating balance reported in the statement of financial performance.</i>	
Statement of Recognised Income and Expense	18
<i>The statement reports changes in net worth due to the operating balance, items of income or expense that are recognised directly in net worth, the effect of certain accounting changes and corrections of errors.</i>	
Statement of Financial Position	19
<i>The statement outlines balance sheet results of the total Government (i.e. assets and liabilities of the core Crown + SOEs + Crown entities).</i>	
Statement of Borrowings	20
<i>The statement outlines total borrowings (split by sovereign-guaranteed debt and non sovereign-guaranteed debt) less financial assets.</i>	
Statement of Commitments	21
<i>The statement outlines the commitments of the total Government by type and segment.</i>	
Statement of Contingent Liabilities and Assets	21
<i>The statement outlines the contingent liabilities and assets of the total Government by type and segment.</i>	
Notes to the Financial Statements	22
<i>The notes are an integral part of the financial statements, providing further explanatory material to that provided in the main statements.</i>	
Impact of the Adoption of NZ IFRS	30
<i>This section explains how the transition from previous GAAP to NZ IFRS has affected the reported financial position and financial performance of the Government of New Zealand.</i>	

All forecasts and comparatives, including the comparatives for June 2006/07, have been produced under NZ IFRS. The June 2006/07 comparatives are provisional and have not yet been subject to audit. The results are compared against forecast tracks based on the 2007/08 annual forecast released in the 2007 Half Year Economic and Fiscal Update.

### Officer for Enquiries

Warwick White (phone 64-4-917-6003) (E-mail: warwick.white@treasury.govt.nz)  
Macroeconomic Group  
The Treasury (1 The Terrace)  
PO Box 3724, Wellington  
NEW ZEALAND  
Facsimile: 64-4-471-5956





# COMMENTARY

## SUMMARY

### Results for the eight months ended 29 February 2008

- The operating balance was \$3.3 billion lower than forecast at \$1.4 billion. The three main contributors to this lower than expected result were:
  - investment losses of \$1.1 billion were recorded against forecast gains of \$1.4 billion (a variance of \$2.5 billion). These variances were recorded primarily by the NZS Fund (\$1.5 billion), ACC (\$0.8 billion) and EQC (\$0.3 billion)
  - the ACC actuarial loss on their claims liability was \$0.4 billion higher than forecast, and
  - core Crown tax revenue to February was below forecast by \$0.7 billion (1.9%). Core Crown tax receipts were, however, just \$40 million (0.1%) below forecast.

The largest tax revenue variance was in GST (\$0.4 billion lower than forecast).

GST revenue always includes an element of estimation each month, since the current month's GST assessments are rarely submitted in time for monthly reporting. The estimation process is automated and is not subject to manual intervention.

IRD has analysed the GST revenue calculation for February and is satisfied that no error has been made along the lines of the provisional tax estimation error that affected the January accounts.

IRD's view is that the estimated February numbers have been influenced by bringing forward the GST due date each month. This has the effect of increasing the weight given to January assessments in the estimation of the February accrual compared to previous years. January expenditure generally generates low GST. The negative variance is expected to reverse.

Unlike GST revenue, GST receipts do not involve estimation and can be regarded as an indicator of underlying economic conditions. The February GST revenue variance should not be interpreted as indicating a weakening in GST collections beyond that reflected in GST receipts.

- Adjusting for the non-cash valuation changes, the OBEGAL was \$0.4 billion lower than forecast at \$4.1 billion, with the lower than forecast tax revenue being the main contributor.
- Core Crown revenue (excl. NZS Fund) was \$1.2 billion lower than forecast. This was due to core Crown tax revenue and interest and dividend revenue being lower than forecast (\$0.7 billion and \$0.5 billion respectively). The interest revenue variance was due in the main to lower than forecast levels of marketable securities and was largely offset by the interest expense variance (which was lower than forecast by \$0.3 billion).
- Residual cash and consequently the debt indicators were largely on target.

**Table 1** – Key indicators for the eight months to 29 February 2008

	Year to date				Full Year
	February 2008 Actual	February 2008 Forecast	Variance \$m	Variance %	HYEFU June 2008 Forecast
<b>\$ million</b>					
<b>Core Crown</b>					
Core Crown revenue (excl. NZS Fund) <sup>1</sup>	<b>39,218</b>	40,410	(1,192)	(2.9)	62,130
Core Crown expenses	<b>36,708</b>	37,059	351	0.9	57,137
NZS Fund operating balance	<b>(911)</b>	611	(1,522)	(249.1)	917
Core Crown residual cash	<b>1,297</b>	1,389	(92)	(6.6)	759
GSID (excl. settlement cash)	<b>31,997</b>	31,600	(397)	(1.3)	33,303
<i>as a percentage of GDP<sup>2</sup></i>	<b>18.3%</b>	18.1%			18.7%
Net Core Crown debt	<b>1,857</b>	1,781	(76)	(4.3)	1,983
<i>as a percentage of GDP<sup>2</sup></i>	<b>1.1%</b>	1.0%			1.1%
Net Core Crown debt (incl. NZS Fund)	<b>(10,151)</b>	(11,686)	(1,535)	13.1	(13,102)
<i>as a percentage of GDP<sup>2</sup></i>	<b>(5.8)%</b>	(6.7)%			(7.4)%
<b>Total Crown</b>					
OBEGAL	<b>4,147</b>	4,552	(405)	(8.9)	6,574
Net gains / (losses)	<b>(2,716)</b>	221	(2,937)		814
Operating Balance	<b>1,431</b>	4,773	(3,342)	(70.0)	7,388

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

2 GDP for the year ended 31 December 2007 of \$174,647 million (Source: Statistics New Zealand).

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

**Table 2** – Key indicator variances for the eight months to 29 February 2008

Item/indicator	Variance	Key drivers
<b>Core Crown</b>		
Core Crown revenue (excl. NZS Fund revenue)	- \$1.2 billion (lower than forecast)	<ul style="list-style-type: none"> <li>• Core Crown tax revenue was \$0.7 billion lower than forecast. This was driven by: <ul style="list-style-type: none"> <li>– GST was \$0.4 billion lower than forecast. GST revenue always includes an element of estimation each month, since the current month's GST assessments are rarely submitted in time for monthly reporting. The estimation process is automated and is not subject to manual intervention. IRD has analysed the GST revenue calculation for February and is satisfied that no error has been made along the lines of the provisional tax estimation error that affected the January accounts. IRD's view is that the estimated February numbers have been influenced by bringing forward the GST due date each month. This has the effect of increasing the weight given to January assessments in the estimation of the February accrual compared to previous years. January expenditure generally generates low GST. The negative variance is expected to reverse. Unlike GST revenue, GST receipts do not involve estimation and can be regarded as an indicator of underlying economic conditions. The February GST revenue variance should not be interpreted as indicating a weakening in GST collections beyond that reflected in GST receipts.</li> <li>– Corporate tax was \$0.1 billion lower than forecast. Delays in assessments from taxpayers in a tax pooling facility and taxpayers converting to PIEs have reduced revenue by about \$0.4 billion. This was partially offset by earlier-than-expected revenue in respect of a large taxpayer, and</li> <li>– Other individuals tax was \$0.1 billion lower than forecast reflecting weaker tax payments/assessments than expected from the agricultural sector.</li> </ul> </li> <li>• Interest and dividend revenue was \$0.5 billion lower than forecast primarily due to lower than forecast levels of marketable securities and SOE dividend revenue forecast for February but now expected to be received in March. The impact was largely offset by a related variance in interest expense.</li> </ul>
Core Crown expenses	+\$0.4 billion (lower than forecast)	<ul style="list-style-type: none"> <li>• Interest expense was \$0.3 billion lower than forecast which was related to lower than expected levels of settlement cash.</li> <li>• Core Crown operating expenses were \$0.1 billion lower than forecast (net of the top down adjustment). This was the effect of timing delays across a number of departments.</li> </ul>
NZS Fund operating balance	- \$1.5 billion (lower than forecast)	<ul style="list-style-type: none"> <li>• The NZS Fund's operating balance was a deficit of \$0.9 billion compared to a forecast surplus of \$0.6 billion. While the Fund's year-to-date results have been negatively impacted by the global downturn in equity markets the Fund returned 0.29% for the month of February 2008. This brings the Fund's annualised return since inception (September 2003) to 10.90% compared to 6.65% for the risk-free of return (Treasury bills).  In aggregate over February, returns in fixed interest and commodities contributed positively to Fund performance, while listed equity and property were negative - broadly in line with returns in world markets.</li> </ul>



Item/indicator	Variance	Key drivers
<b>Core Crown</b>		
Core Crown residual cash	- \$0.1 billion (lower than forecast)	<ul style="list-style-type: none"> <li>Core Crown tax receipts were \$0.1 billion lower than forecast. This was made up of a number of small variances across a number of tax types.</li> <li>Core Crown operating payments (excluding finance costs) were \$0.1 billion higher than forecast (net of the top down adjustment) due to differences in the phasing of cash payments.</li> <li>Core Crown capital expenditure was \$0.1 billion lower than forecast (net of the top down adjustment). This was due mainly to delays in acquisition projects and forecast phasing issues.</li> </ul>
GSID (excluding settlement cash)	- \$0.4 billion (higher than forecast)	<ul style="list-style-type: none"> <li>GSID (excluding settlement cash) is broadly in line with forecast.</li> </ul>
Net core Crown debt	- \$0.1 billion (higher than forecast)	<ul style="list-style-type: none"> <li>Net core Crown debt is in line with forecast.</li> </ul>
Net core Crown debt (incl. NZSF)	- \$1.5 billion (higher than forecast)	<ul style="list-style-type: none"> <li>NZS Fund financial assets were lower than forecast due to declines in investment returns.</li> </ul>
<b>Total Crown</b>		
OBEGAL	- \$0.4 billion (lower than forecast)	<ul style="list-style-type: none"> <li>Tax revenue was lower than forecast as discussed above.</li> <li>This was partially offset by higher than forecast ACC levy income in addition to a reclassification of ACC insurance expenses to the ACC actuarial loss.</li> </ul>
Operating balance	- \$3.3 billion (lower than forecast)	<ul style="list-style-type: none"> <li>OBEGAL was \$0.4 billion lower than forecast (as noted above).</li> <li>Gains and losses were \$2.9 billion lower than forecast. The main contributors to this lower than expected result were: <ul style="list-style-type: none"> <li>Investment losses of \$1.1 billion were recorded against a forecast \$1.4 billion gains, a variance of \$2.5 billion (primarily NZS Fund \$1.5 billion, ACC \$0.8 billion and EQC \$0.3 billion) due to the recent equity market downturn, and</li> <li>The ACC actuarial loss on their claims liability was \$0.4 billion higher than forecast. This was primarily driven by changes to economic assumptions used in the valuation of the liability (eg. the discount rate has increased from 6.10% at 30 Sept to 6.17% as at 29 February and the long-term inflation rate has increased from 2.58% to 2.70%).</li> </ul> </li> </ul>

