

# Financial Statements of the Government of New Zealand

For the Eleven Months Ended  
31 May 2011



Prepared by The Treasury  
6 July 2011

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New Zealand Government



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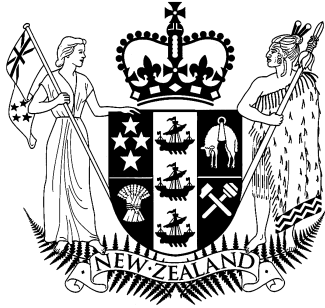
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## COMMENTARY

## S U M M A R Y

The Financial Statements of the Government provide a record of the Government's financial performance over the eleven months ended 31 May 2011 and its financial position as at that date.

The May results are reported against forecasts based on the *2011 Budget Economic and Fiscal Update (BEFU)*, published on 19 May 2011.

### At a Glance

**Table 1** – Key indicators for the eleven months ended 31 May 2011 compared to BEFU

\$ million	Year to date				Full Year
	May	May	Variance to BEFU	Variance to BEFU	June
	2011	2011 BEFU			2011 BEFU
	Actual <sup>1</sup>	Forecast <sup>1</sup>	\$m	%	Forecast <sup>2</sup>
<b>Core Crown</b>					
Core Crown tax revenue	47,360	47,146	214	0.5	51,189
Core Crown revenue	51,868	52,163	(295)	(0.6)	56,950
Core Crown expenses	62,139	62,909	770	1.2	72,794
Core Crown residual cash	(12,873)	(13,238)	365	2.8	(14,951)
Gross debt <sup>3</sup>	73,176	69,907	(3,270)	(4.7)	71,578
as a percentage of GDP	37.6%	35.9%			35.8%
Net debt <sup>4</sup>	39,653	39,862	209	0.5	41,502
as a percentage of GDP	20.4%	20.5%			20.8%
<b>Total Crown</b>					
Operating balance before gains and losses	(10,752)	(12,022)	1,270	10.6	(16,728)
Operating balance	(5,021)	(4,908)	(113)	(2.3)	(9,437)
Net worth	89,337	89,909	(572)	(0.6)	85,519

1 Using GDP for the year ended 31 December 2010 of \$194,629 million (Source: Statistics New Zealand)

2 Using forecast GDP for the year ended 30 June 2011 of \$199,819 million (Source: Treasury)

3 Gross sovereign-issued debt excluding settlement cash and Reserve Bank bills

4 Net core Crown debt excluding student loans and other advances

*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.*

### Results for the eleven months ended 31 May 2011

**Core Crown tax revenue** in the eleven month period stood at \$47.4 billion (0.5% above forecast). GST was the largest contributor to the better than expected outcome at \$512 million or 4.2% above forecast. Indications are that higher than forecast private consumption was a significant contributor to this variance with March quarter retail sales rising more than we expected. In addition, GST refunds came in lower than forecast. Corporate tax revenue, meanwhile, was \$118m (1.8%) below forecast.

**Core Crown expenses** of \$62.1 billion were 1.2% or \$770 million below forecast with most departments continuing to report some under expenditure against their forecasts. Most of this under expenditure is expected to persist for the full year ended 30 June.

The deficit in the **operating balance before gains and losses**, at \$10.8 billion, was 10.6% smaller than expected due to the higher than forecast tax revenue and lower than anticipated core Crown expenses. Looking towards the year-end, we expect tax revenue for the full year to be in line with (or even stronger than) forecast and expenses to continue to be below forecast for the full year. Assuming the Government's share of the Canterbury earthquake costs for the current fiscal year are close to forecast, the OBEGAL deficit of \$16.7 billion set out in the Budget is now expected to come closer to \$16 billion for the year to 30 June.

**Gross debt** at 31 May was \$3.3 billion or 4.7% higher than forecast due to valuation movements as a result of higher than forecast exchange rates and Treasury bills' issuance remaining ahead of forecast. At \$73.2 billion or 37.6% of GDP, gross debt was \$20.5 billion higher than the same time last year.

By in large, the movements in gross debt were net debt neutral meaning that at 31 May 2011 **net debt** was close to forecast at \$39.7 billion or 20.4% of GDP. However this was \$14.3 billion higher than at the same time last year, resulting in net finance costs \$516 million higher than in the same period last year.

Further analysis of the May results follows.

## ANALYSIS

**Table 2** – Key indicator variances for the eleven months ended 31 May 2011 compared to *BEFU*

Item/indicator	Variance <sup>1</sup>	Key drivers
<b>Core Crown</b>		
Core Crown revenue	-\$295 million (lower than forecast)	<p>Core Crown revenue was \$295m or 0.6% lower than expected, mainly due to a \$521m dividend forecast to be paid to the Crown in May that was instead paid on 1 June. This variance will reverse in June.</p> <p>This was partly offset by core Crown tax revenue which was \$214m above the BEFU forecast.</p> <ul style="list-style-type: none"> <li>• GST revenue was \$512m (4.2%) above forecast, due to the following components: <ul style="list-style-type: none"> <li>○ Indicative data releases, such as retail sales, point to private consumption being higher than forecast through the first half of 2011. The March 2011 quarter's consumption outturn is due to be released on 7 July; and</li> <li>○ GST refunds were high in March at the time the Budget forecast was completed. This was forecast to continue through the June quarter, but this has turned out not to be the case. It is possible that GST refunds on insurance claims relating to the Canterbury earthquakes may be lower than forecast. If so, at least part of this positive variance from forecast may be temporary and could reverse in the 2011/12 fiscal year.</li> </ul> </li> <li>• Corporate tax revenue, meanwhile, was \$118m (1.8%) below forecast. It is likely that the continuing Canterbury earthquakes are having a more negative effect on corporate profitability than was expected in the Budget forecast, particularly for insurers, with a consequent effect on current-year income tax assessments.</li> </ul>
Core Crown expenses	\$770 million (lower than forecast)	<p>Core Crown expenses were \$770m (1.2%) lower than forecast at \$62,139m. Of the \$770m variance, \$395m (or 51%) is explained by five key drivers, with the remainder due to individually small variances across a number of departments. The five key drivers were:</p> <ul style="list-style-type: none"> <li>• The initialling of a number of Treaty Deeds of Settlement has been delayed awaiting the resolution of final issues, resulting in \$104m lower expenditure than forecast. Of this amount, \$79m is expected to be initialled in the next financial year.</li> <li>• The Working for Families Tax Credit was \$99m lower than expected as the May results did not follow the usual historical pattern. The April to June period can be volatile as it is dependent on customer claims, so it is expected that some of this variance will reverse in June.</li> <li>• The receipt of applications for issuing NZ Units under the Pre-1990 forestry sector under the ETS has been slower than expected, resulting in \$97m lower expenditure than forecast. These allocations are now expected to occur in the next financial year.</li> <li>• Fewer applications than anticipated for the Canterbury Earthquake Welfare Support package after its extension, resulting in expenditure being \$50m lower than expected. It is expected that approximately half of this variance will reverse prior to year-end.</li> </ul>

<sup>1</sup> Favourable variances against forecast have a positive sign and unfavourable variances against forecast have a negative sign.



Item/indicator	Variance <sup>1</sup>	Key drivers
Core Crown expenses (continued)		<ul style="list-style-type: none"> <li>The early childhood education programme had fewer child hours claimed as play-centres have not picked up 20 hours as fast as forecast. This resulted in \$45m lower than expected expenditure, which is expected to continue to year-end.</li> </ul> <p>With the exception of Treaty settlements and the ETS (which are non-cash), there were similar underspends in residual cash.</p>
Core Crown residual cash deficit	\$365 million (lower than forecast)	<p>Core Crown tax receipts were \$377m higher than forecast, with the main component relating to GST which was \$353m higher than expected.</p> <p>The positive GST variance was the result of stronger-than-expected retail spending and weaker-than-expected refund payments (as mentioned in revenue above).</p> <p>Other positive variances in May include:</p> <ul style="list-style-type: none"> <li>An underspend of \$212m (0.6%) in personnel and operating costs. \$45m is due to lower than expected expenditure in Early Childhood Education (as mentioned in expenses above) and \$89m is mostly due to lower than forecast payments to suppliers by the Ministry of Health, \$35m of which will be transferred into the next financial year.</li> <li>Net purchases of physical assets were \$182m lower than forecast. Delays in defence acquisition projects of \$118m accounts for most of this variance. Defence now expect to be underspent at year end.</li> <li>Subsidy and transfer payments were \$160m lower than forecast. \$68m is due to lower Working for Family Tax Credit payments and \$50m is due to lower Canterbury Earthquake Welfare Support package payments (as mentioned in expenses above).</li> </ul> <p>Partly offsetting these positive variances is the \$521m dividend forecast to be paid to the Crown in May, but instead paid on 1 June (as mentioned in revenue above). As this is a timing difference, this variance will reverse in June.</p>
Gross debt	-\$3,270 million (higher than forecast)	<p>Gross debt was \$73,176m, 4.7% above forecast. The main contributors were:</p> <ul style="list-style-type: none"> <li>The New Zealand Debt Management Office's (NZDMO) collateral deposits were \$995m higher than forecast. With the appreciation in the exchange rate from the forecast base month to May (NZD/USD 0.75 to 0.82), the mark-to-market (MTM) value of derivatives has increased. This increase in MTM prompted a request for more collateral from counterparties to offset credit exposure.</li> <li>The Reserve Bank short-term deposits and cross currency swaps being higher than expected, \$787m and \$106m respectively.</li> <li>Reserve Bank unsettled trades at 31 May of \$586m which are short-term positions that are not forecast.</li> <li>Higher than forecast changes in derivative values (\$921m) primarily driven by movements in foreign exchange rates since completion of the forecasts.</li> <li>Treasury Bill issuance \$711m above forecast due to strong investor demand earlier in the year. This was partially offset by a number of relatively poor tenders during May.</li> <li>Offsetting these, NZDMO's other financial liabilities were \$842m lower than forecast, mainly due to delayed and lower Euro Commercial Paper (ECP) issuance with demand for domestic securities reducing the requirement to issue ECP.</li> </ul>

Item/indicator	Variance <sup>1</sup>	Key drivers
Net debt	\$209 million (lower than forecast)	Net debt at \$39,653m was within 1% of forecast. As previously mentioned, although gross debt was significantly higher than forecast, most of the movements in gross debt were net debt neutral.
<b>Total Crown</b>		
Operating balance before gains and losses deficit	\$1,270 million (lower than forecast)	The OBEGAL deficit was lower than forecast, as a result of the higher than expected core Crown tax revenue (\$214m) and lower than expected core Crown expenses (\$770m) as detailed above.
Operating balance deficit	-\$113 million (higher than forecast)	While the OBEGAL deficit was \$1,270m below forecast, the operating balance was in line with forecast as net gains were \$1,376m lower than forecast. This variance was predominantly driven by ACC actuarial gains being \$1,203m less than anticipated mainly due to a lower than forecast discount rate.
Net worth	-\$572 million (lower than forecast)	<p>In addition to the operating balance deficit, there were two main downward asset revaluations in May impacting equity which were not forecast:</p> <ul style="list-style-type: none"> <li>• Housing New Zealand Corporation booked an impairment of their buildings of \$230m in relation to the Canterbury Earthquakes.</li> <li>• The Department of Conservation made an adjustment of \$164m in May to two previous land valuations.</li> </ul>

