

4 July 2008

**MEDIA STATEMENT**

Embargoed until 10:00am, Friday 4 July 2008

Dr Peter Bushnell  
Deputy Secretary to the Treasury

**FINANCIAL STATEMENTS OF THE GOVERNMENT FOR THE ELEVEN MONTHS  
ENDED 31 MAY 2008**

The Financial Statements of the Government of New Zealand for the eleven months ended 31 May 2008 were released by the Treasury today.

The monthly financial statements are compared against monthly forecast tracks based on the 2008 Budget Economic and Fiscal Update.

**Results for the eleven months ended 31 May 2008**

- The total Crown operating balance, including gains and losses, was \$2.6 billion higher than forecast. The three main contributors to this higher than expected outturn were:
  - \$0.8 billion related to higher than expected gains on the investment portfolios of Crown financial institutions in April and May. However, early indications are that the performance of these portfolios has ebbed again during June;
  - \$0.7 billion related to a change in the discount rate used for valuing ACC's outstanding claims liability; and
  - \$0.8 billion related to tax revenue.
- The three main contributors to the higher than expected tax revenue were:
  - Corporate tax revenue was \$0.7 billion higher than forecast. This mainly relates to income tax assessments lodged by a particular group of companies, for the 2007 and 2008 tax years, which were higher than expected;
  - Source deductions revenue was \$0.3 billion higher than forecast. This was partly due to recent wage growth which was higher than expected; and

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- These were partially offset by GST revenue which was \$0.3 billion lower than forecast. This was mainly due to a forecast assumption that revenue would exceed receipts. This trend was evident in returns up to March, but has subsequently unwound.
- Tax receipts were on forecast and we expect these to remain close to forecast as at 30 June. Tax revenue is expected to be around \$0.5 billion higher than forecast at 30 June.
- OBEGAL was \$1.6 billion higher than forecast. The variance was mainly due to:
  - actuarial losses of \$0.8 billion, which were incorrectly classified in ACC's forecast as insurance expenses rather than gains and losses. This was indicated in the financial statements last month. This reclassification has no impact on the operating balance; and
  - the tax revenue variances of \$0.8 billion noted above.
- Core Crown residual cash and gross debt were broadly in line with forecast.

	Year to date				Full Year
	May	May	Variance	Variance	BEFU
	2008	2008			June 2008
	Actual <sup>2</sup>	Forecast <sup>2</sup>	\$m	%	Forecast <sup>3</sup>
<b>\$ million</b>					
<b>Core Crown</b>					
Core Crown revenue (excl. NZS Fund) <sup>1</sup>	57,002	56,283	719	1.3	61,814
Core Crown expenses	51,153	51,406	253	0.5	57,364
NZS Fund operating balance	(428)	(690)	262	(38.0)	(615)
Core Crown residual cash	1,864	2,030	(166)	(8.2)	908
GSID (excl. settlement cash)	31,622	31,727	105	0.3	31,763
as a percentage of GDP	17.8%	17.9%			17.6%
Net Core Crown debt	400	553	153	27.7	1,846
as a percentage of GDP	0.2%	0.3%			1.0%
Net Core Crown debt (incl. NZS Fund)	(12,980)	(12,308)	672	(5.5)	(11,254)
as a percentage of GDP	(7.3)%	(6.9)%			(6.2)%
<b>Total Crown</b>					
OBEGAL	7,269	5,633	1,636	29.0	5,227
Net gains/(losses) and other items	(1,906)	(2,837)	931		(2,668)
Operating Balance	5,363	2,796	2,567	91.8	2,559

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 Using GDP for the year ended 31 March 2008 of \$177,613 million (Source: Statistics New Zealand).

3 Using forecast GDP for the year ended 30 June 2008 of \$180,137 million (Source: Treasury)

ENDS

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# Financial Statements of the Government of New Zealand

For the Eleven Months Ended  
31 May 2008



Prepared by The Treasury  
4 July 2008

This document is available on the New Zealand Treasury's internet site.  
The URL for this site is <http://www.treasury.govt.nz>

New Zealand Government

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All actual, forecast and comparative figures presented in the following statements have been produced under NZ IFRS and are unaudited. The comparative June 2006/07 figures will be audited and published with the audited actual June 2007/08 figures. All forecast figures are based on the 2007/08 annual forecast released in the 2008 Budget Economic and Fiscal Update.

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# COMMENTARY

## SUMMARY

### Results for the eleven months ended 31 May 2008

- The total Crown operating balance, including gains and losses, was \$2.6 billion higher than forecast. The three main contributors to this higher than expected outturn were:
  - \$0.8 billion related to higher than expected gains on the investment portfolios of Crown financial institutions in April and May. However, early indications are that the performance of these portfolios has ebbed again during June;
  - \$0.7 billion related to a change in the discount rate used for valuing ACC's outstanding claims liability; and
  - \$0.8 billion related to tax revenue.
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  - Corporate tax revenue was \$0.7 billion higher than forecast. This mainly relates to income tax assessments lodged by a particular group of companies, for the 2007 and 2008 tax years, which were higher than expected;
  - Source deductions revenue was \$0.3 billion higher than forecast. This was partly due to recent wage growth which was higher than expected; and
  - These were partially offset by GST revenue which was \$0.3 billion lower than forecast. This was mainly due to a forecast assumption that revenue would exceed receipts. This trend was evident in returns up to March, but has subsequently unwound.
- Tax receipts were on forecast and we expect these to remain close to forecast as at 30 June. Tax revenue is expected to be around \$0.5 billion higher than forecast at 30 June.
- OBEGAL was \$1.6 billion higher than forecast. The variance was mainly due to:
  - Actuarial losses of \$0.8 billion, which were incorrectly classified in ACC's forecast as insurance expenses rather than gains and losses. This was indicated in the financial statements last month. This reclassification has no impact on the operating balance; and
  - The tax revenue variances of \$0.8 billion noted above.
- Core Crown residual cash and gross debt were broadly in line with forecast.



**Table 1** – Key indicators for the eleven months to 31 May 2008

	Year to date				Full Year
	May	May	Variance	Variance	BEFU
	2008	2008			June 2008
	Actual <sup>2</sup>	Forecast <sup>2</sup>	\$m	%	Forecast <sup>3</sup>
<b>\$ million</b>					
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<i>as a percentage of GDP</i>	17.8%	17.9%			17.6%
Net Core Crown debt	400	553	153	27.7	1,846
<i>as a percentage of GDP</i>	0.2%	0.3%			1.0%
Net Core Crown debt (incl. NZS Fund)	(12,980)	(12,308)	672	(5.5)	(11,254)
<i>as a percentage of GDP</i>	(7.3)%	(6.9)%			(6.2)%
<b>Total Crown</b>					
OBEGAL	7,269	5,633	1,636	29.0	5,227
Net gains/(losses) and other items	(1,906)	(2,837)	931		(2,668)
Operating Balance	5,363	2,796	2,567	91.8	2,559

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 Using GDP for the year ended 31 March 2008 of \$177,613 million (Source: Statistics New Zealand).

3 Using forecast GDP for the year ended 30 June 2008 of \$180,137 million (Source: Treasury)

*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 eleven months to 31 May 2008