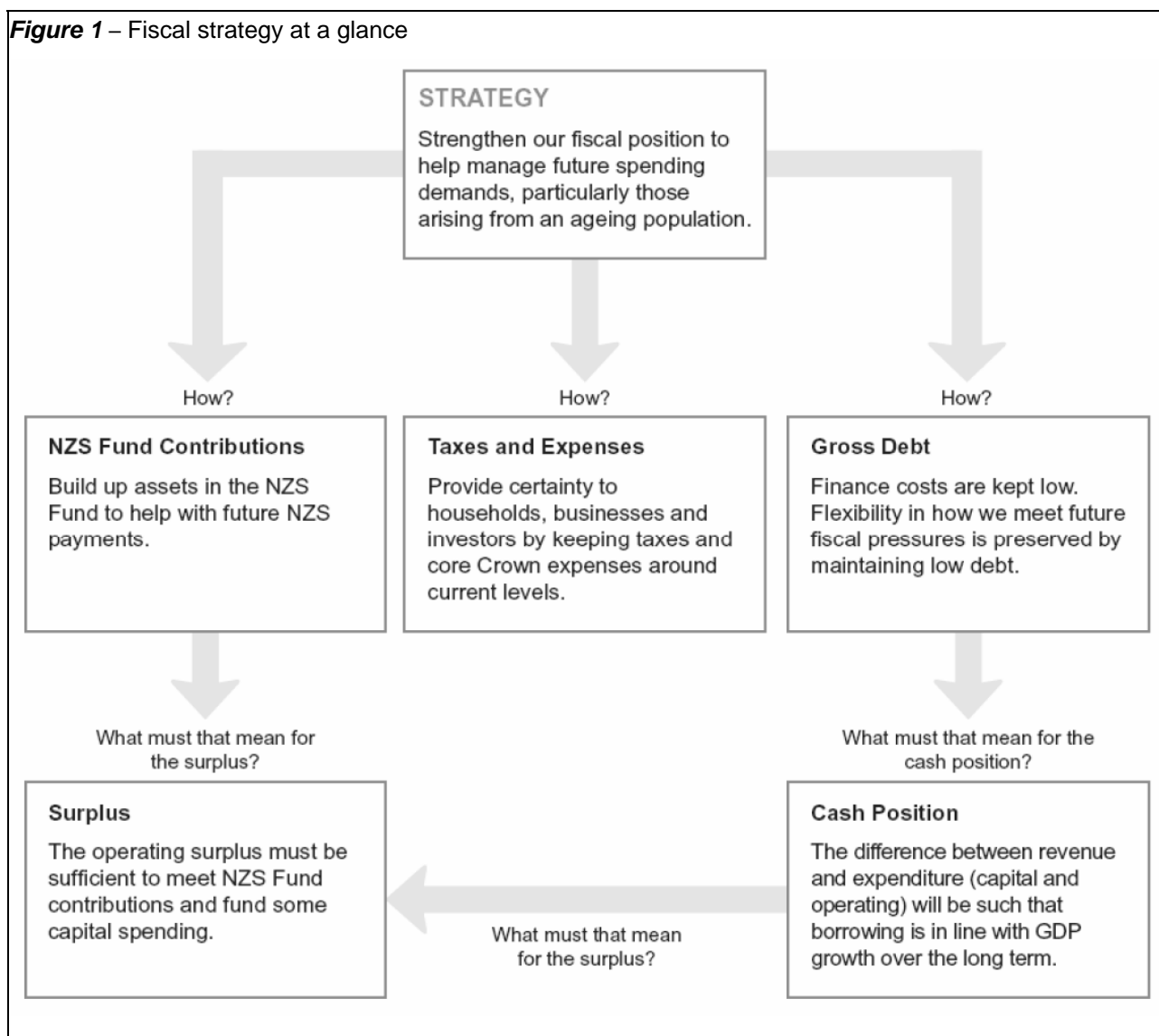
## FISCAL STRATEGY PERSPECTIVE

The Government's fiscal strategy (outlined in more detail in the *2007 Fiscal Strategy Report*) is to strengthen its fiscal position so that it is well placed to respond to future challenges such as those associated with population ageing. The strategy is summarised in Figure 1.

The Government is implementing this strategy primarily by building up financial assets in the New Zealand Superannuation (NZS) Fund and maintaining gross sovereign issued debt at around 20% of GDP. In order to keep debt at around 20% of GDP, the Government has said it intends to run its cash flow position so that borrowing tracks in line with GDP over time. In practice, this means running operating surpluses sufficient to cover the contributions to the NZS Fund and some capital spending needs.

The Financial Statements of the Government provide a record of the Government's financial performance over the 2007/08 financial year and its financial position as at 29 February 2008. They provide a comparison with the fiscal forecasts in the *2007 Half Year Economic and Fiscal Update*. They also provide the public with a snapshot of the progress the Government has made in implementing its fiscal strategy as set out in its *Short Term Fiscal Intentions* and *Long Term Fiscal Objectives*.

**Figure 1** – Fiscal strategy at a glance



## Fiscal Strategy Perspective on the financial results to February

The following table shows how the fiscal strategy is represented in the financial results.

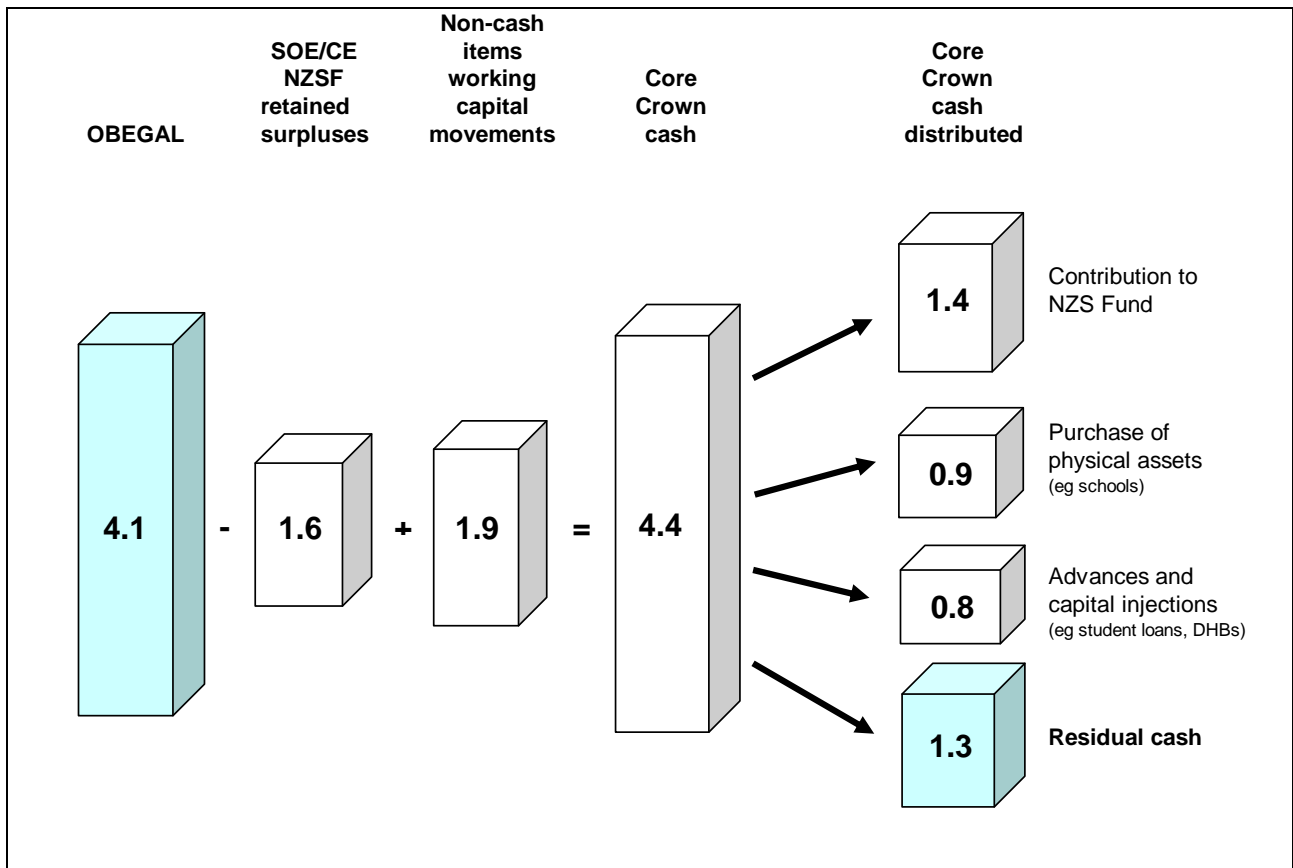
**Table 3** – Reconciliation of residual cash

Amounts in \$ millions	Fiscal Indicators/Financial Statements	Year to date				Full Year
		February	February	Variance	Variance	HYEFU
		2008	2008			June 2008
Fiscal Strategy		Actual	Forecast	\$m	%	Forecast
	Taxation as a percentage of GDP <sup>1</sup>	31.0%	31.5%			31.8%
Taxes, kept stable and maintained at current levels ...	Taxation	36,057	36,692	(635)	(1.7)	56,639
... combined with other revenue ...	Core Crown other revenue, gains and losses	2,408	4,352	(1,944)	(44.7)	6,704
... fund core crown expenses ...	Core Crown expenses	(36,708)	(37,059)	351	(0.9)	(57,137)
... and with the results of entities outside the budget process ...	Net surpluses/(deficits) of SOEs and Crown entities	(326)	788	(1,114)	(141.4)	1,182
... results in a net operating balance (surplus or deficit)...	<b>Operating balance</b>	<b>1,431</b>	<b>4,773</b>	<b>(3,342)</b>	<b>(70.0)</b>	<b>7,388</b>
...part of which is due to gains or losses set aside for fiscal purposes...	Other (gains)/losses	2,716	(221)	2,937	(1,329.0)	(814)
... and so we have developed an operating indicator excluding these items.	<b>OBEGAL</b>	<b>4,147</b>	<b>4,552</b>	<b>(405)</b>	<b>(8.9)</b>	<b>6,574</b>
Some of this is income retained that is not available for fiscal purposes	Net return on NZS Fund (excl. gains and losses)	(45)	(54)	9	(16.7)	(169)
" " " " " "	Net retained surpluses of SOEs and Crown entities	(1,584)	(1,145)	(439)	38.4	(1,305)
and some is income and expenses not impacting cash	Non-cash items and working capital movements	1,846	1,200	646	53.9	1,396
The operating cash flow that results, needs to provide sufficient funds for	<b>Core Crown Cash flow from Operations</b>	<b>4,364</b>	<b>4,553</b>	<b>(189)</b>	<b>(4.2)</b>	<b>6,496</b>
- building up assets in NZ Superannuation	Contribution to NZS Fund	(1,373)	(1,374)	1	(0.1)	(2,103)
- meeting the capital expenditure budget, and	Purchase of physical assets	(864)	(1,008)	144	(14.3)	(1,773)
- making advances (e.g. to students and DHBs)	Advances and Capital injections	(830)	(782)	(48)	6.1	(1,861)
with a residual impact on debt that allows it to remain at prudent levels	<b>Residual Cash</b>	<b>1,297</b>	<b>1,389</b>	<b>(92)</b>	<b>(6.6)</b>	<b>759</b>
	<b>... and as a percentage of GDP</b>	<b>0.7%</b>	<b>0.8%</b>			<b>0.4%</b>

<sup>1</sup> GDP for the eight months ended 29 February (actual and forecast) is the actual data for the year ended 31 December 2007 (Source: Statistics New Zealand) extrapolated for eight months. GDP for the 2008 full year forecast has been extracted from the 2007 Half Year Economic and Fiscal Update.