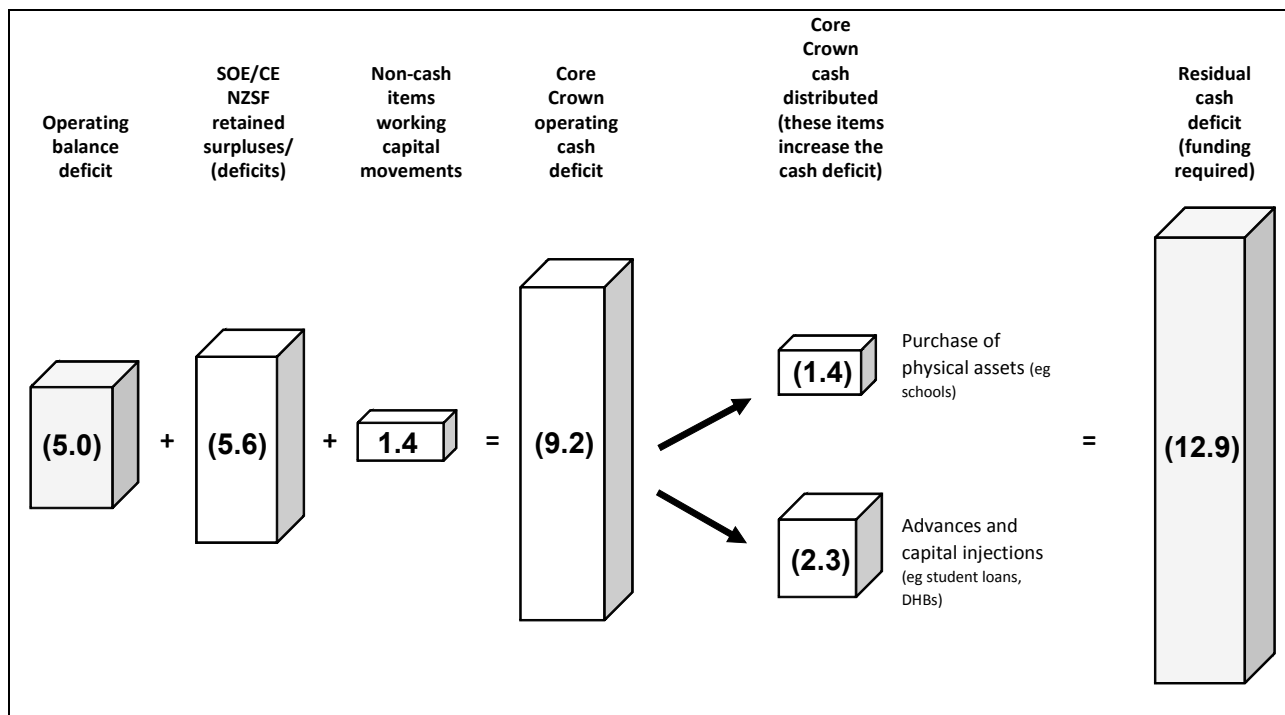
**Table 3 – Fiscal Strategy and financial results**

Fiscal Strategy		Financial Results		Ref	31 May 2011 Actual \$m	31 May 2011 Forecast \$m	Variance \$m	Variance %	Annual Forecast \$m
<b>Operating revenue</b> Ensure sufficient revenue to meet the operating balance objective	Taxation as a % of GDP	1	26.5%	26.4%					25.6%
	Core Crown taxation revenue ...		47,360	47,146	214	0.5		51,189	
	... combined with other core Crown revenue ...		4,508	5,017	(509)	(10.1)		5,761	
<b>Operating expenses</b> Reduce the growth in government spending to ensure operating expenses are consistent with the operating balance objective	... fund core Crown expenses...		(62,139)	(62,909)	770	1.2		(72,794)	
	... and with SOE and Crown entity results and core Crown gains and losses...		5,250	5,838	(588)	(10.1)		6,407	
<b>Operating balance</b> Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective	... result in an operating surplus or deficit...		(5,021)	(4,908)	(113)	(2.3)		(9,437)	
	...with income in SOEs, CEs and the NZS Fund retained...		(5,596)	(5,426)	(170)	(3.1)		(6,014)	
	... and some items do not impact cash ...		1,417	935	482	51.6		4,900	
	... leaving operating cash flows to ...		(9,200)	(9,399)	199	2.1		(10,551)	
	... build up assets in the NZS Fund ...		-	-	-	-		-	
	... meet the capital expenditure budget ...		(1,341)	(1,443)	102	7.1		(1,786)	
<b>Debt</b> Manage total debt at prudent levels ensuring net debt remains consistently below 35% of GDP and brought back to a level no higher than 20% of GDP by the early 2020's	... and make advances (e.g. to students and DHBs)		(2,332)	(2,396)	64	2.7		(2,614)	
	With the residual cash ...		(12,873)	(13,238)	365	2.8		(14,951)	
	... when combined with opening net debt ...		26,738	26,738	-	-		26,738	
	... and other fair value movements in financial assets and financial liabilities ...		42	(114)	(156)	(136.8)		(187)	
	... results in a closing net debt ...		39,653	39,862	209	0.5		41,502	
	... and as a % of GDP		20.4%	20.5%				20.8%	

<sup>1</sup> GDP for the eleven months ended 31 May 2011 (actual and forecast) is the actual data for the year ended 31 December 2010 (Source: Statistics New Zealand) pro-rated for eleven months.

**Figure 1** – Application of core Crown cash flows (\$billions)

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



## YEAR - ON - YEAR PERSPECTIVE

**Table 4** – Comparison with previous year

	May 2011 Actual \$m	May 2010 Actual \$m	Change <sup>1</sup> \$m	Change %
<b>Statement of Financial Performance</b>				
<b>Core Crown revenue</b>				
Taxation revenue	47,360	46,568	792	1.7
Other revenue	4,508	5,119	(611)	(11.9)
<b>Total Core Crown Revenue</b>	<b>51,868</b>	<b>51,687</b>	<b>181</b>	<b>0.4</b>
<b>Core Crown expenses</b>				
Social security and welfare	19,757	18,934	823	4.3
GSF pension expenses	261	330	(69)	(20.9)
Health	12,565	12,002	563	4.7
Education	10,672	10,447	225	2.2
Core government services	3,934	2,997	937	31.3
Law and order	3,101	2,875	226	7.9
Defence	1,649	1,638	11	0.7
Transport and communications	2,054	2,133	(79)	(3.7)
Economic and industrial services	2,371	2,545	(174)	(6.8)
Primary services	613	431	182	42.2
Heritage, culture and recreation	1,750	944	806	85.4
Housing and community development	302	273	29	10.6
Other	316	75	241	321.3
Finance costs	2,794	2,130	664	31.2
<b>Total Core Crown Expenses</b>	<b>62,139</b>	<b>57,754</b>	<b>4,385</b>	<b>7.6</b>
Net surplus of SOE/CE's (and inter-segment eliminations)	(481)	1,325	(1,806)	(136.3)
<b>OBEAL</b>	<b>(10,752)</b>	<b>(4,742)</b>	<b>(6,010)</b>	<b>(126.7)</b>
Total gains/(losses)	5,506	2,563	2,943	114.8
Other operating items	225	23	202	-
<b>Operating Balance</b>	<b>(5,021)</b>	<b>(2,156)</b>	<b>(2,865)</b>	<b>(132.9)</b>
<b>Core Crown residual cash</b>	<b>(12,873)</b>	<b>(7,734)</b>	<b>(5,139)</b>	<b>(66.4)</b>
<b>Debt indicators</b>				
<b>Gross debt<sup>2</sup></b>	<b>73,176</b>	<b>52,636</b>	<b>20,540</b>	<b>39.0</b>
<b>Net debt<sup>3</sup></b>	<b>39,653</b>	<b>25,388</b>	<b>14,265</b>	<b>56.2</b>

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

<sup>2</sup> Gross sovereign-issued debt excluding settlement cash and Reserve Bank bills.

<sup>3</sup> Net core Crown debt excluding NZS Fund, student loans and other advances.

## Revenue and Expenses

**Core Crown taxation revenue** for the eleven months ended 31 May 2011 increased by \$0.8 billion (1.7%) on the same period last year. GST was the largest contributor to the rise in tax revenue as consumer spending has recovered following the recession of 2008/09 and the October 2010 GST rate rise has also flowed into the tax result.

**Other core Crown revenue** decreased \$0.6 billion (11.9%) from the same period last year largely due to dividends returned by energy companies in the early months of the 2010 financial year that were not repeated in the current financial year.

Total **core Crown expenses** have increased by \$4.4 billion (7.6%) on the same period last year. The significant movements in core Crown functional expenses were as follows:

Functional expense	Movement from previous year	Main drivers of the change
Core Government Services	+ \$0.9 billion	<ul style="list-style-type: none"><li>• AMI insurance recovery package and a revision in the expected recoveries relating to the deposit guarantee scheme.</li></ul>
Heritage, Culture and recreation	+ \$0.8 billion	<ul style="list-style-type: none"><li>• Allocation of NZ units under the Emissions Trading Scheme.</li></ul>
Social Security and Welfare	+ \$0.8 billion	<ul style="list-style-type: none"><li>• Indexation of welfare benefits and higher beneficiary recipient numbers and payments for earthquake support.</li></ul>
Finance Costs	+ \$0.7 billion	<ul style="list-style-type: none"><li>• A result of increased debt levels.</li></ul>
Health	+ \$0.6 billion	<ul style="list-style-type: none"><li>• Funding provided in the 2010 Budget to maintain and improve existing service levels.</li></ul>
Other	+ \$0.6 billion	
<b>Total</b>	<b>+ \$4.4 billion</b>	

**Net surplus of SOE/CE's** has decreased by \$1.8 billion on the same period last year. This is due largely to the impact of the Canterbury earthquakes on the EQC result.

**Total gains/(losses)** have increased by \$2.9 billion from the same period last year due to strong equity markets. NZS Fund reported large gains on their investments. In addition, larger actuarial gains for GSF in the current year arose from changes in the discount rates and CPI assumptions used to calculate the present value of the future expected payments.

## Debt

Both **net** and **gross debt** have increased as a result of the issuance of debt (primarily Government Stock) and the reduction in financial assets to meet cash deficits.



## **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 the entities that are included in the Government reporting entity was set out on pages 145 and 146 of the *2011 Budget Economic and Fiscal Update* released on 19 May 2011.

With the exception of the 30 June 2010 comparative figures, all actual, forecast and comparative figures presented in these financial statements are unaudited.

## 2 General Accounting Policies

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

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

## 3 Specific Accounting Policies

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

<http://www.treasury.govt.nz/publications/guidance/reporting/accounting>

## 4 Forecasts

The forecasts in these financial statements have been derived from the forecasts released in the *2011 Budget Economic and Fiscal Update (BEFU)*, on 19 May 2011.