Item/indicator	Variance	Key drivers
<b>Core Crown</b>		
Core Crown revenue (excl. NZS Fund revenue)	\$0.7 billion (higher than forecast)	<ul style="list-style-type: none"> <li>• Core Crown tax revenue was \$0.6 billion (1.2%) higher than forecast. This was comprised of: <ul style="list-style-type: none"> <li>○ Corporate tax revenue was \$0.7 billion (7.6%) higher than forecast. The variance was due to income tax assessments for the 2007 and 2008 tax years, lodged by a particular group of companies, being higher than expected. The companies concerned participate in tax pooling which means there is a considerable delay in recognising the tax revenue generated, which is only known when returns are finally filed. It appears that 2008 revenue is more reflective of profits in 2007 than currently expected profits based on current economic conditions, creating a risk of future downward revisions to revenue. The revenue variance is not expected to affect tax receipts as the tax payments in respect of the 2007 tax assessments have already largely been paid and incorporated into the tax receipts forecast.</li> <li>○ GST revenue was \$0.3 billion (3.2%) lower than forecast. The variance was due to a forecasting assumption that revenue would exceed receipts – a trend evident in outturns at the time the current forecast was compiled. However, this trend has now unwound.</li> <li>○ Source deductions were \$0.3 billion (1.2%) higher than forecast. The variance was partly due to recent wage growth being higher than expected, and is also partly related to timing which is expected to reverse in June.</li> </ul> </li> <li>• Tax revenue from the NZS Fund was \$0.1 billion higher than forecast due to the Fund's higher than expected returns on investments during May.</li> <li>• Interest revenue and dividends was \$0.1 billion lower than forecast primarily due to lower than forecast interest rates and investment levels.</li> </ul>
Core Crown expenses	\$0.3 billion (lower than forecast)	<ul style="list-style-type: none"> <li>• Interest expense was \$0.2 billion lower than forecast. This was due to fluctuations in settlement cash balances and interest expenses classified as losses for forecasting purposes.</li> <li>• Core Crown other operating expenses were \$0.1 billion lower than forecast. This was mainly due to: <ul style="list-style-type: none"> <li>○ impairment of sovereign receivables was \$0.1 billion lower than forecast. This is expected to be a timing difference. An impairment estimate was included in the May forecast, but the actual expense will not be finalised until June, and</li> <li>○ a number of departments had small, lower than forecast expenditure variances.</li> </ul> </li> </ul>
NZS Fund operating balance	\$0.3 billion (higher than forecast)	<ul style="list-style-type: none"> <li>• The NZS Fund's operating balance was a deficit of \$0.4 billion compared to a forecast deficit of \$0.7 billion. The Fund returned 1.65% for the month of May 2008. This brings the Fund's annualised return since inception (September 2003) to 11.49%, compared to 6.71% for the risk-free of return (Treasury bills). In aggregate over May, returns in equities, fixed interest and commodities contributed positively to Fund performance. In aggregate over May, returns in equities, fixed interest and commodities contributed positively to Fund performance, whereas property returns contributed negatively but were in line with returns in world markets.</li> </ul>
Item/indicator	Variance	Key drivers

Core Crown residual cash	- \$0.2 billion (lower than forecast)	<ul style="list-style-type: none"> <li>Core Crown tax receipts were on forecast.</li> <li>Subsidies and transfer payments were \$0.2 billion higher than forecast. This was mainly due to: <ul style="list-style-type: none"> <li>KiwiSaver payments were \$0.1 billion higher than forecast due to differences between forecast membership and actual membership numbers, and</li> <li>Social Assistance benefit payments were \$0.1 billion higher than forecast.</li> </ul> </li> <li>Purchases of physical assets and advances were \$0.1 billion lower than forecast, spread across a number of Departments.</li> </ul>
GSID (excluding settlement cash)	\$0.1 billion (lower than forecast)	<ul style="list-style-type: none"> <li>GSID (excluding settlement cash) is in line with forecast.</li> </ul>
Net core Crown debt	\$0.2 billion (lower 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)	\$0.7 billion (lower than forecast)	<ul style="list-style-type: none"> <li>NZS Fund financial assets were \$0.5 billion higher than forecast due to the positive Fund performance in April and May. The remainder is due to \$0.2 billion lower than forecast net core Crown debt (as noted above).</li> </ul>

Total Crown		
OBEGAL	\$1.6 billion (higher than forecast)	<ul style="list-style-type: none"> <li>The main contributors to the higher than forecast OBEGAL were: <ul style="list-style-type: none"> <li>Insurance expenses were \$0.8 billion lower than forecast. The variance was mainly due to actuarial losses on ACC's outstanding claims liability being incorrectly classified in the forecast. They were classified as insurance expenses rather than gains and losses. The reclassification of the losses has no net impact on the operating balance, but is expected to be a permanent difference on OBEGAL as at 30 June.</li> <li>Core Crown tax revenue was \$0.6 billion higher than forecast (refer above).</li> </ul> </li> <li>Core Crown other operating expenses were \$0.1 billion lower than forecast, mainly due to the timing difference on impairment of sovereign receivables (refer above).</li> </ul>
Operating balance	\$2.6 billion (higher than forecast)	<ul style="list-style-type: none"> <li>OBEGAL was \$1.6 billion higher than forecast (as noted above).</li> <li>Net losses were \$1.0 billion lower than forecast. The main contributors were: <ul style="list-style-type: none"> <li>NZS Fund's net losses were \$0.4 billion lower than forecast (refer above).</li> <li>RBNZ's net gains were \$0.2 billion higher than forecast. This was mainly due to changes in FX and interest rates, which are held constant for forecasting purposes.</li> <li>ACC's net losses were \$0.1 billion lower than forecast. There were 3 main components: <ul style="list-style-type: none"> <li>\$0.7 billion variance arising from a change to the discount rate used for valuing the outstanding claims liability.</li> <li>\$0.3 billion variance from higher than expected returns on investments caused by the recovery of financial markets during April and May.</li> <li>-\$0.8 billion variance due to a reclassification between insurance expenses and actuarial losses.</li> </ul> </li> </ul> </li> </ul>

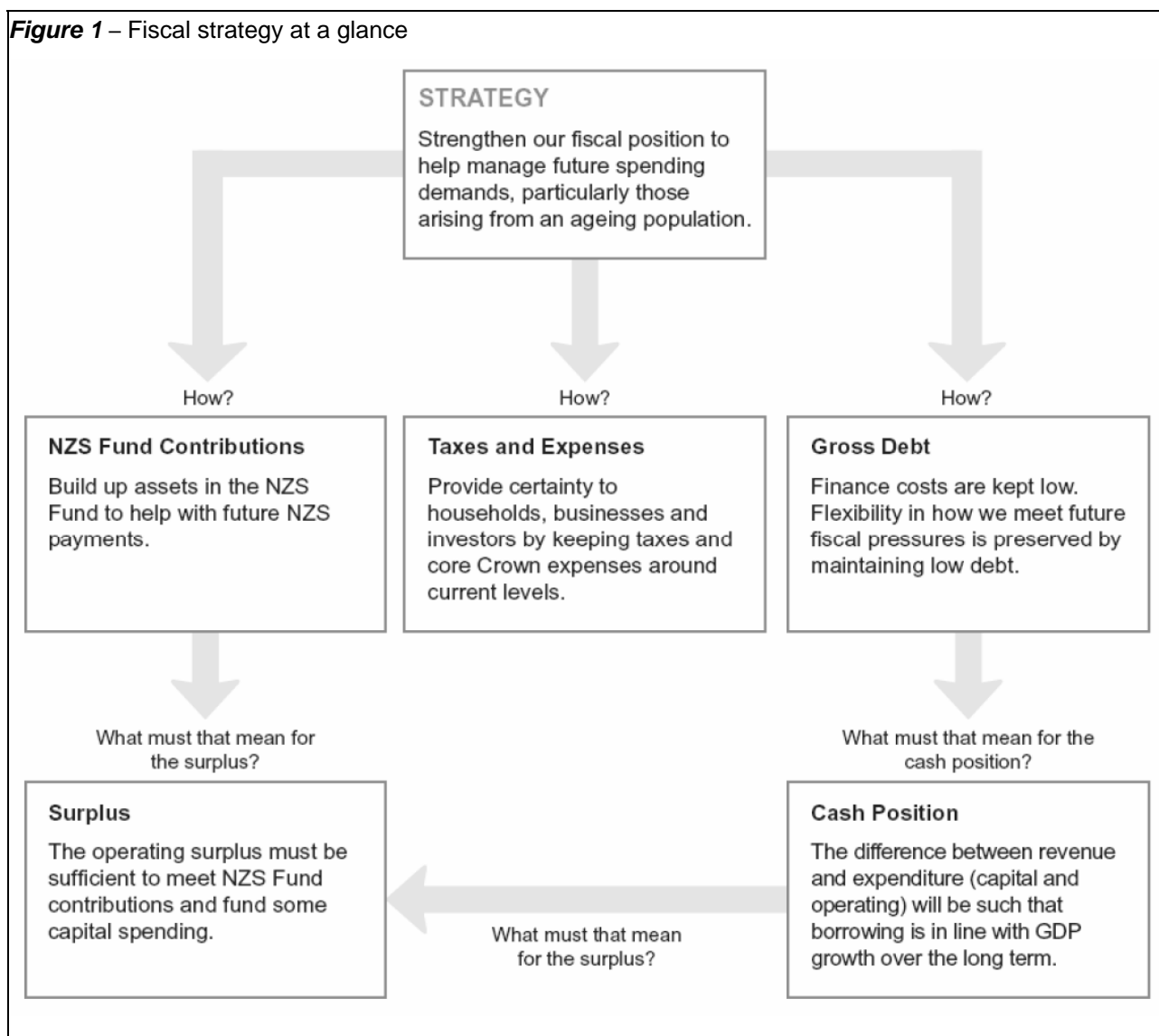
## FISCAL STRATEGY PERSPECTIVE

The Government's fiscal strategy (outlined in more detail in the *2008 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 31 May 2008. They provide a comparison with the fiscal forecasts in the *2008 Budget 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 May