**Figure 2** – Application of core Crown cash flows (\$billions)

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



## YEAR-ON-YEAR PERSPECTIVE

**Table 4** – Comparison with previous year

	February 2008 Actual \$m	February 2007 Actual \$m	Change <sup>1</sup> \$m	Change %
<b>Statement of Financial Performance</b>				
<b>Core Crown revenue</b>				
Taxation revenue	36,331	34,224	2,107	6.2
Other revenue	2,932	2,984	(52)	(1.7)
<b>Total Core Crown Revenue</b>	<b>39,263</b>	<b>37,208</b>	<b>2,055</b>	<b>5.5</b>
<b>Core Crown expenses</b>				
Social security and welfare	11,669	11,124	545	4.9
GSF pension expenses	451	426	25	5.9
Health	7,423	6,733	690	10.2
Education	6,276	6,078	198	3.3
Core government services	1,957	1,491	466	31.3
Law and order	1,876	1,644	232	14.1
Defence	973	939	34	3.6
Transport and communications	1,663	1,291	372	28.8
Economic and industrial services	1,749	1,040	709	68.2
Primary services	287	282	5	1.8
Heritage, culture and recreation	572	395	177	44.8
Housing and community development	172	156	16	10.3
Other	44	58	(14)	(24.1)
Finance costs	1,596	1,555	41	2.6
<b>Total Core Crown Expenses</b>	<b>36,708</b>	<b>33,212</b>	<b>3,496</b>	<b>10.5</b>
Net surplus of SOE/CE's	1,592	896	696	77.7
<b>OBEGAL</b>	<b>4,147</b>	<b>4,892</b>	<b>(745)</b>	<b>(15.2)</b>
Total gains/(losses)	(2,817)	1,132	(3,949)	(348.9)
Other operating items	101	73	28	38.4
<b>Operating Balance</b>	<b>1,431</b>	<b>6,097</b>	<b>(4,666)</b>	<b>(76.5)</b>
<b>Core Crown residual cash</b>	<b>1,297</b>	<b>1,439</b>	<b>(142)</b>	<b>(9.9)</b>
<b>Debt indicators</b>				
<b>Gross sovereign-issued debt (excluding settlement cash)</b>	<b>31,997</b>	<b>31,130</b>	<b>867</b>	<b>2.8</b>
<b>Net Core Crown debt</b>	<b>1,857</b>	<b>6,232</b>	<b>(4,375)</b>	<b>(70.2)</b>

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

### Revenue and Expenses

Total **taxation revenue** for the eight months ending 29 February 2008 has increased by 6.2% on the same period last year. The increase was primarily in PAYE, Other individuals tax and RWT. Driving this increase is recent high wage and employment growth, high dairy incomes and high interest rates.

Total **core Crown expenses** were \$3.5 billion higher than the comparable period from the previous financial year (growth of 10.5%). The significant movements within core Crown functional expenses were as follows:

Functional expense	Movement from Previous year	Main drivers of the change
Social security and welfare	+ \$0.5 billion	<ul style="list-style-type: none"> <li>• Indexation of welfare benefits</li> <li>• Funding provided in the 2007 Budget primarily as an initiative to guarantee NZ Superannuation at 66% of the average wage</li> <li>• Offset by lower unemployment benefits due to an improvement in labour market conditions</li> </ul>
Health	+ \$0.7 billion	<ul style="list-style-type: none"> <li>• Funding provided in the 2007 Budget to maintain and improve existing service levels</li> </ul>
Core Government Services	+ \$0.5 billion	<ul style="list-style-type: none"> <li>• Primarily due to tax write-offs which are now shown as an expense (netted against revenue in the previous year).</li> </ul>
Transport and communications	+ \$0.4 billion	<ul style="list-style-type: none"> <li>• Funding provided in the 2007 Budget</li> <li>• Timing of funding payments earlier than last year</li> </ul>
Economic and industrial services	+ \$0.7 billion	<ul style="list-style-type: none"> <li>• Primarily due to introduction of the KiwiSaver Kick Start initiative</li> </ul>
Other	+ \$0.7 billion	<ul style="list-style-type: none"> <li>• Mainly due to policy initiatives from the 2007 Budget</li> </ul>
<b>Total</b>	<b>+ \$3.5 billion</b>	

**Other gains and losses** were in a net loss position of \$2.8 billion for the period ended 29 February 2008, compared to a net gain position of \$1.1 billion for the same period the previous year. The \$3.9 billion difference is due to:

- lower than expected investment returns experienced so far in the 2007/08 financial year primarily resulting from the recent market downturn, and
- an increase in the ACC unfunded liability since February 2007 due to increases in claim costs driven by economic assumptions (e.g. discount and inflation rates).

**Gross sovereign-issued debt (excluding settlement cash)** is \$0.8 billion higher than the same period last year primarily due to debt being issued but no government stock maturities since February 2007.

**Net Core Crown debt** has reduced by \$4.4 billion as a result of an increase in financial assets, reflecting the residual cash built up since February 2007 and the valuation movements in financial instruments.



# FINANCIAL STATEMENTS

# STATEMENT OF ACCOUNTING POLICIES

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## 1 Reporting Entity

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

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

A schedule of entities included in the Government reporting entity was set out on pages 113 and 114 of the *2007 Half Year Economic and Fiscal Update* released on 18 December 2007.

Since that date there have been no changes.

## 2 General Accounting Policies

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

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

## 3 Specific Accounting Policies

The specific accounting policies of the Crown are detailed at Treasury's website:

[www.treasury.govt.nz/publications/guidance/instructions/2007](http://www.treasury.govt.nz/publications/guidance/instructions/2007) (section 3.5).

## 4 Forecast Results and Assumptions

The forecast results in these financial statements have been derived from the forecasts released in the *Half Year Economic and Fiscal Update* (HYEFU), on 18 December 2007.

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/budget/2007/forecasts/hyefu2007](http://www.treasury.govt.nz/budget/2007/forecasts/hyefu2007).



## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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### 5 Comparative Figures

Comparative figures for the previous financial year to 30 June 2007 and comparative year-to-date period are presented in these Financial Statements. NZ IFRS has been applied in the compilation of these comparative figures. The 30 June 2007 comparatives are provisional and have not yet been subject to audit. Percentage variances between the actual and prior year balances exceeding 500% are not shown where the dollar variance is immaterial.

# STATEMENT OF FINANCIAL PERFORMANCE

for the eight months ended 29 February 2008

Prior Year to 30 June 2007 Actual \$m	8 Months to 28 Feb 2007 Actual \$m		Note	Current Year Actual vs Forecast			Annual Forecast \$m	
				Actual \$m	Forecast \$m	Variance \$m		%
		<b>Revenue</b>						
53,023	33,808	Taxation revenue	1	36,057	36,692	(635)	(1.7)	56,639
3,701	2,298	Other sovereign revenue	1	2,612	2,418	194	8.0	3,774
<b>56,724</b>	<b>36,106</b>	<b>Total Revenue Levied through the Crown's Sovereign Power</b>		<b>38,669</b>	<b>39,110</b>	<b>(441)</b>	<b>(1.1)</b>	<b>60,413</b>
12,357	8,137	Sales of goods and services		8,853	8,691	162	1.9	13,004
2,984	1,855	Interest revenue and dividends	2	2,137	2,396	(259)	(10.8)	3,716
2,362	1,660	Other revenue		1,520	1,586	(66)	(4.2)	2,475
<b>17,703</b>	<b>11,652</b>	<b>Total revenue earned through the Crown's operations</b>		<b>12,510</b>	<b>12,673</b>	<b>(163)</b>	<b>(1.3)</b>	<b>19,195</b>
<b>74,427</b>	<b>47,758</b>	<b>Total revenue (excluding gains)</b>		<b>51,179</b>	<b>51,783</b>	<b>(604)</b>	<b>(1.2)</b>	<b>79,608</b>
		<b>Expenses</b>						
16,346	10,763	Social assistance and official development assistance	3	12,071	12,075	4	-	18,352
15,281	9,984	Personnel expenses	4	10,899	10,942	43	0.4	16,271
3,338	2,107	Depreciation and amortisation	5	2,344	2,408	64	2.7	3,459
27,517	16,204	Other operating expenses	5	17,718	17,595	(123)	(0.7)	28,665
2,893	1,934	Interest expenses	6	2,009	2,163	154	7.1	3,255
3,713	1,874	Insurance expenses	7	1,991	2,308	317	13.7	3,581
-	-	Forecast new operating spending	5	-	-	-	-	201
-	-	Top-down expense adjustment	5	-	(260)	(260)	(100.0)	(750)
<b>69,088</b>	<b>42,866</b>	<b>Total expenses (excluding losses)</b>		<b>47,032</b>	<b>47,231</b>	<b>199</b>	<b>0.4</b>	<b>73,034</b>
<b>5,339</b>	<b>4,892</b>	<b>Operating balance before gains/(losses)</b>		<b>4,147</b>	<b>4,552</b>	<b>(405)</b>	<b>(8.9)</b>	<b>6,574</b>
1,569	1,149	Net gains/(losses) on financial instruments	8	(1,076)	1,420	(2,496)	(175.8)	1,873
985	(17)	Net gains/(losses) on non-financial instruments	9	(1,741)	(1,299)	(442)	(34.0)	(1,237)
<b>2,554</b>	<b>1,132</b>	<b>Total gains/(losses)</b>		<b>(2,817)</b>	<b>121</b>	<b>(2,938)</b>	<b>-</b>	<b>636</b>
186	73	Net surplus/(deficit) from associates and joint ventures		101	100	1	1.0	178
<b>8,079</b>	<b>6,097</b>	<b>Operating balance from continuing activities</b>		<b>1,431</b>	<b>4,773</b>	<b>(3,342)</b>	<b>(70.0)</b>	<b>7,388</b>
(92)	-	Gain/(loss) from discontinued operations		-	-	-	-	-
<b>7,987</b>	<b>6,097</b>	<b>Operating balance (including minority interest)</b>		<b>1,431</b>	<b>4,773</b>	<b>(3,342)</b>	<b>(70.0)</b>	<b>7,388</b>
12	-	Attributable to minority interest in Air NZ		-	-	-	-	-
<b>7,999</b>	<b>6,097</b>	<b>Operating Balance</b>	10	<b>1,431</b>	<b>4,773</b>	<b>(3,342)</b>	<b>(70.0)</b>	<b>7,388</b>

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

# STATEMENT OF FINANCIAL PERFORMANCE (CONTINUED) – FUNCTIONAL EXPENSE ANALYSIS

for the eight months ended 29 February 2008

Prior Year to 30 June 2007 Actual \$m	8 Months to 28 Feb 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>Total Crown</b>							
<b>Total Crown expenses</b>							
<b>By functional classification</b>							
20,947	13,053	Social security and welfare	13,706	13,914	208	1.5	21,568
648	426	GSF pension expenses	451	451	-	-	629
10,511	6,534	Health	7,024	7,124	100	1.4	11,589
9,887	6,506	Education	6,779	6,698	(81)	(1.2)	10,550
4,330	1,469	Core government services	1,927	1,912	(15)	(0.8)	2,680
2,840	1,773	Law and order	2,017	2,049	32	1.6	3,126
1,449	915	Defence	947	988	41	4.1	1,598
6,872	4,286	Transport and communications	4,675	4,696	21	0.4	7,632
4,601	3,342	Economic and industrial services	4,664	4,533	(131)	(2.9)	6,277
1,247	847	Primary services	875	924	49	5.3	1,363
1,941	1,170	Heritage, culture and recreation	1,318	1,361	43	3.2	2,266
902	566	Housing and community development	598	661	63	9.5	968
20	45	Other	42	17	(25)	(147.1)	82
2,893	1,934	Finance costs	2,009	2,163	154	7.1	3,255
-	-	Forecast new operating spending	-	-	-	-	201
-	-	Top-down expense adjustment	-	(260)	(260)	(100.0)	(750)
<b>69,088</b>	<b>42,866</b>	<b>Total Crown expenses excluding losses</b>	<b>47,032</b>	<b>47,231</b>	<b>199</b>	<b>0.4</b>	<b>73,034</b>