The accounting policies underlying the preparation of forecasts are set out in the Statement of Accounting Policies reproduced in full on the Treasury's internet site:

<http://www.treasury.govt.nz/budget/forecasts/befu2011>



## STATEMENT OF ACCOUNTING POLICIES (*CONTINUED*)

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### **5 Comparative Figures**

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

### **6 Variance Percentages**

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

# STATEMENT OF FINANCIAL PERFORMANCE

for the eleven months ended 31 May 2011

Year to 30 Jun 2010	11 months to 31 May 2010		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
Actual \$m	Actual \$m							
		<b>Revenue</b>						
50,347	46,107	Taxation revenue	1	46,916	46,620	296	0.6	50,640
4,682	4,232	Other sovereign revenue	1	4,777	4,764	13	0.3	5,444
<b>55,029</b>	<b>50,339</b>	<b>Total Revenue Levied through the Crown's Sovereign Power</b>		<b>51,693</b>	<b>51,384</b>	<b>309</b>	<b>0.6</b>	<b>56,084</b>
14,331	13,277	Sales of goods and services		13,708	13,715	(7)	(0.1)	15,128
2,315	2,540	Interest revenue and dividends	2	2,610	2,434	176	7.2	2,618
3,050	2,834	Other revenue		6,158	5,977	181	3.0	6,339
<b>19,696</b>	<b>18,651</b>	<b>Total revenue earned through the Crown's operations</b>		<b>22,476</b>	<b>22,126</b>	<b>350</b>	<b>1.6</b>	<b>24,085</b>
<b>74,725</b>	<b>68,990</b>	<b>Total revenue (excluding gains)</b>		<b>74,169</b>	<b>73,510</b>	<b>659</b>	<b>0.9</b>	<b>80,169</b>
		<b>Expenses</b>						
21,213	19,299	Social assistance and official development assistance	3	20,143	20,325	182	0.9	22,340
18,477	17,059	Personnel expenses	4	17,255	17,293	38	0.2	18,859
4,229	3,733	Depreciation and amortisation	5	4,322	4,337	15	0.3	4,786
31,338	28,072	Other operating expenses	5	30,821	31,606	785	2.5	38,137
2,777	2,868	Interest expenses	6	3,290	3,195	(95)	(3.0)	3,506
3,006	2,701	Insurance expenses	7	9,090	8,901	(189)	(2.1)	9,519
-	-	Forecast new operating spending	5	-	-	-	-	-
-	-	Top-down expense adjustment	5	-	(125)	(125)	(100.0)	(250)
<b>81,040</b>	<b>73,732</b>	<b>Total expenses (excluding losses)</b>		<b>84,921</b>	<b>85,532</b>	<b>611</b>	<b>0.7</b>	<b>96,897</b>
<b>(6,315)</b>	<b>(4,742)</b>	<b>Operating balance before gains/(losses)</b>		<b>(10,752)</b>	<b>(12,022)</b>	<b>1,270</b>	<b>10.6</b>	<b>(16,728)</b>
2,522	2,931	Net gains/(losses) on financial instruments	8	4,907	5,078	(171)	(3.4)	5,144
(960)	(368)	Net gains/(losses) on non-financial instruments	9	599	1,804	(1,205)	(66.8)	1,894
<b>1,562</b>	<b>2,563</b>	<b>Total gains/(losses)</b>		<b>5,506</b>	<b>6,882</b>	<b>(1,376)</b>	<b>(20.0)</b>	<b>7,038</b>
227	24	Net surplus/(deficit) from associates and joint ventures		227	234	(7)	(3.0)	257
<b>(4,526)</b>	<b>(2,155)</b>	<b>Operating balance from continuing activities</b>		<b>(5,019)</b>	<b>(4,906)</b>	<b>(113)</b>	<b>(2.3)</b>	<b>(9,433)</b>
-	(1)	(1) Gain/(loss) from discontinued operations		(2)	(2)	-	-	(4)
<b>(4,526)</b>	<b>(2,156)</b>	<b>Operating balance (including minority interest)</b>		<b>(5,021)</b>	<b>(4,908)</b>	<b>(113)</b>	<b>(2.3)</b>	<b>(9,437)</b>
17	-	Attributable to minority interest in Air New Zealand		-	-	-	-	-
<b>(4,509)</b>	<b>(2,156)</b>	<b>Operating balance</b>	10	<b>(5,021)</b>	<b>(4,908)</b>	<b>(113)</b>	<b>(2.3)</b>	<b>(9,437)</b>

The accompanying notes and accounting policies are an integral part of these statements.

# STATEMENT OF COMPREHENSIVE INCOME

for the eleven months ended 31 May 2011

Year to 30 Jun 2010 Actual \$m	11 months to 31 May 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
(4,526)	(2,156)	Operating Balance (including minority interest)	(5,021)	(4,908)	(113)	(2.3)	(9,437)
		Other comprehensive income					
196	(3)	Revaluation of physical assets	(416)	(74)	(342)	(462.2)	69
(112)	(55)	Effective portion of changes in value of cash flow hedges	(189)	(79)	(110)	(139.2)	(52)
(62)	1	Net change in fair value of cash flow hedges transferred to operating balance	(16)	(17)	1	5.9	(16)
(3)	(14)	Net change in fair value of cash flow hedges transferred to the hedged item	11	-	11	-	(8)
(11)	(15)	Foreign currency translation differences for foreign operations	(18)	(10)	(8)	(80.0)	(37)
3	(4)	Valuation gains/(losses) on investments available for sale taken to reserves	(1)	4	(5)	(125.0)	5
(1)	5	Other movements	(1)	5	(6)	(120.0)	7
10	(85)	Total other comprehensive income	(630)	(171)	(459)	(268.4)	(32)
(4,516)	(2,241)	Total comprehensive income	(5,651)	(5,079)	(572)	(11.3)	(9,469)
		Attributable to:					
(34)	-	- minority interest in Air New Zealand	-	-	-	-	-
(4,482)	(2,241)	- the Crown	(5,651)	(5,079)	(572)	(11.3)	(9,469)
(4,516)	(2,241)	Total comprehensive income	(5,651)	(5,079)	(572)	(11.3)	(9,469)

The accompanying notes and accounting policies are an integral part of these statements.

## ANALYSIS OF EXPENSES BY FUNCTIONAL CLASSIFICATION

for the eleven months ended 31 May 2011

Year to 30 Jun 2010 Actual \$m	11 months to 31 May 2010 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
Total Crown expenses							
24,206	21,639	Social security and welfare	22,788	23,061	273	1.2	25,637
333	338	GSF pension expenses	267	269	2	0.7	289
12,673	11,606	Health	11,963	12,004	41	0.3	13,118
12,440	11,521	Education	11,517	11,624	107	0.9	12,783
2,830	2,833	Core government services	3,892	3,952	60	1.5	6,083
3,354	3,046	Law and order	3,280	3,332	52	1.6	3,724
1,771	1,598	Defence	1,623	1,689	66	3.9	1,850
7,991	7,195	Transport and communications	7,527	7,551	24	0.3	8,244
7,541	6,704	Economic and industrial services	12,954	12,968	14	0.1	14,078
1,373	1,348	Primary services	1,490	1,510	20	1.3	1,624
2,584	2,040	Heritage, culture and recreation	3,045	3,118	73	2.3	3,805
1,087	921	Housing and community development	969	963	(6)	(0.6)	1,781
80	75	Other	316	421	105	24.9	625
2,777	2,868	Finance costs	3,290	3,195	(95)	(3.0)	3,506
-	-	Forecast new operating spending	-	-	-	-	-
-	-	Top-down expense adjustment	-	(125)	(125)	(100.0)	(250)
81,040	73,732	Total Crown expenses excluding losses	84,921	85,532	611	0.7	96,897

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

Year to 30 Jun 2010 Actual \$m	11 months to 31 May 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Core Crown expenses							
21,185	18,934	Social security and welfare	19,757	19,936	179	0.9	22,175
328	330	GSF pension expenses	261	261	-	-	281
13,128	12,002	Health	12,565	12,629	64	0.5	13,774
11,724	10,447	Education	10,672	10,786	114	1.1	12,039
2,974	2,997	Core government services	3,934	4,037	103	2.6	6,357
3,191	2,875	Law and order	3,101	3,167	66	2.1	3,526
1,814	1,638	Defence	1,649	1,717	68	4.0	1,890
2,345	2,133	Transport and communications	2,054	2,065	11	0.5	2,330
2,839	2,545	Economic and industrial services	2,371	2,391	20	0.8	2,755
507	431	Primary services	613	637	24	3.8	731
1,281	944	Heritage, culture and recreation	1,750	1,888	138	7.3	2,437
306	273	Housing and community development	302	301	(1)	(0.3)	1,046
80	75	Other	316	421	105	24.9	625
2,311	2,130	Finance costs	2,794	2,798	4	0.1	3,078
-	-	Forecast new operating spending	-	-	-	-	-
-	-	Top-down expense adjustment	-	(125)	(125)	(100.0)	(250)
64,013	57,754	Core Crown expenses excluding losses	62,139	62,909	770	1.2	72,794

The accompanying notes and accounting policies are an integral part of these statements.

# STATEMENT OF CASH FLOWS

for the eleven months ended 31 May 2011

Year to 30 Jun 2010	11 months to 31 May 2010		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
		<b>Cash Flows From Operations</b>					
		<b>Cash was provided from</b>					
50,104	46,299	Taxation receipts	46,426	46,097	329	0.7	50,094
4,268	3,916	Other sovereign receipts	4,342	4,414	(72)	(1.6)	4,768
14,411	13,659	Sales of goods and services	13,560	13,693	(133)	(1.0)	15,027
2,378	2,597	Interest and dividends	2,681	2,369	312	13.2	2,558
2,974	2,718	Other operating receipts	2,701	2,535	166	6.5	3,204
<b>74,135</b>	<b>69,189</b>	<b>Total cash provided from operations</b>	<b>69,710</b>	<b>69,108</b>	<b>602</b>	<b>0.9</b>	<b>75,651</b>
		<b>Cash was disbursed to</b>					
		Social assistance and official development assistance	20,293	20,454	161	0.8	22,426
21,335	19,478	Personnel and operating payments	50,755	51,644	889	1.7	56,604
50,767	47,253	Interest payments	2,819	2,830	11	0.4	3,378
2,420	2,650	Forecast new operating spending	-	-	-	-	-
-	-	Top-down expense adjustment	-	(125)	(125)	(100.0)	(250)
-	-						
<b>74,522</b>	<b>69,381</b>	<b>Total cash disbursed to operations</b>	<b>73,867</b>	<b>74,803</b>	<b>936</b>	<b>1.3</b>	<b>82,158</b>
<b>(387)</b>	<b>(192)</b>	<b>Net cash flows from operations</b>	<b>(4,157)</b>	<b>(5,695)</b>	<b>1,538</b>	<b>27.0</b>	<b>(6,507)</b>
		<b>Cash Flows From Investing Activities</b>					
		<b>Cash was provided from/(disbursed to)</b>					
(5,865)	(5,695)	Net purchase of physical assets	(5,840)	(6,425)	585	9.1	(7,302)
2,092	1,339	Net purchase of shares and other securities	(7,090)	(4,975)	(2,115)	(42.5)	(4,690)
(377)	(275)	Net purchase of intangible assets	(430)	(341)	(89)	(26.1)	(432)
(310)	(509)	Net (issue)/repayment of advances	(1,352)	(1,229)	(123)	(10.0)	(2,344)
(198)	34	Net acquisition of investments in associates	63	38	25	65.8	21
-	-	Capital contingency provision	-	-	-	-	-
-	-	Top-down capital adjustment	-	80	(80)	(100.0)	100
<b>(4,658)</b>	<b>(5,106)</b>	<b>Net cash flows from investing activities</b>	<b>(14,649)</b>	<b>(12,852)</b>	<b>(1,797)</b>	<b>(14.0)</b>	<b>(14,647)</b>
<b>(5,045)</b>	<b>(5,298)</b>	<b>Net cash flows from operating and investing activities</b>	<b>(18,806)</b>	<b>(18,547)</b>	<b>(259)</b>	<b>(1.4)</b>	<b>(21,154)</b>
		<b>Cash Flows From Financing Activities</b>					
		<b>Cash was provided from/(disbursed to)</b>					
15	34	Issues of circulating currency	270	359	(89)	(24.8)	359
7,157	5,853	Net issue/(repayment) of Government stock <sup>1</sup>	19,202	17,981	1,221	6.8	19,705
		Net issue/(repayment) of foreign currency borrowing	3,688	(463)	4,151	-	(1,533)
3,296	3,692	Net issue/(repayment) of other New Zealand dollar borrowing	(1,411)	2,616	(4,027)	(153.9)	4,126
<b>(3,764)</b>	<b>(3,031)</b>						
<b>6,704</b>	<b>6,548</b>	<b>Net cash flows from financing activities</b>	<b>21,749</b>	<b>20,493</b>	<b>1,256</b>	<b>6.1</b>	<b>22,657</b>
<b>1,659</b>	<b>1,250</b>	<b>Net movement in cash</b>	<b>2,943</b>	<b>1,946</b>	<b>997</b>	<b>51.2</b>	<b>1,503</b>
6,268	6,268	<b>Opening Cash Balance</b>	7,774	7,774	-	-	7,774
		Foreign-exchange gains/(losses) on opening cash	(493)	(174)	(319)	(183.3)	(174)
<b>(153)</b>	<b>(133)</b>						
<b>7,774</b>	<b>7,385</b>	<b>Closing Cash Balance</b>	<b>10,224</b>	<b>9,546</b>	<b>678</b>	<b>7.1</b>	<b>9,103</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 eleven months ended 31 May 2011