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

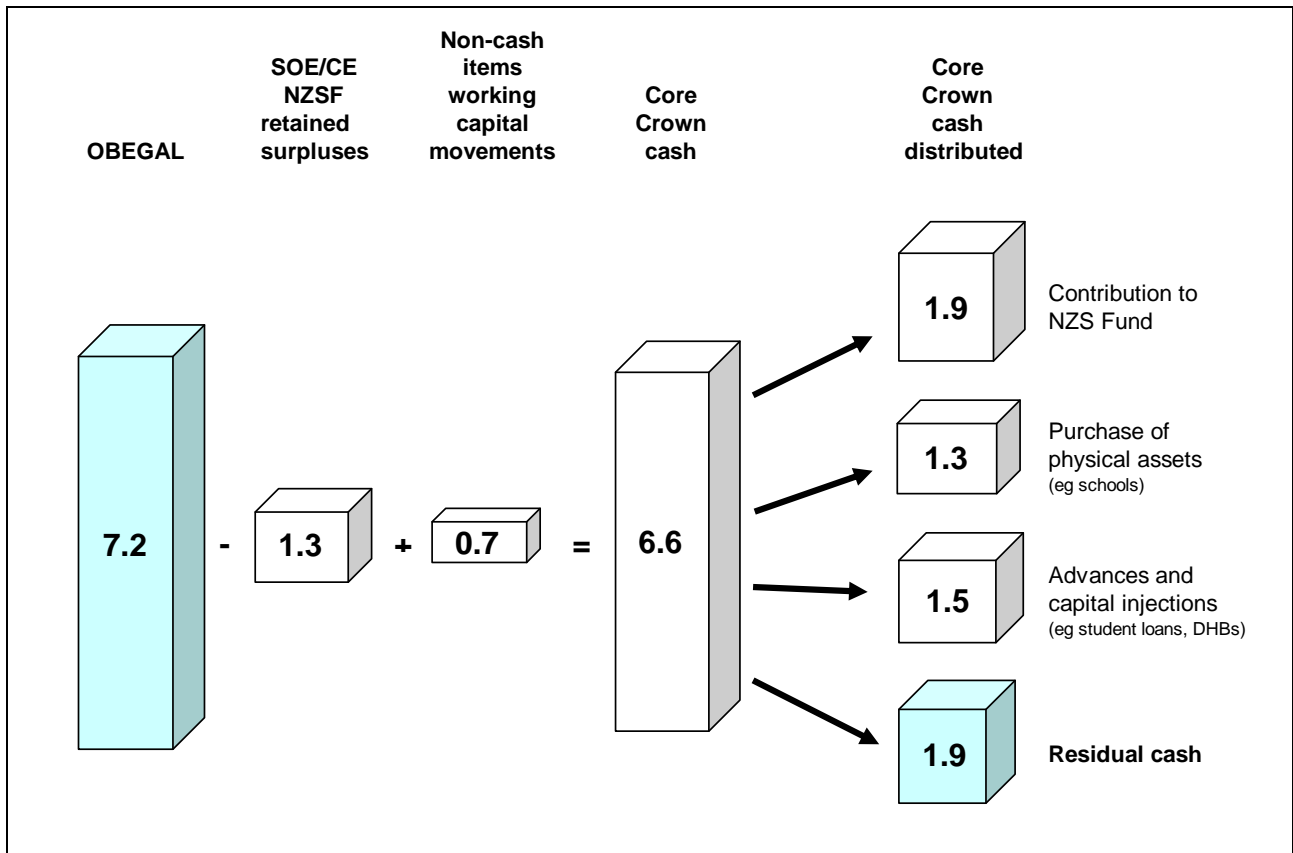
**Table 3** – Reconciliation of residual cash

Amounts in \$ millions	Fiscal Indicators/Financial Statements	Year to date				Full Year
		May	May	Variance	Variance	BEFU
		2008	2008			June 2008
Fiscal Strategy		Actual	Forecast	\$m	%	Forecast
	Taxation as a percentage of GDP <sup>1</sup>	31.9%	31.5%			31.2%
Taxes, kept stable and maintained at current levels ...	Taxation	51,890	51,242	648	1.3	56,186
... combined with other revenue ...	Core Crown other revenue, gains and losses	4,716	4,195	521	12.4	4,907
... fund core crown expenses ...	Core Crown expenses	(51,153)	(51,406)	253	(0.5)	(57,364)
... and with the results of entities outside the budget process ...	Net surpluses/(deficits) of SOEs and Crown entities	(90)	(1,235)	1,145	(92.7)	(1,170)
... results in a net operating balance (surplus or deficit)...	<b>Operating balance</b>	<b>5,363</b>	<b>2,796</b>	<b>2,567</b>	<b>91.8</b>	<b>2,559</b>
... part of which is due to gains or losses set aside for fiscal purposes...	Other (gains)/losses	1,906	2,837	(931)	(32.8)	2,668
... and so we have developed an operating indicator excluding these items.	<b>OBEGAL</b>	<b>7,269</b>	<b>5,633</b>	<b>1,636</b>	<b>29.0</b>	<b>5,227</b>
Some of this is income retained that is not available for fiscal purposes	Net return on NZS Fund (excl. gains and losses)	127	(10)	137	(1,370.0)	(8)
" " " "	Net retained surpluses of SOEs and Crown entities	(1,464)	(645)	(819)	127.0	(655)
and some is income and expenses not impacting cash	Non-cash items and working capital movements	683	1,880	(1,197)	(63.7)	2,454
The operating cash flow that results, needs to provide sufficient funds for	<b>Core Crown Cash flow from Operations</b>	<b>6,615</b>	<b>6,858</b>	<b>(243)</b>	<b>(3.5)</b>	<b>7,018</b>
- building up assets in NZ Superannuation	Contribution to NZS Fund	(1,940)	(1,939)	(1)	0.1	(2,103)
- meeting the capital expenditure budget, and	Purchase of physical assets	(1,256)	(1,311)	55	(4.2)	(2,234)
- making advances (e.g. to students and DHBs)	Advances and Capital injections	(1,555)	(1,578)	23	(1.5)	(1,773)
with a residual impact on debt that allows it to remain at prudent levels	<b>Residual Cash</b>	<b>1,864</b>	<b>2,030</b>	<b>(166)</b>	<b>(8.2)</b>	<b>908</b>
	<b>... and as a percentage of GDP</b>	<b>1.0%</b>	<b>1.1%</b>			<b>0.5%</b>

<sup>1</sup> GDP for the eleven months ended 31 May (actual and forecast) is the actual data for the year ended 31 March 2008 (Source: Statistics New Zealand) extrapolated for eleven months. GDP for the 2008 full year forecast has been extracted from the 2008 Budget 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