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

Prior Year to 30 June 2007 Actual \$m	8 Months to 28 Feb 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>Core Crown</b>							
<b>Core Crown expenses</b>							
<b>By functional classification</b>							
17,214	11,124	Social security and welfare	11,669	11,729	60	0.5	17,914
648	426	GSF pension expenses	451	451	-	-	629
10,357	6,733	Health	7,423	7,462	39	0.5	11,480
9,261	6,078	Education	6,276	6,283	7	0.1	9,863
4,553	1,491	Core government services	1,957	1,975	18	0.9	2,957
2,707	1,644	Law and order	1,876	1,894	18	1.0	2,910
1,487	939	Defence	973	1,015	42	4.1	1,641
2,275	1,291	Transport and communications	1,663	1,717	54	3.1	2,784
1,548	1,040	Economic and industrial services	1,749	1,772	23	1.3	2,710
457	282	Primary services	287	322	35	10.9	527
798	395	Heritage, culture and recreation	572	602	30	5.0	1,072
275	156	Housing and community development	172	199	27	13.6	313
68	58	Other	44	17	(27)	(158.8)	82
2,330	1,555	Finance costs	1,596	1,881	285	15.2	2,804
-	-	Forecast new operating spending	-	-	-	-	201
-	-	Top-down expense adjustment	-	(260)	(260)	(100.0)	(750)
<b>53,978</b>	<b>33,212</b>	<b>Total core Crown expenses excluding losses</b>	<b>36,708</b>	<b>37,059</b>	<b>351</b>	<b>0.9</b>	<b>57,137</b>

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

# STATEMENT OF CASH FLOWS

for the eight months ended 29 February 2008

Prior Year to 30 June 2007 Actual \$m	8 Months to 28 Feb 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		<b>Cash Flows From Operations</b>					
		<b>Cash was provided from</b>					
52,150	33,565	Taxation receipts	35,992	36,065	(73)	(0.2)	55,316
3,418	2,525	Other sovereign receipts	2,509	2,375	134	5.6	3,571
12,777	8,283	Sales of goods and services	8,958	8,979	(21)	(0.2)	13,127
2,533	1,527	Interest and dividends	2,013	2,167	(154)	(7.1)	3,467
2,294	1,518	Other operating receipts	1,662	1,579	83	5.3	2,420
<b>73,172</b>	<b>47,418</b>	<b>Total cash provided from operations</b>	<b>51,134</b>	<b>51,165</b>	<b>(31)</b>	<b>(0.1)</b>	<b>77,901</b>
		<b>Cash was disbursed to</b>					
18,436	10,814	Social assistance and official development assistance	11,398	11,378	(20)	(0.2)	17,294
39,838	27,550	Personnel and operating payments	30,606	30,768	162	0.5	47,316
2,442	1,683	Interest payments	1,930	2,014	84	4.2	3,052
-	-	Forecast new operating spending	-	-	-	-	201
-	-	Top-down expense adjustment	-	(260)	(260)	(100.0)	(750)
<b>60,716</b>	<b>40,047</b>	<b>Total cash disbursed to operations</b>	<b>43,934</b>	<b>43,900</b>	<b>(34)</b>	<b>(0.1)</b>	<b>67,113</b>
<b>12,456</b>	<b>7,371</b>	<b>Net cash flows from operations</b>	<b>7,200</b>	<b>7,265</b>	<b>(65)</b>	<b>(0.9)</b>	<b>10,788</b>
		<b>Cash Flows From Investing Activities</b>					
		<b>Cash was provided from/(disbursed to)</b>					
(5,213)	(3,443)	Net purchase of physical assets	(3,323)	(3,742)	419	11.2	(6,799)
(8,157)	(6,423)	Net purchase of shares and other securities	(3,599)	(5,465)	1,866	34.1	(6,535)
(206)	(88)	Net purchase of intangible assets	(164)	(188)	24	12.8	(258)
(1,014)	(1,359)	Net issue/(repayment) of advances	(353)	(337)	(16)	(4.7)	(458)
(288)	(289)	Net acquisition of investments in associates	(283)	(132)	(151)	(114.4)	(335)
-	-	Capital contingency provision	-	-	-	-	-
-	-	Top-down capital adjustment	-	103	(103)	(100.0)	250
<b>(14,878)</b>	<b>(11,602)</b>	<b>Net cash flows from investing activities</b>	<b>(7,722)</b>	<b>(9,761)</b>	<b>2,039</b>	<b>20.9</b>	<b>(14,135)</b>
<b>(2,422)</b>	<b>(4,231)</b>	<b>Net cash flows from operating and investing activities</b>	<b>(522)</b>	<b>(2,496)</b>	<b>1,974</b>	<b>79.1</b>	<b>(3,347)</b>
		<b>Cash Flows From Financing Activities</b>					
		<b>Cash was provided from/(disbursed to)</b>					
81	215	Issues of circulating currency	201	182	19	10.4	182
(3,758)	(1,172)	Net issue/(repayment) of Government stock <sup>1</sup>	1,088	1,477	(389)	(26.3)	2,875
1,780	(151)	Net issue/(repayment) of foreign currency borrowing	1,502	(899)	2,401	267.1	(1,624)
4,893	5,331	Net issue/(repayment) of other New Zealand dollar borrowing	(1,416)	1,648	(3,064)	(185.9)	1,896
<b>2,996</b>	<b>4,223</b>	<b>Net cash flows from financing activities</b>	<b>1,375</b>	<b>2,408</b>	<b>(1,033)</b>	<b>(42.9)</b>	<b>3,329</b>
<b>574</b>	<b>(8)</b>	<b>Net movement in cash</b>	<b>853</b>	<b>(88)</b>	<b>941</b>	<b>-</b>	<b>(18)</b>
3,676	3,676	<b>Opening Cash Balance</b>	4,208	4,208	-	-	4,208
(42)	(89)	Foreign-exchange gains/(losses) on opening cash	(16)	45	(61)	(135.6)	42
<b>4,208</b>	<b>3,579</b>	<b>Closing Cash Balance</b>	<b>5,045</b>	<b>4,165</b>	<b>880</b>	<b>21.1</b>	<b>4,232</b>

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

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

# STATEMENT OF CASH FLOWS (CONTINUED)

for the eight months ended 29 February 2008

Prior Year to 30 June 2007 Actual \$m	8 Months to 28 Feb 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>Reconciliation Between the Net Cash Flows from Operations and the Operating Balance</b>							
12,456	7,371	<b>Net Cash Flows from Operations</b>	<b>7,200</b>	<b>7,265</b>	<b>(65)</b>	<b>(0.9)</b>	<b>10,788</b>
		<i>Items included in the operating balance but not in net cash flows from operations.</i>					
<b>Gains/(losses)</b>							
1,569	1,149	Gains/(losses) on other financial instruments	(1,076)	1,420	(2,496)	(175.8)	1,873
985	(17)	Gains/(losses) on other non-financial instruments	(1,741)	(1,299)	(442)	(34.0)	(1,237)
<b>2,554</b>	<b>1,132</b>	<b>Total gains/(losses)</b>	<b>(2,817)</b>	<b>121</b>	<b>(2,938)</b>	<b>-</b>	<b>636</b>
<b>Movements in Working Capital</b>							
(1,621)	(984)	Increase/(decrease) in receivables	(1,582)	(1,118)	(464)	(41.5)	1,322
79	66	Increase/(decrease) in inventories	69	26	43	165.4	91
(77)	57	Increase/(decrease) in prepayments	98	158	(60)	(38.0)	(80)
(85)	(42)	Decrease/(increase) in deferred revenue	(175)	(30)	(145)	(483.3)	110
(91)	(18)	Decrease/(increase) in payables	472	312	160	51.3	(151)
<b>(1,795)</b>	<b>(921)</b>	<b>Total movements in working capital</b>	<b>(1,118)</b>	<b>(652)</b>	<b>(466)</b>	<b>(71.5)</b>	<b>1,292</b>
<b>Other Non-cash Items in Operating Balance</b>							
(3,338)	(2,107)	Depreciation and amortisation	(2,344)	(2,408)	64	2.7	(3,459)
(536)	(150)	Write-down on initial recognition of loans	(369)	(315)	(54)	(17.1)	(616)
37	(9)	Impairment on financial assets (excl receivables)	(3)	1	(4)	(400.0)	3
1	78	Net interest revenue	44	81	(37)	(45.7)	47
14	8	Decrease/(increase) in defined benefit retirement plan liabilities	(26)	(32)	6	18.8	(55)
(1,580)	621	Decrease/(increase) in insurance liabilities	763	612	151	24.7	(1,426)
186	74	Other	101	100	1	1.0	178
<b>(5,216)</b>	<b>(1,485)</b>	<b>Total other non-cash Items</b>	<b>(1,834)</b>	<b>(1,961)</b>	<b>127</b>	<b>6.5</b>	<b>(5,328)</b>
<b>7,999</b>	<b>6,097</b>	<b>Operating Balance</b>	<b>1,431</b>	<b>4,773</b>	<b>(3,342)</b>	<b>(70.0)</b>	<b>7,388</b>

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

# STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the eight months ended 29 February 2008

Prior Year to 30 June 2007 Actual \$m	8 Months to 28 Feb 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
5,163	(9)	Revaluation of physical assets	(2)	37	(39)	(105.4)	58
(384)	-	Effective portion of changes in value of fair-value hedges	(81)	121	(202)	(166.9)	173
(18)	2	Net change in fair value of cash flow hedges transferred to operating profit	(2)	17	(19)	(111.8)	5
(4)	5	Net change in fair value of cash flow hedges transferred to the hedged item	(36)	(28)	(8)	(28.6)	(23)
(62)	(31)	Foreign currency translation differences for foreign operations	(2)	9	(11)	(122.2)	3
10	(1)	Valuation gain/(losses) on investments available for sale taken to reserves	7	7	-	-	8
11	-	Other movements	-	-	-	-	(1)
<b>4,716</b>	<b>(34)</b>	<b>Total income/(expense) recognised directly in Net Worth</b>	<b>(116)</b>	<b>163</b>	<b>(279)</b>	<b>(171.2)</b>	<b>223</b>
7,987	6,097	<b>Operating Balance (including minority interest)</b>	1,431	4,773	(3,342)	(70.0)	7,388
<b>12,703</b>	<b>6,063</b>	<b>Total recognised income and expense</b>	<b>1,315</b>	<b>4,936</b>	<b>(3,621)</b>	<b>(73.4)</b>	<b>7,611</b>
		<b>Attributable to:</b>					
(12)	-	- minority interest in Air NZ	-	-	-	-	-
12,715	6,063	- the Crown	1,315	4,936	(3,621)	(73.4)	7,611
<b>12,703</b>	<b>6,063</b>	<b>Total recognised income and expense</b>	<b>1,315</b>	<b>4,936</b>	<b>(3,621)</b>	<b>(73.4)</b>	<b>7,611</b>

This statement reports changes in net worth due to the operating balance, items of income or expense that are recognised directly in net worth and the effect of certain accounting changes.