Year to 30 Jun 2010 Actual \$m	11 months to 31 May 2010 Actual \$m	Current Year Actual vs Forecast						
		Actual \$m	Forecast \$m	Variance \$m	Annual Forecast %	Annual Forecast \$m		
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance								
(387)	(192)	Net Cash Flows from Operations		(4,157)	(5,695)	1,538	27.0	(6,507)
		Items included in the operating balance but not in net cash flows from operations.						
		Gains/(losses)						
2,522	2,931	Gains/(losses) on other financial instruments		4,907	5,078	(171)	(3.4)	5,144
(960)	(368)	Gains/(losses) on other non-financial instruments		599	1,804	(1,205)	(66.8)	1,894
1,562	2,563	Total gains/(losses)		5,506	6,882	(1,376)	(20.0)	7,038
Other Non-cash Items in Operating Balance								
(4,229)	(3,733)	Depreciation and amortisation		(4,322)	(4,337)	15	0.3	(4,786)
(855)	(794)	Write-down on initial recognition of loans		(763)	(754)	(9)	(1.2)	(805)
		Impairment on financial assets						
33	4	(excluding receivables)		59	63	(4)	(6.3)	52
		Decrease/(increase) in defined benefit						
284	242	retirement plan liabilities		343	343	-	-	382
(974)	(1,124)	Decrease/(increase) in insurance liabilities		(6,373)	(6,133)	(240)	(3.9)	(5,922)
244	23	Other		226	231	(5)	(2.2)	256
(5,497)	(5,382)	Total other non-cash Items		(10,830)	(10,587)	(243)	(2.3)	(10,823)
Movements in Working Capital								
(338)	(911)	Increase/(decrease) in receivables		4,711	4,386	325	7.4	3,779
(420)	(275)	Increase/(decrease) in accrued interest		(543)	(300)	(243)	(81.0)	(68)
78	143	Increase/(decrease) in inventories		103	126	(23)	(18.3)	150
18	98	Increase/(decrease) in prepayments		149	130	19	14.6	(13)
(202)	(163)	Decrease/(increase) in deferred revenue		(34)	(39)	5	12.8	195
677	1,963	Decrease/(increase) in payables		74	189	(115)	(60.8)	(3,188)
(187)	855	Total movements in working capital		4,460	4,492	(32)	(0.7)	855
(4,509)	(2,156)	Operating Balance		(5,021)	(4,908)	(113)	(2.3)	(9,437)

The accompanying notes and accounting policies are an integral part of these statements.

# STATEMENT OF CHANGES IN NET WORTH

for the eleven months ended 31 May 2011

Year to 30 Jun 2010	11 months to 31 May 2010		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
99,515	99,515	Opening net worth	94,988	94,988	-	-	94,988
(4,526)	(2,156)	Operating balance (including minority interest)	(5,021)	(4,908)	(113)	(2.3)	(9,437)
196	(3)	Net revaluations	(416)	(74)	(342)	(462.2)	69
(96)	(54)	Transfers to/(from) reserves	(190)	(75)	(115)	(153.3)	(54)
(60)	-	(Gains)/losses transferred to the statement of financial performance	(16)	(16)	-	-	(16)
(30)	(28)	Other movements	(8)	(6)	(2)	(33.3)	(31)
(4,516)	(2,241)	Total comprehensive income	(5,651)	(5,079)	(572)	(11.3)	(9,469)
(11)	-	Transactions with minority interest in Air New Zealand	-	-	-	-	-
94,988	97,274	Closing net worth	89,337	89,909	(572)	(0.6)	85,519

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

# STATEMENT OF FINANCIAL POSITION

as at 31 May 2011

As at 30 Jun 2010 Actual \$m	As at 31 May 2010 Actual \$m		Current Year Actual vs Forecast					
			Note	Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
Assets								
7,774	7,385	Cash and cash equivalents	11	10,224	9,546	678	7.1	9,103
13,884	13,522	Receivables	11	19,793	17,996	1,797	10.0	17,514
		Marketable securities, deposits and						
43,687	45,448	derivatives in gain	11	49,714	49,327	387	0.8	49,006
12,179	12,699	Share investments	11	14,340	13,768	572	4.2	14,206
18,447	18,322	Advances	11	20,105	19,840	265	1.3	19,851
1,160	1,225	Inventory		1,262	1,285	(23)	(1.8)	1,309
1,661	1,647	Other assets		1,823	1,816	7	0.4	1,668
113,330	112,497	Property, plant & equipment	12	115,344	116,155	(811)	(0.7)	116,933
9,049	8,821	Equity accounted investments <sup>1</sup>		9,362	9,386	(24)	(0.3)	9,398
2,184	2,167	Intangible assets and goodwill <sup>2</sup>		2,400	2,386	14	0.6	2,524
-	-	Forecast for new capital spending		-	-	-	-	-
-	-	Top-down capital adjustment		-	(80)	80	100.0	(100)
223,355	223,733	Total assets		244,367	241,425	2,942	1.2	241,412
Liabilities								
4,020	4,039	Issued currency		4,290	4,380	90	2.1	4,380
9,931	7,941	Payables	14	10,693	8,631	(2,062)	(23.9)	9,169
1,628	1,589	Deferred revenue		1,662	1,667	5	0.3	1,433
69,733	70,585	Borrowings		89,361	89,152	(209)	(0.2)	91,003
27,131	27,726	Insurance liabilities	15	33,539	32,096	(1,443)	(4.5)	31,802
9,940	9,159	Retirement plan liabilities		9,309	9,309	-	-	9,271
5,984	5,420	Provisions	16	6,176	6,281	105	1.7	8,835
128,367	126,459	Total liabilities		155,030	151,516	(3,514)	(2.3)	155,893
94,988	97,274	Total assets less total liabilities		89,337	89,909	(572)	(0.6)	85,519
Net Worth								
31,087	35,138	Taxpayer funds	17	26,288	26,318	(30)	(0.1)	21,720
63,593	61,696	Revaluation reserve	17	62,954	63,384	(430)	(0.7)	63,600
(94)	(7)	Other reserves	17	(307)	(195)	(112)	(57.4)	(203)
94,586	96,827	Total net worth attributable to the Crown		88,935	89,507	(572)	(0.6)	85,117
402	447	Net worth attributable to minority interest in Air New Zealand		402	402	-	-	402
94,988	97,274	Total net worth		89,337	89,909	(572)	(0.6)	85,519

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

<sup>2</sup> Intangible assets include the Kyoto net asset of \$417 million.

The accompanying notes and accounting policies are an integral part of these statements.



# STATEMENT OF BORROWINGS

as at 31 May 2011

As at 30 Jun 2010 Actual \$m	As at 31 May 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
27,926	27,054	Government stock <sup>1</sup>	45,068	45,226	158	0.3	47,016
7,625	8,236	Treasury bills	7,671	6,941	(730)	(10.5)	6,698
309	311	Government retail stock	260	271	11	4.1	270
6,679	7,789	Settlement deposits with Reserve Bank	5,719	6,736	1,017	15.1	6,736
2,376	2,689	Derivatives in loss	2,520	2,002	(518)	(25.9)	1,777
920	928	Finance lease liabilities	946	984	38	3.9	1,231
23,898	23,578	Other borrowings	27,177	26,992	(185)	(0.7)	27,275
<b>69,733</b>	<b>70,585</b>	<b>Total borrowings</b>	<b>89,361</b>	<b>89,152</b>	<b>(209)</b>	<b>(0.2)</b>	<b>91,003</b>
50,017	50,443	Sovereign-guaranteed debt	67,520	66,634	(886)	(1.3)	68,536
19,716	20,142	Non sovereign-guaranteed debt	21,841	22,518	677	3.0	22,467
<b>69,733</b>	<b>70,585</b>	<b>Total borrowings</b>	<b>89,361</b>	<b>89,152</b>	<b>(209)</b>	<b>(0.2)</b>	<b>91,003</b>
<b>Net Debt:</b>							
58,583	58,556	Core Crown borrowings <sup>2</sup>	77,038	75,218	(1,820)	(2.4)	76,945
308	340	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	470	(111)	(581)	-	(167)
<b>58,891</b>	<b>58,896</b>	<b>Gross sovereign-issued debt<sup>3</sup></b>	<b>77,508</b>	<b>75,107</b>	<b>(2,401)</b>	<b>(3.2)</b>	<b>76,778</b>
57,209	59,080	Less core Crown financial assets <sup>4</sup>	66,090	64,903	1,187	1.8	65,089
<b>1,682</b>	<b>(184)</b>	<b>Net core Crown debt (incl NZS Fund)<sup>5</sup></b>	<b>11,418</b>	<b>10,204</b>	<b>(1,214)</b>	<b>(11.9)</b>	<b>11,689</b>
14,189	14,493	Add back NZS Fund holdings of core Crown financial assets and NZS Fund fin assets <sup>6</sup>	16,352	17,757	(1,405)	(7.9)	17,854
<b>15,871</b>	<b>14,309</b>	<b>Net core Crown debt (excl NZS Fund)<sup>5</sup></b>	<b>27,770</b>	<b>27,961</b>	<b>191</b>	<b>0.7</b>	<b>29,543</b>
10,867	11,079	Core crown advances	11,883	11,901	18	0.2	11,959
<b>26,738</b>	<b>25,388</b>	<b>Net core Crown debt (excl NZS Fund and advances)<sup>7</sup></b>	<b>39,653</b>	<b>39,862</b>	<b>209</b>	<b>0.5</b>	<b>41,502</b>
<b>Gross Debt:</b>							
58,891	58,896	Gross sovereign-issued debt <sup>3</sup>	77,508	75,107	(2,401)	(3.2)	76,778
(6,900)	(7,860)	Less Reserve Bank settlement cash and Reserve Bank bills	(5,932)	(6,800)	(869)	(12.8)	(6,800)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash <sup>8</sup>	1,600	1,600	-	-	1,600
<b>53,591</b>	<b>52,636</b>	<b>Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve bank bills</b>	<b>73,176</b>	<b>69,907</b>	<b>(3,270)</b>	<b>(4.7)</b>	<b>71,578</b>