	May 2008 Actual \$m	May 2007 Actual \$m	Change <sup>1</sup> \$m	Change %
<b>Statement of Financial Performance</b>				
<b>Core Crown revenue</b>				
Taxation revenue	52,264	47,717	4,547	9.5
Other revenue	4,693	4,235	458	10.8
<b>Total Core Crown Revenue</b>	<b>56,957</b>	<b>51,952</b>	<b>5,005</b>	<b>9.6</b>
<b>Core Crown expenses</b>				
Social security and welfare	16,138	15,389	749	4.9
GSF pension expenses	653	609	44	7.2
Health	10,320	9,441	879	9.3
Education	8,938	8,620	318	3.7
Core government services	2,728	3,171	(443)	(14.0)
Law and order	2,616	2,328	288	12.4
Defence	1,383	1,367	16	1.2
Transport and communications	1,939	1,967	(28)	(1.4)
Economic and industrial services	2,558	1,438	1,120	77.9
Primary services	403	396	7	1.8
Heritage, culture and recreation	999	706	293	41.5
Housing and community development	224	214	10	4.7
Other	53	65	(12)	(18.5)
Finance costs	2,201	2,134	67	3.1
<b>Total Core Crown Expenses</b>	<b>51,153</b>	<b>47,845</b>	<b>3,308</b>	<b>6.9</b>
Net surplus of SOE/CE's	1,465	9	1,456	-
<b>OBEGAL</b>	<b>7,269</b>	<b>4,116</b>	<b>3,153</b>	<b>76.6</b>
Total gains/(losses)	(2,047)	2,255	(4,302)	(190.8)
Other operating items	141	94	47	50.0
<b>Operating Balance</b>	<b>5,363</b>	<b>6,465</b>	<b>(1,102)</b>	<b>(17.0)</b>
<b>Core Crown residual cash</b>	<b>1,864</b>	<b>2,254</b>	<b>(390)</b>	<b>(17.3)</b>
<b>Debt indicators</b>				
<b>Gross sovereign-issued debt (excluding settlement cash)</b>	<b>31,622</b>	<b>30,436</b>	<b>1,186</b>	<b>3.9</b>
<b>Net Core Crown debt</b>	<b>400</b>	<b>4,736</b>	<b>(4,336)</b>	<b>(91.6)</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 eleven months ended 31 May 2008 has increased by 9.5% on the same period last year. The increase was primarily in PAYE, Corporate tax and Other individuals tax. Driving this increase is high wage growth and employment growth, and growth in profits of corporate taxpayers and dairy industry incomes.

Total **core Crown expenses** were \$3.3 billion higher than the comparable period from the previous financial year (growth of 6.9%). 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	+ \$0.7 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	+ \$0.9 billion	<ul style="list-style-type: none"> <li>• Funding provided in the 2007 Budget to maintain and improve existing service levels</li> </ul>
Education	+ \$0.3 billion	<ul style="list-style-type: none"> <li>• Higher demand-driven expenses from roll growth</li> <li>• Funding provided in the 2007 Budget</li> </ul>
Core government services	- \$0.4 billion	<ul style="list-style-type: none"> <li>• One-off impairment of receivables in 2007 of \$1.1 billion, offset by current year impairments</li> </ul>
Economic and industrial services	+ \$1.1 billion	<ul style="list-style-type: none"> <li>• Primarily due to the 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>+ \$3.3 billion</b>	

**Other gains and losses** were in a net loss position of \$2.0 billion for the period ended 31 May 2008, compared to a net gain position of \$2.3 billion for the same period the previous year. The \$4.3 billion difference is due to:

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

**Net Core Crown debt** has reduced by \$4.3 billion as a result of an increase in financial assets, reflecting the residual cash built up since May 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 the entities that are included in the Government reporting entity was set out on pages 151 and 152 of the *2008 Budget Economic and Fiscal Update* released on 22 May 2008. Since that date there have been no changes.

All actual, forecast and comparative figures presented in these financial statements have been produced under NZ IFRS and 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/finmgmt-reporting/nzifrs/pdfs/nzifrs-accpolnz-30apr08.pdf>

## 4 Forecast Results and Assumptions

The forecast results in these financial statements have been derived from the forecasts released in the *Budget Economic and Fiscal Update* (BEFU), on 22 May 2008.

The assumptions underlying the preparation of forecasts are set out in the Statement of Accounting Policies and Forecast Assumptions reproduced in full on the Treasury's internet site:

<http://www.treasury.govt.nz/budget/2008/forecasts/befu2008>

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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### 5 Comparative Figures

Comparative figures for the previous financial year to 30 June 2007 and the comparative year-to-date period are presented in these financial statements. The comparative June 2006/07 figures will be audited and published with the audited actual June 2007/08 figures.

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 eleven months ended 31 May 2008

Prior Year 11 Months		Current Year Actual vs Forecast					Annual Forecast
to 30 June 2007	to 31 May 2007		Actual	Forecast	Variance	%	\$m
Actual \$m	Actual \$m	Note	\$m	\$m	\$m		\$m
		<b>Revenue</b>					
53,064	47,205	Taxation revenue	51,890	51,242	648	1.3	56,186
3,496	3,235	Other sovereign revenue	3,550	3,507	43	1.2	3,851
<b>56,560</b>	<b>50,440</b>	<b>Total Revenue Levied through the Crown's Sovereign Power</b>	<b>55,440</b>	<b>54,749</b>	<b>691</b>	<b>1.3</b>	<b>60,037</b>
12,613	11,242	Sales of goods and services	13,180	12,459	721	5.8	13,682
2,995	2,587	Interest revenue and dividends	2,986	2,908	78	2.7	3,203
2,421	2,331	Other revenue	2,498	2,531	(33)	(1.3)	2,891
<b>18,029</b>	<b>16,160</b>	<b>Total revenue earned through the Crown's operations</b>	<b>18,664</b>	<b>17,898</b>	<b>766</b>	<b>4.3</b>	<b>19,776</b>
<b>74,589</b>	<b>66,600</b>	<b>Total revenue (excluding gains)</b>	<b>74,104</b>	<b>72,647</b>	<b>1,457</b>	<b>2.0</b>	<b>79,813</b>
		<b>Expenses</b>					
16,346	14,926	Social assistance and official development assistance	16,662	16,724	62	0.4	18,520
15,284	13,833	Personnel expenses	15,027	15,034	7	-	16,422
3,397	2,945	Depreciation and amortisation	3,294	3,282	(12)	(0.4)	3,618
27,579	24,356	Other operating expenses	26,166	25,645	(521)	(2.0)	29,217
2,885	2,611	Interest expenses	2,808	2,793	(15)	(0.5)	2,954
3,238	3,813	Insurance expenses	2,878	3,656	778	21.3	4,095
-	-	Forecast new operating spending	-	-	-	-	-
-	-	Top-down expense adjustment	-	(120)	(120)	(100.0)	(240)
<b>68,729</b>	<b>62,484</b>	<b>Total expenses (excluding losses)</b>	<b>66,835</b>	<b>67,014</b>	<b>179</b>	<b>0.3</b>	<b>74,586</b>
<b>5,860</b>	<b>4,116</b>	<b>Operating balance before gains/(losses)</b>	<b>7,269</b>	<b>5,633</b>	<b>1,636</b>	<b>29.0</b>	<b>5,227</b>
1,566	2,296	Net gains/(losses) on financial instruments	109	(975)	1,084	111.2	(824)
486	(41)	Net gains/(losses) on non-financial instruments	(2,156)	(2,010)	(146)	(7.3)	(2,007)
<b>2,052</b>	<b>2,255</b>	<b>Total gains/(losses)</b>	<b>(2,047)</b>	<b>(2,985)</b>	<b>938</b>	<b>31.4</b>	<b>(2,831)</b>
191	94	Net surplus/(deficit) from associates and joint ventures	141	148	(7)	(4.7)	166
<b>8,103</b>	<b>6,465</b>	<b>Operating balance from continuing activities</b>	<b>5,363</b>	<b>2,796</b>	<b>2,567</b>	<b>91.8</b>	<b>2,562</b>
(92)	-	Gain/(loss) from discontinued operations	-	-	-	-	(3)
<b>8,011</b>	<b>6,465</b>	<b>Operating balance (including minority interest)</b>	<b>5,363</b>	<b>2,796</b>	<b>2,567</b>	<b>91.8</b>	<b>2,559</b>
12	-	Attributable to minority interest in Air NZ	-	-	-	-	-
<b>8,023</b>	<b>6,465</b>	<b>Operating Balance</b>	<b>5,363</b>	<b>2,796</b>	<b>2,567</b>	<b>91.8</b>	<b>2,559</b>