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

# STATEMENT OF FINANCIAL POSITION

as at 29 February 2008

As at 30 June 2007 \$m	As at 28 Feb 2007 \$m		Note	Current Year Actual vs Forecast			Annual Forecast	
				Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>Assets</b>								
4,208	3,579	Cash and cash equivalents	11	5,045	4,165	880	21.1	4,232
12,029	12,666	Receivables	11	10,477	10,941	(464)	(4.2)	13,352
29,831	29,655	Marketable securities and derivatives in gain	11	33,980	35,153	(1,173)	(3.3)	35,601
13,827	12,970	Share investments	11	12,522	14,818	(2,296)	(15.5)	15,601
14,031	13,194	Advances	11	15,430	15,681	(251)	(1.6)	16,424
823	809	Inventory		895	852	43	5.0	914
1,309	1,403	Prepayments and other assets		1,406	1,444	(38)	(2.6)	1,338
95,613	90,535	Property, plant & equipment	12	96,537	97,300	(763)	(0.8)	98,662
6,921	6,353	Equity accounted investments <sup>1</sup>		7,280	7,379	(99)	(1.3)	7,518
1,653	1,558	Intangible assets and goodwill		1,664	1,695	(31)	(1.8)	1,794
-	-	Forecast for new capital spending		-	-	-	-	-
-	-	Top-down capital adjustment		-	(103)	103	100.0	(250)
<b>180,245</b>	<b>172,722</b>	<b>Total assets</b>		<b>185,236</b>	<b>189,325</b>	<b>(4,089)</b>	<b>(2.2)</b>	<b>195,186</b>
<b>Liabilities</b>								
3,444	3,577	Issued currency		3,645	3,625	(20)	(0.6)	3,625
8,103	8,715	Payables	14	8,187	8,743	556	6.4	8,334
978	935	Deferred revenue		1,141	996	(145)	(14.6)	868
41,914	41,782	Borrowings		44,465	44,659	194	0.4	46,363
17,419	15,218	Insurance liabilities	15	17,957	17,664	(293)	(1.7)	19,677
7,160	8,329	Retirement plan liabilities		7,481	7,486	5	0.1	7,479
4,523	4,132	Provisions	16	4,340	4,515	175	3.9	4,525
<b>83,541</b>	<b>82,688</b>	<b>Total liabilities</b>		<b>87,216</b>	<b>87,688</b>	<b>472</b>	<b>0.5</b>	<b>90,871</b>
<b>96,704</b>	<b>90,034</b>	<b>Total assets less total liabilities</b>		<b>98,020</b>	<b>101,637</b>	<b>(3,617)</b>	<b>(3.6)</b>	<b>104,315</b>
<b>Net Worth</b>								
44,169	42,232	Taxpayer funds	17	45,596	48,940	(3,344)	(6.8)	51,555
52,371	47,223	Revaluation reserve	17	52,374	52,408	(34)	(0.1)	52,429
(132)	301	Other reserves	17	(246)	(7)	(239)	-	35
<b>96,408</b>	<b>89,756</b>	<b>Total net worth attributable to the Crown</b>		<b>97,724</b>	<b>101,341</b>	<b>(3,617)</b>	<b>(3.6)</b>	<b>104,019</b>
296	278	Net worth attributable to minority interest in Air NZ		296	296	-	-	296
<b>96,704</b>	<b>90,034</b>	<b>Total net worth</b>		<b>98,020</b>	<b>101,637</b>	<b>(3,617)</b>	<b>(3.6)</b>	<b>104,315</b>

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

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

# STATEMENT OF BORROWINGS

as at 29 February 2008

As at 30 June 2007 \$m	As at 28 Feb 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>Borrowings</b>							
15,778	15,244	Government stock <sup>1</sup>	17,754	17,218	(536)	(3.1)	18,240
2,098	2,605	Treasury bills	1,535	2,373	838	35.3	2,776
364	375	Government retail stock	383	375	(8)	(2.1)	379
7,507	7,891	Settlement deposits with Reserve Bank	6,465	7,894	1,429	18.1	7,894
1,126	711	Derivatives in loss <sup>2</sup>	1,289	720	(569)	(79.0)	422
954	943	Finance lease liabilities	954	963	9	0.9	959
14,087	14,013	Other borrowings	16,085	15,116	(969)	(6.4)	15,693
<b>41,914</b>	<b>41,782</b>	<b>Total borrowings<sup>3</sup></b>	<b>44,465</b>	<b>44,659</b>	<b>194</b>	<b>0.4</b>	<b>46,363</b>
31,174	31,086	Sovereign-guaranteed debt <sup>4</sup>	31,845	32,821	976	3.0	33,682
10,740	10,696	Non sovereign-guaranteed debt	12,620	11,838	(782)	(6.6)	12,681
<b>41,914</b>	<b>41,782</b>	<b>Total borrowings<sup>3</sup></b>	<b>44,465</b>	<b>44,659</b>	<b>194</b>	<b>0.4</b>	<b>46,363</b>
<b>Gross and net debt analysis:</b>							
35,893	36,815	Core Crown borrowings	36,147	37,638	1,491	4.0	38,845
975	717	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	760	695	(65)	(9.4)	752
<b>36,868</b>	<b>37,532</b>	<b>Gross sovereign-issued debt<sup>5</sup></b>	<b>36,907</b>	<b>38,333</b>	<b>1,426</b>	<b>3.7</b>	<b>39,597</b>
44,248	42,100	Less core Crown financial assets <sup>6</sup>	47,058	50,019	(2,961)	(5.9)	52,699
<b>(7,380)</b>	<b>(4,568)</b>	<b>Net core Crown debt (incl NZS Fund)<sup>7</sup></b>	<b>(10,151)</b>	<b>(11,686)</b>	<b>(1,535)</b>	<b>(13.1)</b>	<b>(13,102)</b>
11,480	10,800	Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets	12,008	13,467	(1,459)	(10.8)	15,085
<b>4,100</b>	<b>6,232</b>	<b>Net core Crown debt (excl NZS Fund)<sup>8</sup></b>	<b>1,857</b>	<b>1,781</b>	<b>(76)</b>	<b>(4.3)</b>	<b>1,983</b>
<b>Gross sovereign-issued debt excluding settlement cash:</b>							
36,868	37,532	Gross sovereign-issued debt <sup>5</sup>	36,907	38,333	1,426	3.7	39,597
(7,758)	(8,002)	Less Reserve Bank settlement cash (incl. Kiwibank)	(6,510)	(8,333)	(1,823)	(21.9)	(7,894)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash <sup>9</sup>	1,600	1,600	-	-	1,600
<b>30,710</b>	<b>31,130</b>	<b>Gross sovereign-issued debt excluding settlement cash</b>	<b>31,997</b>	<b>31,600</b>	<b>(397)</b>	<b>(1.3)</b>	<b>33,303</b>

## Notes on Borrowings

- Government stock includes \$200 million of infrastructure bonds.
- Derivatives are included in either borrowings or marketable securities, deposits and equity investments depending on their balance date value. This treatment leads to fluctuations in individual items within the Statement of Borrowings, primarily due to exchange rate movements.
- Total Borrowings (Gross Debt) is the total borrowings (both sovereign-guaranteed and non-sovereign guaranteed) of the total Crown. This equates to the amount in the total Crown balance sheet and represents the complete picture of whole-of-Crown debt obligations to external parties.
- Total Borrowings (Gross Debt) can be split into sovereign-guaranteed and non-sovereign-guaranteed debt. This split reflects the fact that borrowings by SOEs and Crown entities is not explicitly guaranteed by the Crown. No debt of SOEs and Crown entities is currently guaranteed by the Crown.
- Gross sovereign-issued debt is debt issued by the sovereign (i.e. core Crown) and includes Government stock held by the NZS Fund, ACC or EQC for example. In other words, the total sovereign-issued debt does not eliminate any internal cross-holdings held by these entities. The Government's debt objective uses this measure of debt.
- Core Crown financial assets exclude receivables.
- Net core Crown debt is the Government Sovereign issued debt less financial assets. This can provide information about the sustainability of the Government's accounts, and is used by some international agencies when determining the creditworthiness of a country. However, as some financial assets are not easily converted into cash, and some are restricted, it is important to view net debt alongside gross sovereign-issued debt.
- Adding back the NZ Superannuation Fund Assets provides the financial liabilities less financial assets of the Core Crown, excluding those assets set aside to meet part of the future cost of New Zealand superannuation.
- The Reserve Bank has used \$1.6 billion of settlement cash to purchase reserves that were to have been funded by DMO borrowing. Therefore the impact of settlement cash on GSID is adjusted by this amount.

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



## STATEMENT OF COMMITMENTS

as at 29 February 2008

	As at 29 Feb 2008 \$m	As at 30 June 2007 \$m	As at 28 Feb 2007 \$m
<b>Capital Commitments</b>			
Specialist military equipment	832	823	1,084
Land and buildings	717	605	788
Other property, plant and equipment	2,576	2,617	2,506
Other capital commitments	158	184	454
Tertiary Education Institutions	90	90	-
<b>Total capital commitments</b>	<b>4,373</b>	<b>4,319</b>	<b>4,832</b>
<b>Operating Commitments</b>			
Non-cancellable accommodation leases	2,267	2,296	1,850
Other non-cancellable leases	2,337	2,355	2,493
Non-cancellable contracts for the supply of goods and services	1,894	1,626	1,841
Other operating commitments	7,498	7,278	6,543
Tertiary Education Institutions	303	303	-
<b>Total operating commitments</b>	<b>14,299</b>	<b>13,858</b>	<b>12,727</b>
<b>Total commitments</b>	<b>18,672</b>	<b>18,177</b>	<b>17,559</b>
<b>Total Commitments by Segment</b>			
Core Crown	14,010	19,944	13,876
Crown entities	9,957	9,835	9,033
State-owned Enterprises	3,472	3,508	3,471
Inter-segment eliminations	(8,767)	(15,110)	(8,821)
<b>Total commitments</b>	<b>18,672</b>	<b>18,177</b>	<b>17,559</b>