## Notes on gross and net debt:

- Government stock includes \$395 million of infrastructure bonds.
- Core Crown borrowings in this instance includes unsettled purchases of securities (classified as accounts payable in the statement of financial position).
- Gross Sovereign-Issued Debt (GSID) represents debt issued by the sovereign (the core Crown) and includes Government stock held by the New Zealand Superannuation Fund (NZS Fund), ACC and EQC.
- Core Crown financial assets exclude receivables.
- Net Core Crown Debt represents GSID 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.
- Adding back the NZS 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.
- Net Core Crown Debt (excluding NZS Fund and advances) excludes financial assets which are held for public policy rather than treasury management purposes.
- The Reserve Bank has used \$1.6 billion of settlement cash to purchase reserves that were to have been funded by the NZ Debt Management Office 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 31 May 2011

	As at 31 May 2011 \$m	As at 30 Jun 2010 \$m	As at 31 May 2010 \$m
<b>Capital Commitments</b>			
Specialist military equipment	395	422	481
Land and buildings	808	849	615
Other property, plant and equipment	7,026	6,370	6,556
Other capital commitments	217	224	430
Tertiary Education Institutions	302	302	245
<b>Total capital commitments</b>	<b>8,748</b>	<b>8,167</b>	<b>8,327</b>
<b>Operating Commitments</b>			
Non-cancellable accommodation leases	2,854	2,862	2,651
Other non-cancellable leases	3,207	3,230	2,419
Non-cancellable contracts for the supply of goods and services	2,217	2,258	2,198
Other operating commitments	7,341	9,376	9,078
Tertiary Education Institutions	304	304	335
<b>Total operating commitments</b>	<b>15,923</b>	<b>18,030</b>	<b>16,681</b>
<b>Total commitments</b>	<b>24,671</b>	<b>26,197</b>	<b>25,008</b>
<b>Total Commitments by Segment</b>			
Core Crown	10,253	20,983	9,540
Crown entities	10,596	13,811	14,219
State-owned Enterprises	7,915	7,242	5,863
Inter-segment eliminations	(4,093)	(15,839)	(4,614)
<b>Total commitments</b>	<b>24,671</b>	<b>26,197</b>	<b>25,008</b>

## STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 May 2011

	As at 31 May 2011 \$m	As at 30 Jun 2010 \$m	As at 31 May 2010 \$m
<b>Quantifiable Contingent Liabilities</b>			
Guarantees and indemnities	102	106	117
Uncalled capital	4,068	2,310	2,346
Legal proceedings and disputes	386	414	345
Other contingent liabilities	3,126	3,535	3,584
<b>Total quantifiable contingent liabilities</b>	<b>7,682</b>	<b>6,365</b>	<b>6,392</b>
<b>Total Quantifiable Contingent Liabilities by Segment</b>			
Core Crown	7,366	6,050	6,191
Crown entities	261	171	72
State-owned Enterprises	55	144	129
Inter-segment eliminations	-	-	-
<b>Total quantifiable contingent liabilities</b>	<b>7,682</b>	<b>6,365</b>	<b>6,392</b>
<b>Quantifiable Contingent Assets</b>			
Core Crown	701	570	257
Crown entities	3	2	3
<b>Total quantifiable contingent assets</b>	<b>704</b>	<b>572</b>	<b>260</b>

The above table does not include:

- i) the guarantee schemes in relation to financial institution deposits. Refer note 19 for information.
- ii) unquantified costs relating to Canterbury's earthquakes and aftershocks. Refer note 20 for more information.

*The accompanying notes and accounting policies are an integral part of these statements.*

# NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	11 months to 31 May 2010 Actual \$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>Taxation Revenue (accrual)</b>							
<b>Individuals</b>							
21,774	19,945	Source deductions	19,030	19,101	(71)	(0.4)	20,670
3,987	3,756	Other persons	3,442	3,542	(100)	(2.8)	3,822
(1,831)	(1,487)	Refunds	(1,327)	(1,365)	38	2.8	(1,681)
461	435	Fringe benefit tax	432	430	2	0.5	461
<b>24,391</b>	<b>22,649</b>	<b>Total individuals</b>	<b>21,577</b>	<b>21,708</b>	<b>(131)</b>	<b>(0.6)</b>	<b>23,272</b>
<b>Corporate Tax</b>							
6,698	5,689	Gross companies tax	5,983	6,127	(144)	(2.4)	6,907
(379)	(372)	Refunds	(187)	(333)	146	43.8	(363)
884	942	Non-resident withholding tax	446	471	(25)	(5.3)	498
(3)	(3)	Foreign-source dividend w/holding payments	(1)	1	(2)	(200.0)	1
<b>7,200</b>	<b>6,256</b>	<b>Total corporate tax</b>	<b>6,241</b>	<b>6,266</b>	<b>(25)</b>	<b>(0.4)</b>	<b>7,043</b>
<b>Other Income Tax</b>							
1,804	1,646	Resident w/holding tax on interest income	1,554	1,555	(1)	(0.1)	1,707
130	122	Resident w/holding tax on dividend income	177	203	(26)	(12.8)	203
2	2	Estate and gift duties	2	2	-	-	2
<b>1,936</b>	<b>1,770</b>	<b>Total other income tax</b>	<b>1,733</b>	<b>1,760</b>	<b>(27)</b>	<b>(1.5)</b>	<b>1,912</b>
<b>33,527</b>	<b>30,675</b>	<b>Total income tax</b>	<b>29,551</b>	<b>29,734</b>	<b>(183)</b>	<b>(0.6)</b>	<b>32,227</b>
<b>Goods and Services Tax</b>							
19,797	18,102	Gross goods and services tax	21,506	21,254	252	1.2	23,253
(7,880)	(7,267)	Refunds	(8,920)	(9,180)	260	2.8	(10,047)
<b>11,917</b>	<b>10,835</b>	<b>Total goods and services tax</b>	<b>12,586</b>	<b>12,074</b>	<b>512</b>	<b>4.2</b>	<b>13,206</b>
<b>Other Taxation</b>							
910	839	Road user charges	936	917	19	2.1	995
805	751	Petroleum fuels excise - domestic production	792	782	10	1.3	862
600	595	Alcohol excise - domestic production	611	613	(2)	(0.3)	625
217	209	Tobacco excise - domestic production	182	201	(19)	(9.5)	238
622	553	Petroleum fuels excise - imports <sup>1</sup>	534	572	(38)	(6.6)	650
225	208	Alcohol excise - imports <sup>1</sup>	213	216	(3)	(1.4)	234
851	827	Tobacco excise - imports <sup>1</sup>	899	902	(3)	(0.3)	953
175	164	Other customs duty	174	155	19	12.3	154
219	204	Gaming duties	193	200	(7)	(3.5)	218
171	156	Motor vehicle fees	157	156	1	0.6	169
69	57	Approved issuer levy and cheque duty	57	66	(9)	(13.6)	73
39	34	Energy resources levies	31	32	(1)	(3.1)	36
<b>4,903</b>	<b>4,597</b>	<b>Total other indirect taxation</b>	<b>4,779</b>	<b>4,812</b>	<b>(33)</b>	<b>(0.7)</b>	<b>5,207</b>
<b>16,820</b>	<b>15,432</b>	<b>Total indirect taxation</b>	<b>17,365</b>	<b>16,886</b>	<b>479</b>	<b>2.8</b>	<b>18,413</b>
<b>50,347</b>	<b>46,107</b>	<b>Total taxation revenue</b>	<b>46,916</b>	<b>46,620</b>	<b>296</b>	<b>0.6</b>	<b>50,640</b>
<b>Other Sovereign Revenue (accrual)</b>							
3,261	2,931	ACC levies	3,340	3,366	(26)	(0.8)	3,670
301	274	Fire Service levies	283	287	(4)	(1.4)	313
86	79	EQC levies	81	80	1	1.3	87
1,034	948	Other miscellaneous items	1,073	1,031	42	4.1	1,374
<b>4,682</b>	<b>4,232</b>	<b>Total other sovereign revenue</b>	<b>4,777</b>	<b>4,764</b>	<b>13</b>	<b>0.3</b>	<b>5,444</b>
<b>55,029</b>	<b>50,339</b>	<b>Total sovereign revenue</b>	<b>51,693</b>	<b>51,384</b>	<b>309</b>	<b>0.6</b>	<b>56,084</b>