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

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

for the eleven months ended 31 May 2008

Prior Year to 30 June 2007 Actual \$m	11 Months to 31 May 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>Total Crown</b>							
<b>Total Crown expenses</b>							
<b>By functional classification</b>							
19,829	19,282	Social security and welfare	19,049	19,951	902	4.5	22,274
645	609	GSF pension expenses	653	653	-	-	714
10,661	9,243	Health	9,723	9,783	60	0.6	10,765
9,853	9,207	Education	9,647	9,681	34	0.4	10,803
4,628	3,125	Core government services	2,680	2,843	163	5.7	3,163
2,822	2,519	Law and order	2,835	2,850	15	0.5	3,192
1,478	1,332	Defence	1,351	1,335	(16)	(1.2)	1,524
6,990	6,005	Transport and communications	6,345	6,224	(121)	(1.9)	7,185
4,723	4,722	Economic and industrial services	7,508	6,750	(758)	(11.2)	7,433
1,233	1,175	Primary services	1,216	1,200	(16)	(1.3)	1,404
2,043	1,797	Heritage, culture and recreation	2,125	2,127	2	0.1	2,366
865	786	Housing and community development	837	874	37	4.2	965
74	71	Other	58	70	12	17.1	84
2,885	2,611	Finance costs	2,808	2,793	(15)	(0.5)	2,954
-	-	Forecast new operating spending	-	-	-	-	-
-	-	Top-down expense adjustment	-	(120)	(120)	(100.0)	(240)
<b>68,729</b>	<b>62,484</b>	<b>Total Crown expenses excluding losses</b>	<b>66,835</b>	<b>67,014</b>	<b>179</b>	<b>0.3</b>	<b>74,586</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	11 Months to 31 May 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>Core Crown</b>							
<b>Core Crown expenses</b>							
<b>By functional classification</b>							
16,768	15,389	Social security and welfare	16,138	16,203	65	0.4	18,071
645	609	GSF pension expenses	653	653	-	-	714
10,355	9,441	Health	10,320	10,338	18	0.2	11,343
9,269	8,620	Education	8,938	8,952	14	0.2	10,046
4,816	3,171	Core government services	2,728	2,838	110	3.9	3,222
2,699	2,328	Law and order	2,616	2,643	27	1.0	2,943
1,517	1,367	Defence	1,383	1,369	(14)	(1.0)	1,566
2,405	1,967	Transport and communications	1,939	1,922	(17)	(0.9)	2,290
1,595	1,438	Economic and industrial services	2,558	2,516	(42)	(1.7)	2,828
438	396	Primary services	403	407	4	1.0	565
844	706	Heritage, culture and recreation	999	1,005	6	0.6	1,123
255	214	Housing and community development	224	246	22	8.9	282
68	65	Other	53	64	11	17.2	84
2,329	2,134	Finance costs	2,201	2,370	169	7.1	2,527
-	-	Forecast new operating spending	-	-	-	-	-
-	-	Top-down expense adjustment	-	(120)	(120)	(100.0)	(240)
<b>54,003</b>	<b>47,845</b>	<b>Total core Crown expenses excluding losses</b>	<b>51,153</b>	<b>51,406</b>	<b>253</b>	<b>0.5</b>	<b>57,364</b>

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

# STATEMENT OF CASH FLOWS

for the eleven months ended 31 May 2008

Prior Year 11 Months		Current Year Actual vs Forecast				Annual	
to 30 June	to 31 May	Actual	Forecast	Variance		Forecast	
2007	2007	\$m	\$m	\$m	%	\$m	
Actual	Actual						
\$m	\$m	\$m	\$m	\$m	%	\$m	
<b>Cash Flows From Operations</b>							
<b>Cash was provided from</b>							
52,157	47,967	Taxation receipts	50,917	51,029	(112)	(0.2)	55,662
3,415	3,216	Other sovereign receipts	3,268	3,221	47	1.5	3,496
12,806	11,388	Sales of goods and services	12,548	12,742	(194)	(1.5)	14,001
2,491	2,262	Interest and dividends	2,751	2,568	183	7.1	2,718
2,222	1,681	Other operating receipts	2,339	2,303	36	1.6	2,532
<b>73,091</b>	<b>66,514</b>	<b>Total cash provided from operations</b>	<b>71,823</b>	<b>71,863</b>	<b>(40)</b>	<b>(0.1)</b>	<b>78,409</b>
<b>Cash was disbursed to</b>							
16,344	14,896	Social assistance and official development assistance	16,606	16,434	(172)	(1.0)	18,242
41,845	38,570	Personnel and operating payments	42,171	42,275	104	0.2	46,643
2,441	2,319	Interest payments	2,746	2,623	(123)	(4.7)	2,705
-	-	Forecast new operating spending	-	-	-	-	-
-	-	Top-down expense adjustment	-	(120)	(120)	(100.0)	(240)
<b>60,630</b>	<b>55,785</b>	<b>Total cash disbursed to operations</b>	<b>61,523</b>	<b>61,212</b>	<b>(311)</b>	<b>(0.5)</b>	<b>67,350</b>
<b>12,461</b>	<b>10,729</b>	<b>Net cash flows from operations</b>	<b>10,300</b>	<b>10,651</b>	<b>(351)</b>	<b>(3.3)</b>	<b>11,059</b>
<b>Cash Flows From Investing Activities</b>							
<b>Cash was provided from/(disbursed to)</b>							
(5,214)	(4,785)	Net purchase of physical assets	(4,379)	(4,695)	316	6.7	(5,826)
(8,132)	(8,485)	Net purchase of shares and other securities	(7,463)	(7,322)	(141)	(1.9)	(4,963)
(232)	(152)	Net purchase of intangible assets	(228)	(244)	16	6.6	(299)
(1,153)	(1,785)	Net issue/(repayment) of advances	(307)	(1,111)	804	72.4	(1,153)
(295)	(318)	Net acquisition of investments in associates	(277)	(266)	(11)	(4.1)	(994)
-	-	Capital contingency provision	-	-	-	-	(690)
-	-	Top-down capital adjustment	-	-	-	-	-
<b>(15,026)</b>	<b>(15,525)</b>	<b>Net cash flows from investing activities</b>	<b>(12,654)</b>	<b>(13,638)</b>	<b>984</b>	<b>7.2</b>	<b>(13,925)</b>
<b>(2,565)</b>	<b>(4,796)</b>	<b>Net cash flows from operating and investing activities</b>	<b>(2,354)</b>	<b>(2,987)</b>	<b>633</b>	<b>21.2</b>	<b>(2,866)</b>
<b>Cash Flows From Financing Activities</b>							
<b>Cash was provided from/(disbursed to)</b>							
81	169	Issues of circulating currency	172	260	(88)	(33.8)	260
(3,757)	(1,093)	Net issue/(repayment) of Government stock <sup>1</sup>	1,404	1,917	(513)	(26.8)	2,357
1,780	629	Net issue/(repayment) of foreign currency borrowing	1,192	1,430	(238)	(16.6)	(419)
4,991	4,357	Net issue/(repayment) of other New Zealand dollar borrowing	351	242	109	45.0	1,735
<b>3,095</b>	<b>4,062</b>	<b>Net cash flows from financing activities</b>	<b>3,119</b>	<b>3,849</b>	<b>(730)</b>	<b>(19.0)</b>	<b>3,933</b>
<b>530</b>	<b>(734)</b>	<b>Net movement in cash</b>	<b>765</b>	<b>862</b>	<b>(97)</b>	<b>(11.3)</b>	<b>1,067</b>
3,676	3,676	Opening Cash Balance	4,163	4,163	-	-	4,163
(43)	(49)	Foreign-exchange gains/(losses) on opening cash	(6)	(11)	5	45.5	(13)
<b>4,163</b>	<b>2,893</b>	<b>Closing Cash Balance</b>	<b>4,922</b>	<b>5,014</b>	<b>(92)</b>	<b>(1.8)</b>	<b>5,217</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 2008