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

## STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 29 February 2008

	As at 29 Feb 2008 \$m	As at 30 June 2007 \$m	As at 28 Feb 2007 \$m
<b>Quantifiable Contingent Liabilities</b>			
Guarantees and indemnities	167	171	520
Uncalled capital	2,025	2,076	2,244
Legal proceedings and disputes	347	1,170	931
Other contingent liabilities	2,176	1,829	2,018
<b>Total quantifiable contingent liabilities</b>	<b>4,715</b>	<b>5,246</b>	<b>5,713</b>
<b>Total Quantifiable Contingent Liabilities by Segment</b>			
Core Crown	4,572	5,071	5,534
Crown entities	52	45	61
State-owned Enterprises	91	150	118
Inter-segment eliminations	-	(20)	-
<b>Total quantifiable contingent liabilities</b>	<b>4,715</b>	<b>5,246</b>	<b>5,713</b>
<b>Quantifiable Contingent Assets</b>			
Core Crown	91	86	103
Crown entities	-	-	-
<b>Total quantifiable contingent assets</b>	<b>91</b>	<b>86</b>	<b>103</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 Actual \$m	8 Months to 28 Feb 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>NOTE 1: Revenue Collected Through the Crown's Sovereign Power</b>							
<b>Taxation Revenue (accrual)</b>							
<b>Individuals</b>							
20,987	13,829	PAYE	15,078	15,053	25	0.2	22,578
4,440	2,873	Other persons	3,294	3,363	(69)	(2.1)	5,120
(1,080)	(713)	Refunds	(821)	(759)	(62)	(8.2)	(1,175)
468	290	Fringe benefit tax	351	355	(4)	(1.1)	519
<b>24,815</b>	<b>16,279</b>	<b>Total individuals</b>	<b>17,902</b>	<b>18,012</b>	<b>(110)</b>	<b>(0.6)</b>	<b>27,042</b>
<b>Corporate Tax</b>							
8,808	4,918	Gross companies tax	5,103	5,193	(90)	(1.7)	9,174
(296)	(116)	Refunds	(41)	(22)	(19)	(86.4)	(310)
1,189	824	Non-resident withholding tax	951	886	65	7.3	1,268
149	95	Foreign-source dividend w/holding payments	69	59	10	16.9	93
<b>9,850</b>	<b>5,721</b>	<b>Total corporate tax</b>	<b>6,082</b>	<b>6,116</b>	<b>(34)</b>	<b>(0.6)</b>	<b>10,225</b>
<b>Other Income Tax</b>							
2,227	1,419	Resident w/holding tax on interest income	1,665	1,653	12	0.7	2,554
89	65	Resident w/holding tax on dividend income	38	62	(24)	(38.7)	87
2	1	Estate and gift duties	2	2	-	-	3
<b>2,318</b>	<b>1,485</b>	<b>Total other income tax</b>	<b>1,705</b>	<b>1,717</b>	<b>(12)</b>	<b>(0.7)</b>	<b>2,644</b>
<b>36,983</b>	<b>23,485</b>	<b>Total income tax</b>	<b>25,689</b>	<b>25,845</b>	<b>(156)</b>	<b>(0.6)</b>	<b>39,911</b>
<b>Goods and Services Tax</b>							
19,533	12,714	Gross goods and services tax	13,166	13,198	(32)	(0.2)	20,174
(8,325)	(5,615)	Refunds	(6,019)	(5,620)	(399)	(7.1)	(8,390)
<b>11,208</b>	<b>7,099</b>	<b>Total goods and services tax</b>	<b>7,147</b>	<b>7,578</b>	<b>(431)</b>	<b>(5.7)</b>	<b>11,784</b>
<b>Other Taxation</b>							
819	576	Petroleum fuels excise	522	547	(25)	(4.6)	885
238	213	Tobacco excise	114	112	2	1.8	138
1,836	1,172	Customs duty	1,260	1,240	20	1.6	1,870
786	503	Road user charges	563	576	(13)	(2.3)	875
553	369	Alcohol excise	383	392	(9)	(2.3)	579
230	150	Gaming duties	144	161	(17)	(10.6)	238
222	147	Motor vehicle fees	151	148	3	2.0	219
54	36	Energy resources levies	29	32	(3)	(9.4)	48
94	58	Approved issuer levy and cheque duty	55	61	(6)	(9.8)	92
<b>4,832</b>	<b>3,224</b>	<b>Total other indirect taxation</b>	<b>3,221</b>	<b>3,269</b>	<b>(48)</b>	<b>(1.5)</b>	<b>4,944</b>
<b>16,040</b>	<b>10,323</b>	<b>Total indirect taxation</b>	<b>10,368</b>	<b>10,847</b>	<b>(479)</b>	<b>(4.4)</b>	<b>16,728</b>
<b>53,023</b>	<b>33,808</b>	<b>Total taxation revenue</b>	<b>36,057</b>	<b>36,692</b>	<b>(635)</b>	<b>(1.7)</b>	<b>56,639</b>
<b>Other Sovereign Revenue (accrual)</b>							
2,667	1,611	ACC levies	1,868	1,673	195	11.7	2,712
265	183	Fire Service levies	195	195	-	-	283
84	56	EQC levies	57	57	-	-	85
685	448	Other miscellaneous items	492	493	(1)	(0.2)	694
<b>3,701</b>	<b>2,298</b>	<b>Total other sovereign revenue</b>	<b>2,612</b>	<b>2,418</b>	<b>194</b>	<b>8.0</b>	<b>3,774</b>
<b>56,724</b>	<b>36,106</b>	<b>Total sovereign revenue</b>	<b>38,669</b>	<b>39,110</b>	<b>(441)</b>	<b>(1.1)</b>	<b>60,413</b>

# NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 Actual \$m	8 Months to 28 Feb 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>NOTE 1 (continued): Receipts Collected Through the Crown's Sovereign Power</b>							
<b>Income Tax Receipts (cash)</b>							
<b>Individuals</b>							
21,012	13,852	PAYE	15,067	14,956	111	0.7	22,527
5,121	2,807	Other persons	3,117	3,189	(72)	(2.3)	5,905
(1,850)	(1,211)	Refunds	(1,408)	(1,400)	(8)	(0.6)	(2,217)
482	353	Fringe benefit tax	353	360	(7)	(1.9)	490
<b>24,765</b>	<b>15,801</b>	<b>Total individuals</b>	<b>17,129</b>	<b>17,105</b>	<b>24</b>	<b>0.1</b>	<b>26,705</b>
<b>Corporate Tax</b>							
9,120	5,654	Gross companies tax	5,856	6,016	(160)	(2.7)	9,619
(1,153)	(782)	Refunds	(561)	(645)	84	13.0	(1,211)
1,135	881	Non-resident withholding tax	1,144	992	152	15.3	1,229
141	79	Foreign-source dividend w/holding payments	72	73	(1)	(1.4)	93
<b>9,243</b>	<b>5,832</b>	<b>Total corporate tax</b>	<b>6,511</b>	<b>6,436</b>	<b>75</b>	<b>1.2</b>	<b>9,730</b>
<b>Other Income Tax</b>							
2,192	1,417	Resident w/holding tax on interest income	1,656	1,664	(8)	(0.5)	2,558
90	65	Resident w/holding tax on dividend income	27	59	(32)	(54.2)	84
3	2	Estate and gift duties	1	2	(1)	(50.0)	3
<b>2,285</b>	<b>1,484</b>	<b>Total other income tax</b>	<b>1,684</b>	<b>1,725</b>	<b>(41)</b>	<b>(2.4)</b>	<b>2,645</b>
<b>36,293</b>	<b>23,117</b>	<b>Total income tax</b>	<b>25,324</b>	<b>25,266</b>	<b>58</b>	<b>0.2</b>	<b>39,080</b>
<b>Goods and Services Tax</b>							
18,691	12,268	Gross goods and services tax	13,128	12,832	296	2.3	19,443
(7,625)	(5,053)	Refunds	(5,797)	(5,429)	(368)	(6.8)	(8,156)
<b>11,066</b>	<b>7,215</b>	<b>Total goods and services tax</b>	<b>7,331</b>	<b>7,403</b>	<b>(72)</b>	<b>(1.0)</b>	<b>11,287</b>
<b>Other Taxation</b>							
835	574	Petroleum fuels excise	540	578	(38)	(6.6)	885
265	241	Tobacco excise	117	114	3	2.6	138
1,778	1,155	Customs duty	1,338	1,334	4	0.3	1,870
791	508	Road user charges	563	576	(13)	(2.3)	875
549	373	Alcohol excise	374	390	(16)	(4.1)	579
236	150	Gaming duties	160	161	(1)	(0.6)	238
208	129	Motor vehicle fees	159	148	11	7.4	219
55	38	Energy resources levies	26	34	(8)	(23.5)	53
74	65	Approved issuer levy and cheque duty	60	61	(1)	(1.6)	92
<b>4,791</b>	<b>3,233</b>	<b>Total other indirect taxation</b>	<b>3,337</b>	<b>3,396</b>	<b>(59)</b>	<b>(1.7)</b>	<b>4,949</b>
<b>15,857</b>	<b>10,448</b>	<b>Total indirect taxation</b>	<b>10,668</b>	<b>10,799</b>	<b>(131)</b>	<b>(1.2)</b>	<b>16,236</b>
<b>52,150</b>	<b>33,565</b>	<b>Total tax receipts collected</b>	<b>35,992</b>	<b>36,065</b>	<b>(73)</b>	<b>(0.2)</b>	<b>55,316</b>
<b>Other Sovereign Receipts (cash)</b>							
2,607	1,924	ACC levies	1,884	1,740	144	8.3	2,610
268	187	Fire Service levies	197	195	2	1.0	271
84	58	EQC levies	59	61	(2)	(3.3)	86
459	356	Other miscellaneous items	369	379	(10)	(2.6)	604
<b>3,418</b>	<b>2,525</b>	<b>Total other sovereign receipts</b>	<b>2,509</b>	<b>2,375</b>	<b>134</b>	<b>5.6</b>	<b>3,571</b>
<b>55,568</b>	<b>36,090</b>	<b>Total sovereign receipts</b>	<b>38,501</b>	<b>38,440</b>	<b>61</b>	<b>0.2</b>	<b>58,887</b>

# NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 Actual \$m	8 Months to 28 Feb 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 2: Interest Revenue and Dividends</b>							
<i>By type</i>							
2,540	1,615	Interest revenue	1,949	2,096	(147)	(7.0)	3,201
444	240	Dividends	188	300	(112)	(37.3)	515
<b>2,984</b>	<b>1,855</b>	<b>Total interest revenue and dividends</b>	<b>2,137</b>	<b>2,396</b>	<b>(259)</b>	<b>(10.8)</b>	<b>3,716</b>
<i>By source</i>							
2,580	1,618	Core Crown	1,476	1,928	(452)	(23.4)	2,990
746	548	Crown entities	731	662	69	10.4	920
484	303	State-owned Enterprises	479	333	146	43.8	493
(826)	(614)	Inter-segment eliminations	(549)	(527)	(22)	(4.2)	(687)
<b>2,984</b>	<b>1,855</b>	<b>Total interest revenue and dividends</b>	<b>2,137</b>	<b>2,396</b>	<b>(259)</b>	<b>(10.8)</b>	<b>3,716</b>
<b>NOTE 3: Social Assistance and Official Development Assistance</b>							
6,810	4,449	New Zealand superannuation	4,840	4,837	(3)	(0.1)	7,343
1,468	981	Domestic purposes benefit	979	976	(3)	(0.3)	1,466
613	443	Unemployment benefit	320	324	4	1.2	458
1,132	747	Invalids benefit	793	788	(5)	(0.6)	1,195
1,699	1,148	Family support	1,318	1,302	(16)	(1.2)	2,023
877	587	Accommodation supplement	593	591	(2)	(0.3)	885
573	380	Sickness benefit	392	401	9	2.2	600
382	220	Student allowances	223	227	4	1.8	397
270	179	Disability allowances	185	185	-	-	279
-	-	KiwiSaver	645	580	(65)	(11.2)	834
2,192	1,400	Other social assistance benefits	1,518	1,561	43	2.8	2,459
<b>16,016</b>	<b>10,534</b>	<b>Total social assistance</b>	<b>11,806</b>	<b>11,772</b>	<b>(34)</b>	<b>(0.3)</b>	<b>17,939</b>
330	229	Official development assistance	265	303	38	12.5	413
<b>16,346</b>	<b>10,763</b>	<b>Total social assistance and official development assistance</b>	<b>12,071</b>	<b>12,075</b>	<b>4</b>	<b>-</b>	<b>18,352</b>
<b>NOTE 4: Personnel Expenses</b>							
5,113	3,466	Core Crown	3,758	3,796	38	1.0	5,579
8,160	5,231	Crown entities	5,709	5,704	(5)	(0.1)	8,579
2,012	1,287	State-owned Enterprises	1,438	1,445	7	0.5	2,117
(4)	-	Inter-segment eliminations	(6)	(3)	3	100.0	(4)
<b>15,281</b>	<b>9,984</b>	<b>Total personnel expenses</b>	<b>10,899</b>	<b>10,942</b>	<b>43</b>	<b>0.4</b>	<b>16,271</b>
<b>NOTE 5: Operating Expenses</b>							
<i>By type</i>							
3,338	2,107	Depreciation and amortisation	2,344	2,408	64	2.7	3,459
27,517	16,204	Other operating expenses	17,718	17,595	(123)	(0.7)	28,665
-	-	Forecast new operating spending	-	-	-	-	201
-	-	Top-down expense adjustment	-	(260)	(260)	(100.0)	(750)
<b>30,855</b>	<b>18,311</b>	<b>Total operating expenses</b>	<b>20,062</b>	<b>19,743</b>	<b>(319)</b>	<b>(1.6)</b>	<b>31,575</b>
<i>By source</i>							
30,079	17,358	Core Crown	19,211	19,235	24	0.1	30,298
13,480	8,890	Crown entities	9,260	9,089	(171)	(1.9)	14,396
8,283	5,374	State-owned Enterprises	6,217	6,017	(200)	(3.3)	9,012
(20,987)	(13,311)	Inter-segment eliminations	(14,626)	(14,598)	28	0.2	(22,131)
<b>30,855</b>	<b>18,311</b>	<b>Total operating expenses</b>	<b>20,062</b>	<b>19,743</b>	<b>(319)</b>	<b>(1.6)</b>	<b>31,575</b>

## NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 Actual \$m	8 Months to 28 Feb 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		<b>NOTE 6: Interest Expenses</b>					
		<i>By type</i>					
2,876	1,865	Interest on financial liabilities	1,997	2,151	154	7.2	3,125
17	69	Interest unwind on provisions	12	12	-	-	130
<b>2,893</b>	<b>1,934</b>	<b>Total interest expenses</b>	<b>2,009</b>	<b>2,163</b>	<b>154</b>	<b>7.1</b>	<b>3,255</b>
		<i>By source</i>					
2,330	1,555	Core Crown	1,596	1,881	285	15.2	2,804
274	173	Crown entities	149	150	1	0.7	296
685	448	State-owned Enterprises	572	477	(95)	(19.9)	724
(396)	(242)	Inter-segment eliminations	(308)	(345)	(37)	(10.7)	(569)
<b>2,893</b>	<b>1,934</b>	<b>Total interest expenses</b>	<b>2,009</b>	<b>2,163</b>	<b>154</b>	<b>7.1</b>	<b>3,255</b>
		<b>NOTE 7: Insurance Expenses</b>					
		<i>By type</i>					
1,967	1,290	ACC payments	1,446	1,463	17	1.2	2,216
1,746	584	Other insurance expenses	545	845	300	35.5	1,365
<b>3,713</b>	<b>1,874</b>	<b>Total insurance expenses</b>	<b>1,991</b>	<b>2,308</b>	<b>317</b>	<b>13.7</b>	<b>3,581</b>
		<b>NOTE 8: Gains and Losses on Financial Instruments</b>					
		<i>By source</i>					
1,180	802	Core Crown	(276)	1,132	(1,408)	(124.4)	1,424
369	344	Crown entities	(647)	534	(1,181)	(221.2)	633
62	30	State-owned Enterprises	(100)	(71)	(29)	(40.8)	75
(42)	(27)	Inter-segment eliminations	(53)	(175)	122	69.7	(259)
<b>1,569</b>	<b>1,149</b>	<b>Net gains/(losses) on financial instruments</b>	<b>(1,076)</b>	<b>1,420</b>	<b>(2,496)</b>	<b>(175.8)</b>	<b>1,873</b>
		<b>NOTE 9: Gains and Losses on Non-Financial Instruments</b>					
		<i>By type</i>					
1,133	(30)	Actuarial gains/(losses) on GSF liability	(293)	(293)	-	-	(263)
-	-	Actuarial gains/(losses) on ACC outstanding claims	(1,302)	(859)	(443)	(51.6)	(832)
(148)	13	Other	(146)	(147)	1	0.7	(142)
<b>985</b>	<b>(17)</b>		<b>(1,741)</b>	<b>(1,299)</b>	<b>(442)</b>	<b>(34.0)</b>	<b>(1,237)</b>
		<i>By source</i>					
1,164	(30)	Core Crown	(530)	(554)	24	4.3	(517)
(5)	2	Crown entities	(1,305)	(858)	(447)	(52.1)	(857)
(173)	11	State-owned Enterprises	94	113	(19)	(16.8)	137
(1)	-	Inter-segment eliminations	-	-	-	-	-
<b>985</b>	<b>(17)</b>	<b>Net gains/(losses) on non-financial instruments</b>	<b>(1,741)</b>	<b>(1,299)</b>	<b>(442)</b>	<b>(34.0)</b>	<b>(1,237)</b>
		<b>NOTE 10: Operating Balance</b>					
		<i>By source</i>					
6,498	4,775	Core Crown	1,757	3,985	(2,228)	(55.9)	6,206
1,006	1,046	Crown entities	(589)	630	(1,219)	(193.5)	580
821	633	State-owned Enterprises	486	518	(32)	(6.2)	986
(326)	(357)	Inter-segment eliminations	(223)	(360)	137	38.1	(384)
<b>7,999</b>	<b>6,097</b>	<b>Total operating balance</b>	<b>1,431</b>	<b>4,773</b>	<b>(3,342)</b>	<b>(70.0)</b>	<b>7,388</b>

## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2007 \$m	As at 28 Feb 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 11: Financial Assets</b>							
4,208	3,579	Cash and cash equivalents	5,045	4,165	880	21.1	4,232
6,371	8,880	Tax receivables	5,931	6,923	(992)	(14.3)	7,226
5,658	3,786	Trade and other receivables	4,546	4,018	528	13.1	6,126
6,011	5,618	Student loans	6,262	6,302	(40)	(0.6)	6,478
3,637	3,257	Kiwibank mortgages	5,026	5,190	(164)	(3.2)	5,751
2,052	1,913	Long-term deposits	2,041	2,271	(230)	(10.1)	2,260
183	301	Reserve position at the IMF	178	169	9	5.3	166
2,148	2,105	Other loans	1,923	1,749	174	9.9	1,769
13,827	12,970	Share investments	12,522	14,818	(2,296)	(15.5)	15,601
2,349	1,445	Derivatives in gain	2,387	1,283	1,104	86.0	785
27,482	28,210	Other marketable securities	31,593	33,870	(2,277)	(6.7)	34,816
<b>73,926</b>	<b>72,064</b>	<b>Total financial assets</b>	<b>77,454</b>	<b>80,758</b>	<b>(3,304)</b>	<b>(4.1)</b>	<b>85,210</b>
<b>Financial assets by portfolio</b>							
22,577	18,343	Reserve Bank and DMO managed funds	20,767	23,671	(2,904)	(12.3)	27,488
12,576	11,643	NZ Superannuation Fund	12,929	14,236	(1,307)	(9.2)	15,169
14,622	19,979	Other core Crown	17,925	17,575	350	2.0	14,928
(952)	(708)	Intra-segment eliminations	(742)	(713)	(29)	(4.1)	(781)
<b>48,823</b>	<b>49,257</b>	<b>Total core Crown</b>	<b>50,879</b>	<b>54,769</b>	<b>(3,890)</b>	<b>(7.1)</b>	<b>56,804</b>
10,588	9,362	ACC portfolio	10,397	10,150	247	2.4	12,071
1,920	1,937	EQC portfolio	1,758	2,092	(334)	(16.0)	2,075
4,064	3,565	Other Crown entities	4,069	4,248	(179)	(4.2)	4,145
<b>16,572</b>	<b>14,864</b>	<b>Total Crown entities</b>	<b>16,224</b>	<b>16,490</b>	<b>(266)</b>	<b>(1.6)</b>	<b>18,291</b>
<b>8,531</b>	<b>7,943</b>	<b>Total State-owned Enterprises</b>	<b>10,351</b>	<b>9,499</b>	<b>852</b>	<b>9.0</b>	<b>10,115</b>
<b>73,926</b>	<b>72,064</b>	<b>Total financial assets by portfolio</b>	<b>77,454</b>	<b>80,758</b>	<b>(3,304)</b>	<b>(4.1)</b>	<b>85,210</b>
<b>NOTE 12: Property, Plant and Equipment</b>							
<b>By Class of asset</b>							
<b>Net Carrying Value</b>							
21,138	18,649	Land (valuation)	21,238	21,206	32	0.2	20,793
20,824	20,430	Buildings (valuation)	21,013	21,220	(207)	(1.0)	21,841
1,972	2,010	Electricity distribution network (cost)	2,074	2,084	(10)	(0.5)	2,085
10,401	8,706	Electricity generation assets (valuation)	10,687	10,921	(234)	(2.1)	11,177
2,092	2,358	Aircraft (excl military) (valuation)	2,065	2,126	(61)	(2.9)	1,890
19,417	18,356	State highways (valuation)	19,833	19,768	65	0.3	20,137
10,570	10,562	Rail network (valuation)	10,570	10,607	(37)	(0.3)	10,783
3,116	3,278	Specialist military equipment (valuation)	3,114	3,254	(140)	(4.3)	3,197
3,218	3,354	Other plant and equipment (cost)	3,242	3,263	(21)	(0.6)	3,578
2,392	1,510	Specified cultural and heritage assets (valuation)	2,398	2,390	8	0.3	2,334
473	1,322	Other assets (valuation)	303	461	(158)	(34.3)	847
<b>95,613</b>	<b>90,535</b>	<b>Total net carrying value</b>	<b>96,537</b>	<b>97,300</b>	<b>(763)</b>	<b>(0.8)</b>	<b>98,662</b>

## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2007 \$m	As at 28 Feb 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 13: NZ Superannuation Fund</b>							
436	256	Revenue	217	303	(86)	(28.4)	555
733	434	Less current tax expense	172	249	77	30.9	276
(78)	(45)	Less other expenses <sup>1</sup>	3	1	(2)	(200.0)	123
1,313	826	Add gains/(losses)	(953)	558	(1,511)	(270.8)	761
<b>1,094</b>	<b>693</b>	<b>Operating balance</b>	<b>(911)</b>	<b>611</b>	<b>(1,522)</b>	<b>(249.1)</b>	<b>917</b>
9,855	9,855	Opening net worth	12,973	12,973	-	-	12,973
2,049	1,340	Gross contribution from the Crown	1,375	1,375	-	-	2,103
1,094	693	Operating balance	(911)	611	(1,522)	(249.1)	917
(25)	(21)	Other movements in reserves	-	2	(2)	(100.0)	-
<b>12,973</b>	<b>11,867</b>	<b>Closing net worth</b>	<b>13,437</b>	<b>14,961</b>	<b>(1,524)</b>	<b>(10.2)</b>	<b>15,993</b>
<i>comprising:</i>							
12,576	11,643	Financial assets	12,929	14,236	(1,307)	(9.2)	15,169
397	224	Net other assets	508	725	(217)	(29.9)	824
<b>12,973</b>	<b>11,867</b>	<b>Closing net worth</b>	<b>13,437</b>	<b>14,961</b>	<b>(1,524)</b>	<b>(10.2)</b>	<b>15,993</b>
<b>Core Crown OBEGAL (excl NZS Fund):</b>							
58,175	37,208	Core Crown revenue	39,263	40,464	(1,201)	(3.0)	62,409
436	256	NZS Fund revenue	217	303	(86)	(28.4)	555
733	434	Add back NZS Fund intra-segment revenue	172	249	(77)	(30.9)	276
<b>58,472</b>	<b>37,386</b>	<b>Core Crown revenue (excl NZS Fund)</b>	<b>39,218</b>	<b>40,410</b>	<b>(1,192)</b>	<b>(2.9)</b>	<b>62,130</b>
53,978	33,212	Core Crown expenses	36,708	37,059	351	0.9	57,137
(78)	(45)	NZS Fund expenses	3	1	(2)	(200.0)	110
(208)	(113)	Add back NZS Fund intra-segment expenses	(74)	(95)	21	22.1	-
<b>53,848</b>	<b>33,144</b>	<b>Core Crown expenses (excl NZS Fund)</b>	<b>36,631</b>	<b>36,963</b>	<b>374</b>	<b>1.0</b>	<b>57,027</b>
<b>4,624</b>	<b>4,242</b>	<b>Core Crown OBEGAL (excl NZS Fund)</b>	<b>2,587</b>	<b>3,447</b>	<b>(818)</b>	<b>(23.7)</b>	<b>5,103</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2007 \$m	As at 28 Feb 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 14: Payables</b>							
4,924	5,211	Accounts payable	4,859	5,197	338	6.5	5,177
3,179	3,504	Taxes repayable	3,328	3,546	218	6.1	3,157
<b>8,103</b>	<b>8,715</b>	<b>Total payables</b>	<b>8,187</b>	<b>8,743</b>	<b>556</b>	<b>6.4</b>	<b>8,334</b>
<b>NOTE 15: Insurance liabilities</b>							
17,328	15,144	ACC liability	17,871	17,588	(283)	(1.6)	19,594
68	55	EQC liability	76	62	(14)	(22.6)	69
23	19	Other insurance liabilities	10	14	4	28.6	14
<b>17,419</b>	<b>15,218</b>	<b>Total insurance liabilities</b>	<b>17,957</b>	<b>17,664</b>	<b>(293)</b>	<b>(1.7)</b>	<b>19,677</b>
<b>NOTE 16: Provisions</b>							
704	567	Provision for Kyoto	946	956	10	1.0	956
771	805	Provision for National Provident Fund guarantee	771	771	-	-	771
1,819	1,714	Provision for employee entitlements	1,803	1,600	(203)	(12.7)	1,668
1,229	1,046	Other provisions	820	1,188	368	31.0	1,130
<b>4,523</b>	<b>4,132</b>	<b>Total provisions</b>	<b>4,340</b>	<b>4,515</b>	<b>175</b>	<b>3.9</b>	<b>4,525</b>
<b>NOTE 17: Changes in Net Worth</b>							
36,214	36,214	Opening taxpayers funds	44,169	44,169	-	-	44,169
7,999	6,097	Operating balance excluding minority interest	1,431	4,773	(3,342)	(70.0)	7,388
(44)	(79)	Transfers from/(to) other reserves	(4)	(2)	(2)	(100.0)	(2)
<b>44,169</b>	<b>42,232</b>	<b>Closing taxpayers funds</b>	<b>45,596</b>	<b>48,940</b>	<b>(3,344)</b>	<b>(6.8)</b>	<b>51,555</b>
47,153	47,153	Opening revaluation reserve	52,371	52,371	-	-	52,371
5,163	(9)	Net Revaluations	(2)	37	(39)	(105.4)	58
55	79	Transfers from/(to) other reserves	5	-	5	-	-
<b>52,371</b>	<b>47,223</b>	<b>Closing revaluation reserve</b>	<b>52,374</b>	<b>52,408</b>	<b>(34)</b>	<b>(0.1)</b>	<b>52,429</b>
326	326	Opening other reserves	(132)	(132)	-	-	(132)
(458)	(25)	Net movements	(114)	125	(239)	(191.2)	167
<b>(132)</b>	<b>301</b>	<b>Closing other reserves</b>	<b>(246)</b>	<b>(7)</b>	<b>(239)</b>	<b>-</b>	<b>35</b>



# NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 \$m	8 Months to 28 Feb 2007 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>NOTE 18: Reconciliation of core Crown operating cash flows to residual core Crown cash</b>							
<b>Core Crown Cash Flows from Operations</b>							
53,271	34,159	Total tax receipts	36,537	36,653	(116)	(0.3)	56,212
391	326	Total other sovereign receipts	331	340	(9)	(2.6)	514
1,896	1,195	Interest, profits and dividends	1,293	1,512	(219)	(14.5)	2,351
1,461	855	Sale of goods & services and other receipts	992	947	45	4.8	1,566
(16,489)	(10,881)	Subsidies and transfer payments	(11,469)	(11,449)	(20)	(0.2)	(18,930)
(29,740)	(19,346)	Personnel and operating costs	(21,742)	(21,954)	212	1.0	(33,119)
(2,220)	(1,516)	Finance costs	(1,578)	(1,756)	178	10.1	(2,647)
-	-	Forecast for future new operating spending	-	-	-	-	(201)
-	-	Top-down expense adjustment	-	260	(260)	(100.0)	750
<b>8,570</b>	<b>4,792</b>	<b>Net cash flows from core Crown operations</b>	<b>4,364</b>	<b>4,553</b>	<b>(189)</b>	<b>(4.2)</b>	<b>6,496</b>
(1,760)	(1,135)	Net purchase of physical assets	(864)	(1,111)	247	22.2	(2,023)
(1,743)	(750)	Net increase in advances	(677)	(659)	(18)	(2.7)	(1,323)
(281)	(129)	Net purchase of investments	(153)	(123)	(30)	(24.4)	(538)
(2,048)	(1,339)	Contribution to NZ Superannuation Fund	(1,373)	(1,374)	1	0.1	(2,103)
-	-	Top-down capital adjustment	-	103	(103)	(100.0)	250
<b>2,738</b>	<b>1,439</b>	<b>Residual cash</b>	<b>1,297</b>	<b>1,389</b>	<b>(92)</b>	<b>(6.6)</b>	<b>759</b>
<b>Financed by:</b>							
(6,011)	(4,253)	Other net sale/(purchase) of marketable securities and deposits	(1,224)	(4,011)	2,787	69.5	(4,506)
<b>(3,273)</b>	<b>(2,814)</b>	<b>Total operating and investing activities</b>	<b>73</b>	<b>(2,622)</b>	<b>2,695</b>	<b>102.8</b>	<b>(3,747)</b>
<b>Used in:</b>							
2,209	4,119	Net (repayment)/issue of other New Zealand dollar borrowing	(2,354)	2,065	(4,419)	(214.0)	2,203
1,775	(133)	Net (repayment)/issue of foreign currency borrowing	1,410	(969)	2,379	245.5	(1,495)
81	215	Issues of circulating currency	201	182	19	10.4	182
(458)	(301)	Increase/(decrease) in cash	(628)	246	(874)	(355.3)	185
<b>3,607</b>	<b>3,900</b>		<b>(1,371)</b>	<b>1,524</b>	<b>(2,895)</b>	<b>(190.0)</b>	<b>1,075</b>
<b>334</b>	<b>1,086</b>	<b>Net cash inflow/(outflow) to be offset by domestic bonds</b>	<b>(1,298)</b>	<b>(1,098)</b>	<b>(200)</b>	<b>(18.2)</b>	<b>(2,672)</b>
<b>Gross Cash Proceeds from Domestic Bonds</b>							
2,294	1,606	Domestic bonds (market)	1,168	965	203	21.0	2,453
570	-	Domestic bonds (non-market)	130	133	(3)	(2.3)	219
<b>2,864</b>	<b>1,606</b>	<b>Total gross cash proceeds from domestic bonds</b>	<b>1,298</b>	<b>1,098</b>	<b>200</b>	<b>18.2</b>	<b>2,672</b>
(2,777)	(2,777)	Repayment of domestic bonds (market)	-	-	-	-	-
(421)	85	Repayment of domestic bonds (non-market)	-	-	-	-	-
<b>(3,198)</b>	<b>(2,692)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(334)</b>	<b>(1,086)</b>	<b>Net (repayments of)/cash proceeds from domestic bonds</b>	<b>1,298</b>	<b>1,098</b>	<b>200</b>	<b>18.2</b>	<b>2,672</b>

## IMPACT OF THE ADOPTION OF NZ IFRS

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The aim of this section is to explain how the transition from old GAAP to NZ IFRS has affected the reported financial position and financial performance of the Government of New Zealand.

The Government is reporting in compliance with NZ IFRS for periods beginning on and after 1 July 2007. Previous reporting has been on the basis of approved accounting standards applicable in New Zealand at the time ("old GAAP"). The following pages describe the impact of the adoption of NZ IFRS by providing reconciliations between the old GAAP and the comparative information shown in these financial statements for:

- Net worth as at 1 July 2006, as at 28 February 2007 and as at 30 June 2007
- Operating Balance for the year ended 30 June 2007 and for the eight months ended 28 February 2007.

In addition to changes in measurement and recognition rules, NZ IFRS has resulted in a number of changes to the format of the financial statements. The major reclassifications are:

- depreciation and amortisation previously classified under operating expenses now separately disclosed
- share investments previously classified under marketable securities now separately disclosed
- some properties held by Land Information New Zealand (LINZ) have been reclassified from assets for sale to property, plant and equipment and as a result have been fair valued
- settlement deposits with the Reserve Bank previously classified under borrowings – sovereign-guaranteed now separately disclosed
- separation of borrowings between sovereign-guaranteed and non sovereign-guaranteed no longer in the statement of financial position (transferred to notes to the financial statements)
- payables and provisions previously classified as one category now split
- reclassifications between interest and dividend income, interest expense and gains/losses on financial instruments
- reclassifications between sales of goods and services and other revenue, and
- reclassifications between official development assistance and operating expenses.

## IMPACT OF THE ADOPTION OF NZ IFRS

	Note	As at 1 July 2006 \$m	As at 30 June 2007 \$m	As at 28 Feb 2007 \$m
<b>Net worth per old GAAP published accounts</b>		<b>71,403</b>	<b>95,836</b>	<b>88,292</b>
Rail network valuation	a	10,330	-	-
<b>Amended net worth per old GAAP</b>		<b>81,733</b>	<b>95,836</b>	<b>88,292</b>
<b>Changes as a result of transition to NZ IFRS</b>				
Revaluation of GSF	b	3,133	3,137	3,210
Inclusion of a risk premium on ACC liability	c	(1,603)	(1,976)	(1,582)
Inclusion of derivatives	d	304	(355)	99
Fair value adjustments to receivables	e	(369)	(598)	(442)
Revaluation of NPF liability	f	195	182	195
Goodwill amortisation	g	-	98	56
Other movements		196	380	206
<b>Net worth per NZ IFRS published accounts</b>		<b>83,589</b>	<b>96,704</b>	<b>90,034</b>
	<b>Note</b>		<b>Prior Year to 30 June 2007 \$m</b>	<b>8 months to 28 Feb 2007 \$m</b>
<b>Operating balance per old GAAP published accounts</b>			<b>8,663</b>	<b>6,514</b>
<b>Changes as a result of transition to NZ IFRS</b>				
Revaluation of GSF	b		4	77
Inclusion of a risk premium on ACC liability	c		(373)	21
Inclusion of derivatives	d		(250)	(211)
Fair value adjustments to receivables	e		(229)	(73)
Revaluation of NPF liability	f		(13)	-
Goodwill amortisation	g		98	56
Other movements			99	(287)
<b>Operating balance per NZ IFRS published accounts</b>			<b>7,999</b>	<b>6,097</b>

## IMPACT OF THE ADOPTION OF NZ IFRS

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### Notes to the NZ IFRS Transition

- a) On 1 July 2006 the accounting policy regarding the valuation basis of the rail network changed under old GAAP to depreciated replacement cost. Previously this asset was reported at historical cost.
- b) The reporting of the Government Superannuation Fund (GSF) has changed due to applying a specific standard for employee benefits, including pension schemes, under NZ IFRS. The main changes to the financial statement are:
- a reduction in the net liability of GSF due to valuing the liability on the basis that the Government meets its obligation on a pay-as-needed basis, rather than the amount to be invested today to fully fund future contributions under old GAAP. This latter approach assumes the Fund would invest in assets that would generate revenue on which there would be an additional obligation to pay tax, and
  - a netting of GSF plan assets against the pension liability (nil impact on net worth).
- c) The reporting of the ACC liability has changed owing to the new requirements under NZ IFRS. The main changes to the financial statements are:
- the ACC liability has increased due to adding an additional risk premium and liability adequacy test on the unearned levy liability to meet estimated future claims. The actuarially calculated liability under old GAAP represents a mid-point estimate – that is, equal chance of actual payouts being greater than or less than the estimate. To that extent, it represents the most likely outcome. Introducing an additional risk premium and liability adequacy test under NZ IFRS does not change the relative risk of ACC's activities; rather it simply changes how this risk is reported
  - changes to the presentation of the unearned levy liability (nil impact on net worth).
- d) Under NZ IFRS all derivative contracts must be recognised in the statement of financial position at fair value.
- e) Receivables from taxes and fines have been written down to reflect time value of money and collection costs.
- f) Like the reduction in the GSF liability above, the reduction in the National Provident Fund (NPF) liability is due to the tax effect of valuing the liability on the basis of present valuing the possible payments to this scheme under the current arrangements, rather than old GAAP which determines what payment would be required today to settle all future obligations.
- g) Under NZ IFRS goodwill is not amortised over a specified period. Instead, an annual impairment test is conducted.