1. Customs excise-equivalent duty

## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	11 months to 31 May 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 1 (continued): Receipts Collected Through the Crown's Sovereign Power</b>							
<b>Income Tax Receipts (cash)</b>							
<b>Individuals</b>							
21,744	19,893	Source deductions	18,957	18,973	(16)	(0.1)	20,575
4,630	4,364	Other persons	4,144	4,111	33	0.8	4,320
(2,793)	(2,543)	Refunds	(2,218)	(2,241)	23	1.0	(2,445)
469	458	Fringe benefit tax	442	454	(12)	(2.6)	456
<b>24,050</b>	<b>22,172</b>	<b>Total individuals</b>	<b>21,325</b>	<b>21,297</b>	<b>28</b>	<b>0.1</b>	<b>22,906</b>
<b>Corporate Tax</b>							
8,650	8,124	Gross companies tax	7,124	7,269	(145)	(2.0)	7,871
(1,644)	(1,521)	Refunds	(703)	(855)	152	17.8	(970)
889	869	Non-resident withholding tax	441	467	(26)	(5.6)	494
6	6	Foreign-source dividend w/holding payments	(2)	-	(2)	-	1
<b>7,901</b>	<b>7,478</b>	<b>Total corporate tax</b>	<b>6,860</b>	<b>6,881</b>	<b>(21)</b>	<b>(0.3)</b>	<b>7,396</b>
<b>Other Income Tax</b>							
1,833	1,672	Resident w/holding tax on interest income	1,567	1,562	5	0.3	1,714
114	128	Resident w/holding tax on dividend income	175	201	(26)	(12.9)	202
2	1	Estate and gift duties	2	2	-	-	2
<b>1,949</b>	<b>1,801</b>	<b>Total other income tax</b>	<b>1,744</b>	<b>1,765</b>	<b>(21)</b>	<b>(1.2)</b>	<b>1,918</b>
<b>33,900</b>	<b>31,451</b>	<b>Total income tax</b>	<b>29,929</b>	<b>29,943</b>	<b>(14)</b>	<b>-</b>	<b>32,220</b>
<b>Goods and Services Tax</b>							
18,797	17,194	Gross goods and services tax	20,170	19,946	224	1.1	22,056
(7,456)	(6,859)	Refunds	(8,371)	(8,558)	187	2.2	(9,393)
<b>11,341</b>	<b>10,335</b>	<b>Total goods and services tax</b>	<b>11,799</b>	<b>11,388</b>	<b>411</b>	<b>3.6</b>	<b>12,663</b>
<b>Other Taxation</b>							
908	838	Road user charges	934	917	17	1.9	995
805	738	Petroleum fuels excise - domestic production	793	790	3	0.4	862
622	579	Alcohol excise - domestic production	578	583	(5)	(0.9)	625
214	213	Tobacco excise - domestic production	168	203	(35)	(17.2)	238
1,805	1,693	Customs duty	1,814	1,815	(1)	(0.1)	1,991
218	203	Gaming duties	194	202	(8)	(4.0)	220
195	159	Motor vehicle fees	130	156	(26)	(16.7)	169
59	56	Approved issuer levy and cheque duty	56	68	(12)	(17.6)	75
37	34	Energy resources levies	31	32	(1)	(3.1)	36
<b>4,863</b>	<b>4,513</b>	<b>Total other indirect taxation</b>	<b>4,698</b>	<b>4,766</b>	<b>(68)</b>	<b>(1.4)</b>	<b>5,211</b>
<b>16,204</b>	<b>14,848</b>	<b>Total indirect taxation</b>	<b>16,497</b>	<b>16,154</b>	<b>343</b>	<b>2.1</b>	<b>17,874</b>
<b>50,104</b>	<b>46,299</b>	<b>Total tax receipts collected</b>	<b>46,426</b>	<b>46,097</b>	<b>329</b>	<b>0.7</b>	<b>50,094</b>
<b>Other Sovereign Receipts (cash)</b>							
3,291	3,015	ACC levies	3,363	3,419	(56)	(1.6)	3,688
301	274	Fire Service levies	283	287	(4)	(1.4)	313
86	79	EQC levies	82	81	1	1.2	90
590	548	Other miscellaneous items	614	627	(13)	(2.1)	677
<b>4,268</b>	<b>3,916</b>	<b>Total other sovereign receipts</b>	<b>4,342</b>	<b>4,414</b>	<b>(72)</b>	<b>(1.6)</b>	<b>4,768</b>
<b>54,372</b>	<b>50,215</b>	<b>Total sovereign receipts</b>	<b>50,768</b>	<b>50,511</b>	<b>257</b>	<b>0.5</b>	<b>54,862</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	11 months to 31 May 2010 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>							
1,926	2,193	Interest revenue	2,234	2,069	165	8.0	2,265
389	347	Dividends	376	365	11	3.0	353
<b>2,315</b>	<b>2,540</b>	<b>Total interest revenue and dividends</b>	<b>2,610</b>	<b>2,434</b>	<b>176</b>	<b>7.2</b>	<b>2,618</b>
<i>By source</i>							
2,135	2,030	Core Crown	1,529	2,056	(527)	(25.6)	2,185
1,146	1,026	Crown entities	1,104	985	119	12.1	1,106
626	955	State-owned Enterprises	712	739	(27)	(3.7)	763
(1,592)	(1,471)	Inter-segment eliminations	(735)	(1,346)	611	45.4	(1,436)
<b>2,315</b>	<b>2,540</b>	<b>Total interest revenue and dividends</b>	<b>2,610</b>	<b>2,434</b>	<b>176</b>	<b>7.2</b>	<b>2,618</b>
<b>NOTE 3: Social Assistance and Official Development Assistance</b>							
8,290	7,583	New Zealand superannuation	8,068	8,070	2	-	8,833
1,693	1,551	Domestic purposes benefit	1,610	1,614	4	0.2	1,765
930	856	Unemployment benefit	873	881	8	0.9	959
1,303	1,194	Invalids benefit	1,196	1,197	1	0.1	1,307
2,168	1,915	Family tax credit	1,890	1,977	87	4.4	2,214
1,154	1,058	Accommodation supplement	1,100	1,103	3	0.3	1,202
710	650	Sickness benefit	680	680	-	-	742
570	507	Student allowances	553	558	5	0.9	626
411	377	Disability allowances	376	377	1	0.3	410
1,024	921	KiwiSaver	957	941	(16)	(1.7)	1,039
2,525	2,289	Other social assistance benefits	2,441	2,492	51	2.0	2,750
<b>20,778</b>	<b>18,901</b>	<b>Total social assistance</b>	<b>19,744</b>	<b>19,890</b>	<b>146</b>	<b>0.7</b>	<b>21,847</b>
435	398	Official development assistance	399	435	36	8.3	493
<b>21,213</b>	<b>19,299</b>	<b>Total social assistance and official development assistance</b>	<b>20,143</b>	<b>20,325</b>	<b>182</b>	<b>0.9</b>	<b>22,340</b>
<b>NOTE 4: Personnel Expenses</b>							
5,991	5,399	Core Crown	5,428	5,450	22	0.4	5,905
10,043	9,449	Crown entities	9,431	9,427	(4)	-	10,309
2,455	2,219	State-owned Enterprises	2,405	2,424	19	0.8	2,654
(12)	(8)	Inter-segment eliminations	(9)	(8)	1	12.5	(9)
<b>18,477</b>	<b>17,059</b>	<b>Total personnel expenses</b>	<b>17,255</b>	<b>17,293</b>	<b>38</b>	<b>0.2</b>	<b>18,859</b>
<b>NOTE 5: Operating Expenses</b>							
<i>By type</i>							
4,229	3,733	Depreciation and amortisation	4,322	4,337	15	0.3	4,786
31,338	28,072	Other operating expenses	30,821	31,606	785	2.5	38,137
-	-	Forecast new operating spending	-	-	-	-	-
-	-	Top-down expense adjustment	-	(125)	(125)	(100.0)	(250)
<b>35,567</b>	<b>31,805</b>	<b>Total operating expenses</b>	<b>35,143</b>	<b>35,818</b>	<b>675</b>	<b>1.9</b>	<b>42,673</b>
<i>By source</i>							
34,226	30,677	Core Crown	33,722	34,284	562	1.6	41,413
18,392	16,122	Crown entities	16,550	16,646	96	0.6	18,064
9,494	8,625	State-owned Enterprises	8,837	8,984	147	1.6	9,826
(26,545)	(23,619)	Inter-segment eliminations	(23,966)	(24,096)	(130)	(0.5)	(26,630)
<b>35,567</b>	<b>31,805</b>	<b>Total operating expenses</b>	<b>35,143</b>	<b>35,818</b>	<b>675</b>	<b>1.9</b>	<b>42,673</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	11 months to 31 May 2010 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>							
2,724	2,798	Interest on financial liabilities	3,227	3,126	(101)	(3.2)	3,427
53	70	Interest unwind on provisions	63	69	6	8.7	79
<b>2,777</b>	<b>2,868</b>	<b>Total interest expenses</b>	<b>3,290</b>	<b>3,195</b>	<b>(95)</b>	<b>(3.0)</b>	<b>3,506</b>
<i>By source</i>							
2,311	2,130	Core Crown	2,794	2,798	4	0.1	3,078
245	150	Crown entities	220	222	2	0.9	247
845	1,145	State-owned Enterprises	934	924	(10)	(1.1)	1,010
(624)	(557)	Inter-segment eliminations	(658)	(749)	(91)	(12.1)	(829)
<b>2,777</b>	<b>2,868</b>	<b>Total interest expenses</b>	<b>3,290</b>	<b>3,195</b>	<b>(95)</b>	<b>(3.0)</b>	<b>3,506</b>
<b>NOTE 7: Insurance Expenses</b>							
<i>By entity</i>							
2,922	2,626	ACC	2,728	2,783	55	2.0	3,103
64	55	EQC (refer note 20)	6,340	6,102	(238)	(3.9)	6,389
20	20	Other insurance expenses	22	16	(6)	(37.5)	27
<b>3,006</b>	<b>2,701</b>	<b>Total insurance expenses</b>	<b>9,090</b>	<b>8,901</b>	<b>(189)</b>	<b>(2.1)</b>	<b>9,519</b>
<b>NOTE 8: Gains and Losses on Financial Instruments</b>							
<i>By source</i>							
2,094	2,304	Core Crown	4,336	4,196	140	3.3	4,455
787	970	Crown entities	1,238	1,251	(13)	(1.0)	1,082
(105)	(128)	State-owned Enterprises	(160)	(154)	(6)	(3.9)	(163)
(254)	(215)	Inter-segment eliminations	(507)	(215)	(292)	(135.8)	(230)
<b>2,522</b>	<b>2,931</b>	<b>Net gains/(losses) on financial instruments</b>	<b>4,907</b>	<b>5,078</b>	<b>(171)</b>	<b>(3.4)</b>	<b>5,144</b>
<b>NOTE 9: Gains and Losses on Non-Financial Instruments</b>							
<i>By type</i>							
(1,231)	(408)	Actuarial gains/(losses) on GSF liability	287	287	-	-	287
410	(35)	Actuarial gains/(losses) on ACC liability	(35)	1,168	(1,203)	(103.0)	1,251
(139)	75	Other	347	349	(2)	(0.6)	356
<b>(960)</b>	<b>(368)</b>	<b>Net gains/(losses) on non-financial instruments</b>	<b>599</b>	<b>1,804</b>	<b>(1,205)</b>	<b>(66.8)</b>	<b>1,894</b>
<i>By source</i>							
(1,351)	(428)	Core Crown	477	464	13	2.8	445
398	(74)	Crown entities	(55)	1,155	(1,210)	(104.8)	1,241
(7)	135	State-owned Enterprises	176	184	(8)	(4.3)	208
-	(1)	Inter-segment eliminations	1	1	-	-	-
<b>(960)</b>	<b>(368)</b>	<b>Net gains/(losses) on non-financial instruments</b>	<b>599</b>	<b>1,804</b>	<b>(1,205)</b>	<b>(66.8)</b>	<b>1,894</b>
<b>NOTE 10: Operating Balance</b>							
<i>By source</i>							
(7,000)	(4,228)	Core Crown	(5,411)	(6,038)	627	10.4	(10,891)
2,373	2,585	Crown entities	424	1,435	(1,011)	(70.5)	1,415
635	800	State-owned Enterprises	781	765	16	2.1	964
(517)	(1,313)	Inter-segment eliminations	(815)	(1,070)	255	23.8	(925)
<b>(4,509)</b>	<b>(2,156)</b>	<b>Total operating balance</b>	<b>(5,021)</b>	<b>(4,908)</b>	<b>(113)</b>	<b>(2.3)</b>	<b>(9,437)</b>

## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2010 \$m	As at 31 May 2010 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 11: Financial Assets							
7,774	7,385	Cash and cash equivalents	10,224	9,546	678	7.1	9,103
6,864	6,339	Tax receivables	6,742	6,742	-	-	6,449
7,020	7,183	Trade and other receivables	13,051	11,254	1,797	16.0	11,065
6,790	7,045	Student loans	7,317	7,357	(40)	(0.5)	7,325
10,419	10,291	Kiwibank mortgages	11,409	11,225	184	1.6	11,255
2,784	2,233	Long-term deposits	3,018	2,265	753	33.2	2,161
2,199	2,226	IMF financial assets	2,181	2,309	(128)	(5.5)	2,307
1,238	986	Other advances	1,379	1,258	121	9.6	1,271
12,179	12,699	Share investments	14,340	13,768	572	4.2	14,206
2,972	2,877	Derivatives in gain	5,682	3,300	2,382	72.2	3,053
35,732	38,112	Other marketable securities	38,833	41,453	(2,620)	(6.3)	41,485
95,971	97,376	Total financial assets	114,176	110,477	3,699	3.3	109,680
Financial assets by entity							
23,097	23,643	NZDMO	30,093	27,707	2,386	8.6	28,326
19,125	19,678	Reserve Bank of New Zealand	18,288	17,764	524	2.9	17,781
15,552	15,629	NZ Superannuation Fund	18,998	18,476	522	2.8	18,629
16,643	17,815	Other core Crown	18,614	19,387	(773)	(4.0)	17,501
(8,437)	(9,572)	Intra-segment eliminations	(9,318)	(8,892)	(426)	(4.8)	(8,196)
65,980	67,193	Total core Crown segment	76,675	74,442	2,233	3.0	74,041
16,985	16,933	ACC portfolio	21,973	20,837	1,136	5.5	20,842
6,003	6,068	EQC portfolio	8,620	8,469	151	1.8	8,190
6,631	6,564	Other Crown entities	6,819	6,483	336	5	6,388
(1,483)	(1,437)	Intra-segment eliminations	(1,550)	(1,534)	(16)	(1.0)	(1,523)
28,136	28,128	Total Crown entities segment	35,862	34,255	1,607	4.7	33,897
16,064	16,144	Total State-owned enterprises segment	17,908	17,632	276	1.6	17,613
(14,209)	(14,089)	Inter-segment eliminations	(16,269)	(15,852)	(417)	(2.6)	(15,871)
95,971	97,376	Total financial assets	114,176	110,477	3,699	3.3	109,680

## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2010 \$m	As at 31 May 2010 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 12: Property, Plant and Equipment</b>							
<b>Net Carrying Value</b>							
<b>By class of asset:</b>							
16,688	16,524	Land (valuation)	16,617	16,655	(38)	(0.2)	16,803
24,019	24,257	Buildings (valuation)	24,260	24,501	(241)	(1.0)	24,822
2,251	2,260	Electricity distribution network (cost)	2,576	2,834	(258)	(9.1)	2,812
13,642	11,707	Electricity generation assets (valuation)	13,750	13,872	(122)	(0.9)	13,953
1,731	2,250	Aircraft (excl military) (valuation)	2,270	2,085	185	8.9	2,083
24,838	24,869	State highways (valuation)	25,770	25,737	33	0.1	25,838
12,437	12,733	Rail network (valuation)	12,751	12,718	33	0.3	12,554
3,413	3,828	Specialist military equipment (valuation)	3,376	3,374	2	0.1	3,382
8,505	8,601	Specified cultural and heritage assets (valuation)	8,357	8,517	(160)	(1.9)	8,522
5,806	5,468	Other plant and equipment (cost)	5,617	5,862	(245)	(4.2)	6,164
<b>113,330</b>	<b>112,497</b>	<b>Total net carrying value</b>	<b>115,344</b>	<b>116,155</b>	<b>(811)</b>	<b>(0.7)</b>	<b>116,933</b>
<b>By source:</b>							
29,986		Core Crown	29,957	30,174	(217)	(0.7)	30,334
48,109		Crown entities	49,094	49,289	(195)	(0.4)	49,722
35,235		State-owned enterprises	36,293	36,692	(399)	(1.1)	36,877
-		Inter-segment eliminations	-	-	-	-	-
<b>113,330</b>		<b>Total net carrying value</b>	<b>115,344</b>	<b>116,155</b>	<b>(811)</b>	<b>(0.7)</b>	<b>116,933</b>
<b>Movement note</b>							
<b>Cost or valuation</b>							
119,547		Opening balance	123,941	123,941	-	-	123,941
6,555		Additions (refer below)	6,299	6,761	(462)	(6.8)	7,964
(977)		Disposals	(591)	(296)	(295)	(99.7)	(308)
(1,143)		Net revaluations	(347)	(135)	(212)	(157.0)	(226)
(41)		Other	(285)	(136)	(149)	(109.6)	(89)
<b>123,941</b>		<b>Total cost or valuation</b>	<b>129,017</b>	<b>130,135</b>	<b>(1,118)</b>	<b>(0.9)</b>	<b>131,282</b>
<b>Accumulated depreciation and impairment</b>							
9,412		Opening balance	10,611	10,611	-	-	10,611
(587)		Eliminated on disposal	(308)	(104)	(204)	(196.2)	(108)
(1,349)		Eliminated on revaluation	(31)	-	(31)	-	(168)
3,582		Depreciation expense	3,349	3,365	(16)	(0.5)	3,767
(447)		Other	52	108	(56)	(51.9)	247
<b>10,611</b>		<b>Total accumulated depreciation and impairment</b>	<b>13,673</b>	<b>13,980</b>	<b>(307)</b>	<b>(2.2)</b>	<b>14,349</b>
<b>113,330</b>		<b>Total property, plant and equipment</b>	<b>115,344</b>	<b>116,155</b>	<b>(811)</b>	<b>(0.7)</b>	<b>116,933</b>
<b>Additions - by functional classification</b>							
2,383		Transport and communications	2,646	2,617	29	1.1	2,947
1,425		Economic and industrial services	1,030	1,348	(318)	(23.6)	1,507
725		Education	817	863	(46)	(5.3)	943
430		Health	558	541	17	3.1	716
526		Defence	229	353	(124)	(35.1)	597
1,066		Other	1,019	1,039	(20)	(1.9)	1,254
<b>6,555</b>		<b>Total additions</b>	<b>6,299</b>	<b>6,761</b>	<b>(462)</b>	<b>(6.8)</b>	<b>7,964</b>



## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 \$m	11 months to 31 May 2010 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 13: NZ Superannuation Fund							
433	375	Revenue	452	450	2	0.4	495
(27)	(46)	Less current tax expense	826	779	(47)	(6.0)	795
502	487	Less other expenses <sup>1</sup>	208	218	10	4.6	267
1,750	2,023	Add gains/(losses)	3,786	3,493	293	8.4	3,576
1,708	1,957	Operating balance	3,204	2,946	258	8.8	3,009
13,688	13,688	Opening net worth	15,656	15,656	-	-	15,656
250	250	Gross contribution from the Crown	-	-	-	-	-
1,708	1,957	Operating balance	3,204	2,946	258	8.8	3,009
10	11	Other movements in reserves	-	3	(3)	(100.0)	3
15,656	15,906	Closing net worth	18,860	18,605	255	1.4	18,668
comprising:							
15,552	15,629	Financial assets	18,998	18,476	522	2.8	18,629
(945)	(673)	Financial liabilities	(1,159)	(941)	(218)	(23.2)	(1,035)
1,049	950	Net other assets	1,021	1,070	(49)	(4.6)	1,074
15,656	15,906	Closing net worth	18,860	18,605	255	1.4	18,668
Core Crown revenue (excl NZS Fund)							
56,216	51,687	Core Crown revenue	51,868	52,163	(295)	(0.6)	56,950
433	375	Less NZS Fund revenue	452	450	2	0.4	495
(27)	(46)	Add back NZS Fund intra-segment revenue	826	779	47	6.0	795
55,756	51,266	Core Crown revenue (excl NZS Fund)	52,242	52,492	(250)	(0.5)	57,250
OBEGAL excluding NZS Fund							
(6,315)	(4,742)	Total Crown OBEGAL	(10,752)	(12,022)	1,270	10.6	(16,728)
433	375	Less NZS Fund revenue	452	450	2	0.4	495
81	63	Less NZS Fund external expenses	106	83	23	27.7	93
(27)	(46)	Add back NZS Fund tax	826	779	47	6.0	795
(6,694)	(5,100)	OBEGAL excluding NZS Fund	(10,272)	(11,610)	1,338	11.5	(16,335)

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

## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2010 \$m	As at 31 May 2010 \$m		Current Year Actual vs Forecast				Annual Forecast
			Actual \$m	Forecast \$m	Variance \$m	%	\$m
NOTE 14: Payables							
6,703	4,936	Accounts payable	7,407	5,403	(2,004)	(37.1)	5,941
3,228	3,005	Taxes repayable	3,286	3,228	(58)	(1.8)	3,228
9,931	7,941	Total payables	10,693	8,631	(2,062)	(23.9)	9,169
NOTE 15: Insurance liabilities							
26,997	27,606	ACC liability	28,146	26,954	(1,192)	(4.4)	26,761
88	81	EQC liability (refer note 20)	5,342	5,093	(249)	(4.9)	4,985
46	39	Other insurance liabilities	51	49	(2)	(4.1)	56
27,131	27,726	Total insurance liabilities	33,539	32,096	(1,443)	(4.5)	31,802
NOTE 16: Provisions							
74	76	Provision for ETS Credits	644	824	180	21.9	928
		Provision for the net cost of defaults under the					
748	887	deposit guarantee scheme (refer note 19)	-	-	-	-	-
1,007	932	Provision for National Provident Fund guarantee	991	987	(4)	(0.4)	965
2,836	2,532	Provision for employee entitlements	2,887	2,820	(67)	(2.4)	2,896
1,319	993	Other provisions	1,654	1,650	(4)	(0.3)	4,046
5,984	5,420	Total provisions	6,176	6,281	105	1.7	8,835
NOTE 17: Changes in Net Worth							
36,382	36,382	Opening taxpayers funds	31,087	31,087	-	-	31,087
(4,509)	(2,156)	Operating balance excluding minority interest	(5,021)	(4,908)	(113)	(2.3)	(9,437)
(786)	912	Transfers from/(to) other reserves	222	139	83	59.7	70
31,087	35,138	Closing taxpayers funds	26,288	26,318	(30)	(0.1)	21,720
62,612	62,612	Opening revaluation reserve	63,593	63,593	-	-	63,593
196	(3)	Net revaluations	(416)	(74)	(342)	(462.2)	69
785	(913)	Transfers from/(to) other reserves	(223)	(135)	(88)	(65.2)	(62)
63,593	61,696	Closing revaluation reserve	62,954	63,384	(430)	(0.7)	63,600
74	74	Opening other reserves	(94)	(94)	-	-	(94)
(168)	(81)	Net movements	(213)	(101)	(112)	(110.9)	(109)
(94)	(7)	Closing other reserves	(307)	(195)	(112)	(57.4)	(203)

## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 \$m	11 months to 31 May 2010 \$m	Current Year Actual vs Forecast					
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
NOTE 18: Reconciliation of core Crown operating cash flows to residual core Crown cash							
Core Crown Cash Flows from Operations							
50,631	46,771	Total tax receipts	47,407	47,030	377	0.8	51,076
566	501	Total other sovereign receipts	582	599	(17)	(2.8)	645
1,897	1,809	Interest, profits and dividends	1,178	1,723	(545)	(31.6)	1,810
2,658	2,553	Sale of goods & services and other receipts	1,997	1,873	124	6.6	2,141
(21,605)	(19,726)	Subsidies and transfer payments	(20,343)	(20,503)	160	0.8	(22,480)
(37,157)	(34,192)	Personnel and operating costs	(37,703)	(37,915)	212	0.6	(41,435)
(1,981)	(1,814)	Finance costs	(2,318)	(2,331)	13	0.6	(2,558)
-	-	Forecast for future new operating spending	-	-	-	-	-
-	-	Top-down expense adjustment	-	125	(125)	(100.0)	250
(4,991)	(4,098)	Net cash flows from core Crown operations	(9,200)	(9,399)	199	2.1	(10,551)
(1,778)	(1,560)	Net purchase of physical assets	(1,341)	(1,523)	182	12.0	(1,886)
(926)	(870)	Net increase in advances	(1,134)	(1,222)	88	7.2	(1,334)
(1,055)	(956)	Net purchase of investments	(1,198)	(1,174)	(24)	(2.0)	(1,280)
(250)	(250)	Contribution to NZ Superannuation Fund	-	-	-	-	-
-	-	Forecast for future new capital spending	-	-	-	-	-
-	-	Top-down capital adjustment	-	80	(80)	(100.0)	100
(9,000)	(7,734)	Residual cash	(12,873)	(13,238)	365	2.8	(14,951)
Financed by:							
2,002	61	Other net sale/(purchase) of marketable securities and deposits	(4,223)	(6,113)	1,890	30.9	(5,883)
(6,998)	(7,673)	Total operating and investing activities	(17,096)	(19,351)	2,255	11.7	(20,834)
Used in:							
(3,938)	(3,527)	Net (repayment)/issue of other New Zealand dollar borrowing	(2,526)	558	(3,084)	-	1,679
3,368	3,646	Net (repayment)/issue of foreign currency borrowing	3,467	(626)	4,093	-	(1,734)
15	34	Issues of circulating currency	270	359	(89)	(24.8)	359
(817)	134	Decrease/(increase) in cash	(2,151)	739	(2,890)	(391.1)	551
(1,372)	287		(940)	1,030	(1,970)	(191.3)	855
(8,370)	(7,386)	Net cash inflow/(outflow) to be offset by domestic bonds	(18,036)	(18,321)	285	1.6	(19,979)
Gross Cash Proceeds from Domestic Bonds							
12,424	11,464	Domestic bonds (market)	18,427	18,934	(507)	(2.7)	20,760
799	775	Domestic bonds (non-market)	270	219	51	23.3	372
13,223	12,239	Total gross cash proceeds from domestic bonds	18,697	19,153	(456)	(2.4)	21,132
(4,197)	(4,197)	Repayment of domestic bonds (market)	-	-	-	-	-
(656)	(656)	Repayment of domestic bonds (non-market)	(661)	(832)	171	20.6	(1,153)
(4,853)	(4,853)	Total repayment of domestic bonds	(661)	(832)	171	20.6	(1,153)
8,370	7,386	Net (repayments of)/cash proceeds from domestic bonds	18,036	18,321	(285)	(1.6)	19,979

### NOTE 19: Deposit Guarantee Schemes

#### Retail Deposit Guarantee Scheme

The Government operates an opt-in Retail Deposit Guarantee Scheme for financial institution deposits. The objective of this scheme is to ensure ongoing retail depositor confidence in New Zealand's financial system given the international financial market turbulence. On 12 October 2010 the original retail deposit guarantee scheme expired. The Extended Retail Deposit Guarantee Scheme commenced on 12 October 2010, immediately upon expiry of the previous scheme and will expire on 31 December 2011. The extended scheme has tightened eligibility criteria and additional limitations on coverage of the scheme. The Crown guarantee is limited to those entities participating in the extended scheme, furthermore, the Crown guarantee excludes products issued by participating entities explicitly without the benefit of the guarantee.