Prior Year 11 Months		Current Year Actual vs Forecast				Annual Forecast	
to 30 June 2007	to 31 May 2007						
Actual	Actual	Actual	Forecast	Variance	%	\$m	
\$m	\$m	\$m	\$m	\$m	%	\$m	
<b>Reconciliation Between the Net Cash Flows from Operations and the Operating Balance</b>							
12,461	10,729	<b>Net Cash Flows from Operations</b>	<b>10,300</b>	<b>10,651</b>	<b>(351)</b>	<b>(3.3)</b>	<b>11,059</b>
<i>Items included in the operating balance but not in net cash flows from operations.</i>							
<b>Gains/(losses)</b>							
1,566	2,296	Gains/(losses) on other financial instruments	109	(975)	1,084	111.2	(824)
486	(41)	Gains/(losses) on other non-financial instruments	(2,156)	(2,010)	(146)	(7.3)	(2,007)
<b>2,052</b>	<b>2,255</b>	<b>Total gains/(losses)</b>	<b>(2,047)</b>	<b>(2,985)</b>	<b>938</b>	<b>31.4</b>	<b>(2,831)</b>
<b>Movements in Working Capital</b>							
(1,591)	(611)	Increase/(decrease) in receivables	1,872	(1,018)	2,890	283.9	267
83	83	Increase/(decrease) in inventories	85	96	(11)	(11.5)	107
(89)	6	Increase/(decrease) in prepayments	55	35	20	57.1	(49)
(73)	(80)	Decrease/(increase) in deferred revenue	(178)	(237)	59	24.9	(80)
2	(370)	Decrease/(increase) in payables	(377)	904	(1,281)	(141.7)	82
<b>(1,668)</b>	<b>(972)</b>	<b>Total movements in working capital</b>	<b>1,457</b>	<b>(220)</b>	<b>1,677</b>	<b>-</b>	<b>327</b>
<b>Other Non-cash Items in Operating Balance</b>							
(3,397)	(2,945)	Depreciation and amortisation	(3,294)	(3,282)	(12)	(0.4)	(3,618)
(629)	(480)	Write-down on initial recognition of loans	(569)	(521)	(48)	(9.2)	(628)
37	(53)	Impairment on financial assets (excl receivables)	203	200	3	1.5	201
61	32	Net interest revenue	174	171	3	1.8	237
13	(8)	Decrease/(increase) in defined benefit retirement plan liabilities	(7)	(8)	1	12.5	(78)
(1,098)	(2,187)	Decrease/(increase) in insurance liabilities	(995)	(1,358)	363	26.7	(2,276)
191	94	Other	141	148	(7)	(4.7)	166
<b>(4,822)</b>	<b>(5,547)</b>	<b>Total other non-cash Items</b>	<b>(4,347)</b>	<b>(4,650)</b>	<b>303</b>	<b>6.5</b>	<b>(5,996)</b>
<b>8,023</b>	<b>6,465</b>	<b>Operating Balance</b>	<b>5,363</b>	<b>2,796</b>	<b>2,567</b>	<b>91.8</b>	<b>2,559</b>

# STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the eleven months ended 31 May 2008

Prior Year 11 Months		Current Year Actual vs Forecast				Annual Forecast	
to 30 June 2007	to 31 May 2007	Actual	Forecast	Variance			
Actual	Actual	\$m	\$m	\$m	%	\$m	
5,262	(7)	Revaluation of physical assets	1	-	1	-	43
(331)	(195)	Effective portion of changes in value of cash flow hedges	(91)	5	(96)	-	(2)
(60)	(131)	Net change in fair value of cash flow hedges transferred to operating profit	7	(7)	14	200.0	(15)
(13)	7	Net change in fair value of cash flow hedges transferred to the hedged item	(39)	(36)	(3)	(8.3)	(36)
(66)	(35)	Foreign currency translation differences for foreign operations	1	1	-	-	2
10	(7)	Valuation gain/(losses) on investments available for sale taken to reserves	10	7	3	42.9	6
11	-	Other movements	-	-	-	-	(1)
<b>4,813</b>	<b>(368)</b>	<b>Total income/(expense) recognised directly in Net Worth</b>	<b>(111)</b>	<b>(30)</b>	<b>(81)</b>	<b>(270.0)</b>	<b>(3)</b>
8,011	6,465	<b>Operating Balance (including minority interest)</b>	5,363	2,796	2,567	91.8	2,559
<b>12,824</b>	<b>6,097</b>	<b>Total recognised income and expense</b>	<b>5,252</b>	<b>2,766</b>	<b>2,486</b>	<b>89.9</b>	<b>2,556</b>
		<b>Attributable to:</b>					
(12)	-	- minority interest in Air NZ	-	-	-	-	-
12,836	6,097	- the Crown	5,252	2,766	2,486	89.9	2,556
<b>12,824</b>	<b>6,097</b>	<b>Total recognised income and expense</b>	<b>5,252</b>	<b>2,766</b>	<b>2,486</b>	<b>89.9</b>	<b>2,556</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 31 May 2008

As at 30 June 2007 \$m	As at 31 May 2007 \$m		Note	Current Year Actual vs Forecast			Annual Forecast	
				Actual \$m	Forecast \$m	Variance \$m	%	\$m
<b>Assets</b>								
4,163	2,893	Cash and cash equivalents	11	4,922	5,014	(92)	(1.8)	5,217
12,058	13,039	Receivables	11	13,931	11,040	2,891	26.2	12,326
32,125	31,298	Marketable securities and derivatives in gain	11	37,651	35,680	1,971	5.5	34,473
13,581	14,359	Share investments	11	13,702	12,860	842	6.5	12,790
11,793	13,499	Advances	11	15,687	16,101	(414)	(2.6)	15,799
826	827	Inventory		912	922	(10)	(1.1)	933
1,527	1,348	Prepayments and other assets		1,352	1,281	71	5.5	1,171
95,598	90,932	Property, plant & equipment	12	97,089	97,416	(327)	(0.3)	98,355
7,001	6,364	Equity accounted investments <sup>1</sup>		7,295	7,324	(29)	(0.4)	7,519
1,677	1,627	Intangible assets and goodwill		1,713	1,751	(38)	(2.2)	1,772
-	-	Forecast for new capital spending		-	-	-	-	690
-	-	Top-down capital adjustment		-	-	-	-	-
<b>180,349</b>	<b>176,186</b>	<b>Total assets</b>		<b>194,254</b>	<b>189,389</b>	<b>4,865</b>	<b>2.6</b>	<b>191,045</b>
<b>Liabilities</b>								
3,444	3,531	Issued currency		3,619	3,707	88	2.4	3,704
8,075	9,235	Payables	14	9,071	7,371	(1,700)	(23.1)	8,423
966	973	Deferred revenue		1,144	1,203	59	4.9	1,046
41,898	41,801	Borrowings		46,742	45,512	(1,230)	(2.7)	45,546
17,418	18,026	Insurance liabilities	15	19,625	19,835	210	1.1	20,752
7,161	8,345	Retirement plan liabilities		8,075	8,076	1	-	8,146
4,560	4,209	Provisions	16	3,900	4,096	196	4.8	4,045
<b>83,522</b>	<b>86,120</b>	<b>Total liabilities</b>		<b>92,176</b>	<b>89,800</b>	<b>(2,376)</b>	<b>(2.6)</b>	<b>91,662</b>
<b>96,827</b>	<b>90,066</b>	<b>Total assets less total liabilities</b>		<b>102,078</b>	<b>99,589</b>	<b>2,489</b>	<b>2.5</b>	<b>99,383</b>
<b>Net Worth</b>								
44,222	42,590	Taxpayer funds	17	49,602	47,002	2,600	5.5	46,767
52,442	47,234	Revaluation reserve	17	52,426	52,455	(29)	(0.1)	52,498
(133)	(36)	Other reserves	17	(246)	(164)	(82)	(50.0)	(178)
<b>96,531</b>	<b>89,788</b>	<b>Total net worth attributable to the Crown</b>		<b>101,782</b>	<b>99,293</b>	<b>2,489</b>	<b>2.5</b>	<b>99,087</b>
296	278	Net worth attributable to minority interest in Air NZ		296	296	-	-	296
<b>96,827</b>	<b>90,066</b>	<b>Total net worth</b>		<b>102,078</b>	<b>99,589</b>	<b>2,489</b>	<b>2.5</b>	<b>99,383</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 31 May 2008

As at 30 June 2007 \$m	As at 31 May 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>Borrowings</b>							
15,778	15,687	Government stock <sup>1</sup>	18,261	18,463	202	1.1	18,683
2,098	1,915	Treasury bills	1,383	1,283	(100)	(7.8)	1,389
364	366	Government retail stock	419	386	(33)	(8.5)	386
7,507	8,196	Settlement deposits with Reserve Bank	7,987	7,465	(522)	(7.0)	7,465
1,126	948	Derivatives in loss <sup>2</sup>	1,483	1,013	(470)	(46.4)	780
954	948	Finance lease liabilities	954	941	(13)	(1.4)	1,251
14,071	13,741	Other borrowings	16,255	15,961	(294)	(1.8)	15,592
<b>41,898</b>	<b>41,801</b>	<b>Total borrowings<sup>3</sup></b>	<b>46,742</b>	<b>45,512</b>	<b>(1,230)</b>	<b>(2.7)</b>	<b>45,546</b>
31,163	30,624	Sovereign-guaranteed debt <sup>4</sup>	33,457	32,762	(695)	(2.1)	32,912
10,735	11,177	Non sovereign-guaranteed debt	13,285	12,750	(535)	(4.2)	12,634
<b>41,898</b>	<b>41,801</b>	<b>Total borrowings<sup>3</sup></b>	<b>46,742</b>	<b>45,512</b>	<b>(1,230)</b>	<b>(2.7)</b>	<b>45,546</b>
<b>Gross and net debt analysis:</b>							
35,892	36,354	Core Crown borrowings	37,574	37,104	(470)	(1.3)	37,035
913	784	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	570	533	(37)	(6.9)	638
<b>36,805</b>	<b>37,138</b>	<b>Gross sovereign-issued debt<sup>5</sup></b>	<b>38,144</b>	<b>37,637</b>	<b>(507)</b>	<b>(1.3)</b>	<b>37,673</b>
44,272	44,231	Less core Crown financial assets <sup>6</sup>	51,124	49,945	1,179	2.4	48,927
<b>(7,467)</b>	<b>(7,093)</b>	<b>Net core Crown debt (incl NZS Fund)<sup>7</sup></b>	<b>(12,980)</b>	<b>(12,308)</b>	<b>672</b>	<b>5.5</b>	<b>(11,254)</b>
11,576	11,829	Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets	13,380	12,861	519	4.0	13,100
<b>4,109</b>	<b>4,736</b>	<b>Net core Crown debt (excl NZS Fund)<sup>8</sup></b>	<b>400</b>	<b>553</b>	<b>153</b>	<b>27.7</b>	<b>1,846</b>
<b>Gross sovereign-issued debt excluding settlement cash:</b>							
36,805	37,138	Gross sovereign-issued debt <sup>5</sup>	38,144	37,637	(507)	(1.3)	37,673
(7,758)	(8,302)	Less Reserve Bank settlement cash (incl. Kiwibank)	(8,122)	(7,510)	612	8.1	(7,510)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash <sup>9</sup>	1,600	1,600	-	-	1,600
<b>30,647</b>	<b>30,436</b>	<b>Gross sovereign-issued debt excluding settlement cash</b>	<b>31,622</b>	<b>31,727</b>	<b>105</b>	<b>0.3</b>	<b>31,763</b>

## Notes on Borrowings

- Government stock includes \$245 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 31 May 2008

	As at 31 May 2008 \$m	As at 30 June 2007 \$m	As at 31 May 2007 \$m
<b>Capital Commitments</b>			
Specialist military equipment	832	823	1,009
Land and buildings	746	605	743
Other property, plant and equipment	2,586	2,617	2,506
Other capital commitments	113	184	356
Tertiary Education Institutions	90	90	-
<b>Total capital commitments</b>	<b>4,367</b>	<b>4,319</b>	<b>4,614</b>
<b>Operating Commitments</b>			
Non-cancellable accommodation leases	2,257	2,296	1,899
Other non-cancellable leases	2,319	2,355	2,439
Non-cancellable contracts for the supply of goods and services	1,730	1,626	1,828
Other operating commitments	8,995	7,278	6,286
Tertiary Education Institutions	303	303	-
<b>Total operating commitments</b>	<b>15,604</b>	<b>13,858</b>	<b>12,452</b>
<b>Total commitments</b>	<b>19,971</b>	<b>18,177</b>	<b>17,066</b>
<b>Total Commitments by Segment</b>			
Core Crown	12,636	19,944	9,519
Crown entities	9,897	9,835	8,998
State Owned Enterprises	3,538	3,508	3,463
Inter-segment eliminations	(6,100)	(15,110)	(4,914)
<b>Total commitments</b>	<b>19,971</b>	<b>18,177</b>	<b>17,066</b>

## STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 May 2008

	As at 31 May 2008 \$m	As at 30 June 2007 \$m	As at 31 May 2007 \$m
<b>Quantifiable Contingent Liabilities</b>			
Guarantees and indemnities	168	171	151
Uncalled capital	2,093	2,076	2,446
Legal proceedings and disputes	359	1,170	787
Other contingent liabilities	1,896	1,829	2,037
<b>Total quantifiable contingent liabilities</b>	<b>4,516</b>	<b>5,246</b>	<b>5,421</b>
<b>Total Quantifiable Contingent Liabilities by Segment</b>			
Core Crown	4,373	5,071	5,291
Crown entities	52	45	15
State Owned Enterprises	91	150	115
Inter-segment eliminations	-	(20)	-
<b>Total quantifiable contingent liabilities</b>	<b>4,516</b>	<b>5,246</b>	<b>5,421</b>
<b>Quantifiable Contingent Assets</b>			
Core Crown	85	86	111
Crown entities	5	-	-
<b>Total quantifiable contingent assets</b>	<b>90</b>	<b>86</b>	<b>111</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

Prior Year 11 Months		Current Year Actual vs Forecast				Annual Forecast	
to 30 June 2007	to 31 May 2007						
Actual	Actual	Actual	Forecast	Variance			
\$m	\$m	\$m	\$m	\$m	%	\$m	
<b>NOTE 1: Revenue Collected Through the Crown's Sovereign Power</b>							
<b>Taxation Revenue (accrual)</b>							
<b>Individuals</b>							
20,980	19,194	PAYE	21,068	20,813	255	1.2	22,735
4,440	4,131	Other persons	4,693	4,716	(23)	(0.5)	4,986
(1,080)	(1,062)	Refunds	(1,218)	(1,201)	(17)	(1.4)	(1,290)
468	430	Fringe benefit tax	460	480	(20)	(4.2)	521
<b>24,808</b>	<b>22,693</b>	<b>Total individuals</b>	<b>25,003</b>	<b>24,808</b>	<b>195</b>	<b>0.8</b>	<b>26,952</b>
<b>Corporate Tax</b>							
8,849	7,175	Gross companies tax	8,426	7,703	723	9.4	8,403
(296)	(295)	Refunds	(215)	(274)	59	21.5	(310)
1,189	1,010	Non-resident withholding tax	1,421	1,436	(15)	(1.0)	1,653
149	156	Foreign-source dividend w/holding payments	80	129	(49)	(38.0)	122
<b>9,891</b>	<b>8,046</b>	<b>Total corporate tax</b>	<b>9,712</b>	<b>8,994</b>	<b>718</b>	<b>8.0</b>	<b>9,868</b>
<b>Other Income Tax</b>							
2,227	1,974	Resident w/holding tax on interest income	2,425	2,370	55	2.3	2,596
89	93	Resident w/holding tax on dividend income	67	61	6	9.8	63
2	2	Estate and gift duties	2	2	-	-	3
<b>2,318</b>	<b>2,069</b>	<b>Total other income tax</b>	<b>2,494</b>	<b>2,433</b>	<b>61</b>	<b>2.5</b>	<b>2,662</b>
<b>37,017</b>	<b>32,808</b>	<b>Total income tax</b>	<b>37,209</b>	<b>36,235</b>	<b>974</b>	<b>2.7</b>	<b>39,482</b>
<b>Goods and Services Tax</b>							
19,540	17,634	Gross goods and services tax	18,788	18,619	169	0.9	20,655
(8,325)	(7,648)	Refunds	(8,596)	(8,085)	(511)	(6.3)	(8,841)
<b>11,215</b>	<b>9,986</b>	<b>Total goods and services tax</b>	<b>10,192</b>	<b>10,534</b>	<b>(342)</b>	<b>(3.2)</b>	<b>11,814</b>
<b>Other Taxation</b>							
819	765	Petroleum fuels excise	717	732	(15)	(2.0)	818
238	218	Tobacco excise	151	142	9	6.3	144
1,836	1,654	Customs duty	1,759	1,727	32	1.9	1,880
786	726	Road user charges	786	789	(3)	(0.4)	867
553	508	Alcohol excise	539	530	9	1.7	573
230	200	Gaming duties	219	223	(4)	(1.8)	245
222	204	Motor vehicle fees	207	209	(2)	(1.0)	227
54	49	Energy resources levies	42	42	-	-	47
94	87	Approved issuer levy and cheque duty	69	79	(10)	(12.7)	89
<b>4,832</b>	<b>4,411</b>	<b>Total other indirect taxation</b>	<b>4,489</b>	<b>4,473</b>	<b>16</b>	<b>0.4</b>	<b>4,890</b>
<b>16,047</b>	<b>14,397</b>	<b>Total indirect taxation</b>	<b>14,681</b>	<b>15,007</b>	<b>(326)</b>	<b>(2.2)</b>	<b>16,704</b>
<b>53,064</b>	<b>47,205</b>	<b>Total taxation revenue</b>	<b>51,890</b>	<b>51,242</b>	<b>648</b>	<b>1.3</b>	<b>56,186</b>
<b>Other Sovereign Revenue (accrual)</b>							
2,468	2,252	ACC levies	2,517	2,516	1	-	2,770
268	241	Fire Service levies	257	253	4	1.6	285
84	77	EQC levies	79	79	-	-	86
676	665	Other miscellaneous items	697	659	38	5.8	710
<b>3,496</b>	<b>3,235</b>	<b>Total other sovereign revenue</b>	<b>3,550</b>	<b>3,507</b>	<b>43</b>	<b>1.2</b>	<b>3,851</b>
<b>56,560</b>	<b>50,440</b>	<b>Total sovereign revenue</b>	<b>55,440</b>	<b>54,749</b>	<b>691</b>	<b>1.3</b>	<b>60,037</b>