#### *The Extended Guarantee Scheme*

As at 31 May 2011 four financial institutions were participating in the extended scheme. The four entities remaining in the scheme had deposits totalling \$1.6 billion covered by the guarantee and are listed on the Treasury website. This is the maximum exposure and does not include any offset resulting from the recovery of the remaining assets of financial institutions in the event the guarantee is called upon. The Crown continually updates the likelihood of further default actions triggering the guarantee and assesses the expected loss given default. The Crown assesses the risk of default by the remaining four entities participating in the extended scheme to be unlikely and therefore as at 31 May 2011 no provision is considered necessary in relation to the amount guaranteed by the Crown under the extended guarantee. While the provision represents a best estimate of the expected outcome, a range of outcomes is possible under the scheme in terms of which entities may default and the eventual loss to the Crown following an event of default.

#### *Entities guaranteed under the scheme now in receivership*

As at 31 May 2011, nine entities guaranteed under the deposit guarantee scheme had been placed into receivership, eight of these entities were guaranteed under the original deposit guarantee scheme and one under the extended guarantee scheme. The Crown recognises its obligations under the scheme as liabilities and its rights of recovery from the receivers as assets. While the reported assets represent the receivers' best prudent estimates of likely recoveries from the receiverships the eventual return to the Crown is dependent upon the value that can be realised from these entities' assets. A range of outcomes for eventual recoveries is possible. Except as provided on the Treasury website, further information on the Retail Deposit Guarantee Scheme cannot be provided due to commercial sensitivity.

#### Wholesale Funding Guarantee Facility

The Government operated an opt-in wholesale funding guarantee facility from November 2008 to April 2010. The objective of the opt-in wholesale funding guarantee facility was to facilitate access to international financial markets by New Zealand financial institutions, in a global environment where international investors were highly risk averse and where many other governments had offered guarantees on their banks' wholesale debt. As at 31 May 2011, the value of wholesale securities guaranteed was \$9.0 billion. No provision is made for losses under this scheme as the probability of loss is considered remote.

At the time of closing the scheme on 30 April 2010, the Crown had issued 24 guarantee certificates; the benefit of those guarantees will remain in place for the underlying securities until the scheduled maturity of those securities. The terms of these securities range from 2 to 5 years. Over time, the value of securities issued with the benefit of Crown guarantees will reduce, with the last guarantee certificate expiring in October 2014.

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 20: Canterbury Earthquakes

The Canterbury region experienced two major earthquakes during the reporting period, on 4 September 2010 and 22 February 2011 (of magnitudes 7.1 and 6.3 respectively).

#### Earthquake Commission (EQC) Costs

These financial statements include a net provision of \$3.0 billion for the likely costs to be incurred by EQC in settling claims for damage to residential property arising from the two earthquakes. As at 31 May, EQC had made cash payments of approximately \$1.0 billion against this obligation. At this stage, no discount has been made for the time value of EQC's claim payments as the pattern of settlement payments is not known.

However, EQC's net costs are expected to increase due to damage caused by delayed aftershocks. Aftershocks that occur more than 30 days after each event are not covered as part of the original event for reinsurance purposes. As at 31 May 2011 the additional cost for damage arising from delayed aftershocks was estimated to be less than \$0.1 billion.

While the gross cost of settling and administering claims is expected to exceed the \$3.0 billion provision, EQC has reinsurance cover for any eligible costs above \$1.5 billion (up to a maximum of \$4.0 billion) for each event.

While there is a risk that the costs of either earthquake could exceed the level of reinsurance cover (meaning EQC's net costs could increase above \$3.0 billion), this risk is currently considered unlikely based on EQC's most recent cost estimates.

#### AMI Support Package

On 7 April 2011 the Government agreed to provide a back-up financial support package for AMI Insurance (AMI) to give policyholders certainty and to ensure an orderly rebuild of Christchurch after the earthquakes. As a result the Government entered into a five-year arrangement to subscribe for \$500 million in convertible called, but unpaid preference shares in AMI.

On the 5th anniversary of the agreement date (7 April 2016) the Government is committed to make a payment of \$500 million to AMI, if the amount is not paid earlier or if AMI has not terminated the agreement by that date.

Payment of up to \$500 million may happen before the 5th anniversary, but only if AMI's own reserves and reinsurance are depleted below the level that is prudent for an insurance business, or if the Crown decides it is in the public interest to make a payment earlier. By making a partial payment of \$100 million the Government would take ownership of AMI and could replace the Board.

The full extent of the cost AMI faces for the Canterbury earthquakes will remain unclear for several months until AMI has completed a detailed assessment of claims. Even then, the actual cost will remain uncertain as it will depend on factors such as the basis on which claims are settled, potential building cost inflation and the time to rebuild.

Therefore, it is also uncertain if AMI will require the Government injection over the next 5 years, and if it is required, when it would be needed and how much it would require.

A payable of \$427 million to AMI (the present value of \$500 million due to be paid on the 5<sup>th</sup> anniversary) and an expense for the same amount have been recognised in these financial statements. The expense is a cautious treatment reflecting the fact that if funds were injected in 2014/15, the Government's investment would not be recouped on eventual exit.

## NOTES TO THE FINANCIAL STATEMENTS

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For financial reporting purposes AMI will be consolidated because the Government:

- has the capacity to direct the operating and governing policies of AMI (through its option to make a partial payment and take control of the board); and
- is directly impacted by the risks or benefits from AMI's operations.

The Treasury will be working towards first consolidating AMI in the annual financial statements of the Government for the year ending 30 June 2011. Consolidation accounting requires that the fair value of AMI, the company, as at 7 April is calculated as well as the fair value of the assets and liabilities on AMI's balance sheet as at that date. This will require valuing a "best estimate" of AMI insurance claims, as well as valuing any intangible assets relating to any ongoing premium business in AMI, once the Government's support package of the Canterbury insurance claims is taken into account.

### Other Earthquake Costs

In addition to the costs outlined above, the Government is committed to reimburse a proportion of eligible restoration costs relating to essential local government infrastructure. This includes water, stormwater, sewerage and river management systems where there is major community disruption or continuing risk to life. It is also likely to make a contribution towards the repair of local roads via the National Land Transport Fund's emergency repairs allocation. Work is ongoing to establish a reliable estimate of these costs.

The Government has also announced or incurred other expenses in relation to such items as wage subsidies, temporary accommodation, community and trauma support, and other support assistance.

There has also been some damage to central government assets such as hospitals, schools, state housing and state highways. These costs are largely covered by insurance.

As at 31 May, the Government had recorded (and paid) expenses of approximately \$0.4 billion, in addition to EQC's costs. This mainly represented wage subsidies, job loss cover support and emergency response costs.

The above costs do not include the impact on tax or other revenues as a result of the earthquake, nor do they include costs that the Government has not yet committed to, whether or not they are under active consideration, but which may yet arise in association with the earthquake.

### Subsequent Events

#### *Earthquakes*

On 13 June 2011 the Canterbury region experienced two further significant earthquakes, of magnitudes 5.6 and 6.3. As a result the Crown is expected to incur further direct costs and these are expected to be similar in nature to those that arose from the earlier earthquakes (on 4 September 2010 and 22 February 2011).

While the additional amounts cannot yet be quantified, much of the impact of the latest earthquakes is thought to have affected property that was already damaged by earlier events.

Although the financial affects on the Crown of the June earthquakes cannot be reliably measured at this stage they are expected to weaken the Crown's fiscal position.

#### *Land Purchases*

On 23 June 2011 the Government announced zones of land damage in Christchurch and parts of the Waimakariri district. This land has been mapped into four zones:

- Red (land repair would be prolonged and uneconomic at present);
- Orange (further assessment required);

## NOTES TO THE FINANCIAL STATEMENTS

- Green (repair / rebuild process can begin); and
- White (not yet mapped or not residential).

Land in the red zones is unlikely to be suitable for continued residential occupation for a prolonged period of time. For this reason, the Government has also announced that it is prepared to purchase insured residential land in the red zones on a voluntary basis. There are two options for purchase:

- The Crown will offer to purchase the entire property at current rating value (less any insurance payments already made on the land and/or dwelling), and will assume all open insurance claims relating to the property other than contents; or
- The Crown will offer to purchase the land only at current rating value (less any insurance payments already made on the land), allowing the previous property owner to pursue any open insurance claims relating to the dwelling.

The Government hopes to make a formal offer to residents in the red zone within the next eight weeks and residents will then have nine months to consider the offer of purchase.

Very preliminary estimates indicate that the net costs to the Government to purchase all of the around 5000 properties currently in the residential red zone (after insurance recoveries are deducted) to be between \$485 million and \$635 million.

The final costs are still to be determined. Factors that may alter the final costs include the take-up of the offer, government property valuations and proceeds from insurers.

A provision and expense for the gross amount payable to property owners who accept the Government's offer will be included in the 30 June 2011 financial statements, along with a receivable and revenue for the gross amount expected for insurance recoveries, as long as sufficiently reliable estimates can be made.

### Earthquake Impact - EQC Only

for the eleven months ended 31 May 2011

	Current Year Actual vs Forecast		
	Actual	Forecast	Variance
	\$m	\$m	\$m
<b>Statement of Financial Performance</b>			
<b>Other revenue</b>			
Insurance claim on reinsurers	3,200	3,200	-
<b>Insurance expenses</b>			
Insurance and underwriting expense <sup>1</sup>	6,340	6,102	(238)
<b>Net impact on the Statement of Financial Performance</b>	<b>(3,140)</b>	<b>(2,902)</b>	<b>(238)</b>
<b>Statement of Financial Position</b>			
<b>Receivables</b>			
Insurance claim on reinsurers <sup>2</sup>	3,200	3,200	-
<b>Insurance liabilities</b>			
Insurance Liability - current	5,342	5,093	(249)

<sup>1</sup> EQC's costs are classified as economic and industrial services in the analysis of total Crown expenses by functional classification on page 16.

<sup>2</sup> EQC's receivable is included within the trade and other receivables category in Note 11.