# NOTES TO THE FINANCIAL STATEMENTS

Prior Year 11 Months		Current Year Actual vs Forecast				Annual Forecast	
to 30 June 2007	to 31 May 2007	Actual	Forecast	Variance			
Actual	Actual	\$m	\$m	\$m	%	\$m	
\$m	\$m						
<b>NOTE 1 (continued): Receipts Collected Through the Crown's Sovereign Power</b>							
<b>Income Tax Receipts (cash)</b>							
<b>Individuals</b>							
21,009	19,176	PAYE	20,894	20,757	137	0.7	22,676
5,121	4,801	Other persons	5,168	5,220	(52)	(1.0)	5,669
(1,850)	(1,651)	Refunds	(1,923)	(1,881)	(42)	(2.2)	(2,238)
482	463	Fringe benefit tax	495	423	72	17.0	486
<b>24,762</b>	<b>22,789</b>	<b>Total individuals</b>	<b>24,634</b>	<b>24,519</b>	<b>115</b>	<b>0.5</b>	<b>26,593</b>
<b>Corporate Tax</b>							
9,120	8,375	Gross companies tax	8,503	8,691	(188)	(2.2)	9,327
(1,153)	(1,069)	Refunds	(864)	(899)	35	3.9	(1,000)
1,135	1,070	Non-resident withholding tax	1,597	1,539	58	3.8	1,615
141	139	Foreign-source dividend w/holding payments	72	119	(47)	(39.5)	122
<b>9,243</b>	<b>8,515</b>	<b>Total corporate tax</b>	<b>9,308</b>	<b>9,450</b>	<b>(142)</b>	<b>(1.5)</b>	<b>10,064</b>
<b>Other Income Tax</b>							
2,192	2,027	Resident w/holding tax on interest income	2,400	2,380	20	0.8	2,567
90	89	Resident w/holding tax on dividend income	42	61	(19)	(31.1)	63
3	3	Estate and gift duties	2	2	-	-	3
<b>2,285</b>	<b>2,119</b>	<b>Total other income tax</b>	<b>2,444</b>	<b>2,443</b>	<b>1</b>	<b>-</b>	<b>2,633</b>
<b>36,290</b>	<b>33,423</b>	<b>Total income tax</b>	<b>36,386</b>	<b>36,412</b>	<b>(26)</b>	<b>(0.1)</b>	<b>39,290</b>
<b>Goods and Services Tax</b>							
18,701	17,078	Gross goods and services tax	18,141	18,042	99	0.5	20,038
(7,625)	(7,046)	Refunds	(8,101)	(7,896)	(205)	(2.6)	(8,561)
<b>11,076</b>	<b>10,032</b>	<b>Total goods and services tax</b>	<b>10,040</b>	<b>10,146</b>	<b>(106)</b>	<b>(1.0)</b>	<b>11,477</b>
<b>Other Taxation</b>							
835	760	Petroleum fuels excise	738	738	-	-	818
265	252	Tobacco excise	147	137	10	7.3	144
1,778	1,709	Customs duty	1,759	1,734	25	1.4	1,880
791	731	Road user charges	786	789	(3)	(0.4)	867
549	505	Alcohol excise	511	522	(11)	(2.1)	573
236	216	Gaming duties	217	223	(6)	(2.7)	245
208	199	Motor vehicle fees	217	209	8	3.8	227
55	51	Energy resources levies	38	34	4	11.8	52
74	89	Approved issuer levy and cheque duty	78	85	(7)	(8.2)	89
<b>4,791</b>	<b>4,512</b>	<b>Total other indirect taxation</b>	<b>4,491</b>	<b>4,471</b>	<b>20</b>	<b>0.4</b>	<b>4,895</b>
<b>15,867</b>	<b>14,544</b>	<b>Total indirect taxation</b>	<b>14,531</b>	<b>14,617</b>	<b>(86)</b>	<b>(0.6)</b>	<b>16,372</b>
<b>52,157</b>	<b>47,967</b>	<b>Total tax receipts collected</b>	<b>50,917</b>	<b>51,029</b>	<b>(112)</b>	<b>(0.2)</b>	<b>55,662</b>
<b>Other Sovereign Receipts (cash)</b>							
2,599	2,418	ACC levies	2,416	2,380	36	1.5	2,565
268	244	Fire Service levies	257	253	4	1.6	285
84	78	EQC levies	79	79	-	-	86
464	476	Other miscellaneous items	516	509	7	1.4	560
<b>3,415</b>	<b>3,216</b>	<b>Total other sovereign receipts</b>	<b>3,268</b>	<b>3,221</b>	<b>47</b>	<b>1.5</b>	<b>3,496</b>
<b>55,572</b>	<b>51,183</b>	<b>Total sovereign receipts</b>	<b>54,185</b>	<b>54,250</b>	<b>(65)</b>	<b>(0.1)</b>	<b>59,158</b>

# NOTES TO THE FINANCIAL STATEMENTS

Prior Year 11 Months		Current Year Actual vs Forecast				Annual Forecast	
to 30 June 2007	to 31 May 2007	Actual	Forecast	Variance			
Actual	Actual	\$m	\$m	\$m	%	\$m	
\$m	\$m						
<b>NOTE 2: Interest Revenue and Dividends</b>							
<i>By type</i>							
2,555	2,229	Interest revenue	2,683	2,586	97	3.8	2,864
440	358	Dividends	303	322	(19)	(5.9)	339
<b>2,995</b>	<b>2,587</b>	<b>Total interest revenue and dividends</b>	<b>2,986</b>	<b>2,908</b>	<b>78</b>	<b>2.7</b>	<b>3,203</b>
<i>By source</i>							
2,580	2,350	Core Crown	2,265	2,363	(98)	(4.1)	2,562
756	656	Crown entities	1,044	984	60	6.1	1,085
484	439	State-owned Enterprises	682	452	230	50.9	509
(825)	(858)	Inter-segment eliminations	(1,005)	(891)	(114)	(12.8)	(953)
<b>2,995</b>	<b>2,587</b>	<b>Total interest revenue and dividends</b>	<b>2,986</b>	<b>2,908</b>	<b>78</b>	<b>2.7</b>	<b>3,203</b>
<b>NOTE 3: Social Assistance and Official Development Assistance</b>							
6,810	6,219	New Zealand superannuation	6,722	6,724	2	-	7,347
1,468	1,349	Domestic purposes benefit	1,354	1,352	(2)	(0.1)	1,475
613	573	Unemployment benefit	422	422	-	-	455
1,132	1,037	Invalids benefit	1,109	1,109	-	-	1,214
1,699	1,559	Family tax credit	1,705	1,757	52	3.0	2,081
877	806	Accommodation supplement	817	815	(2)	(0.2)	888
573	524	Sickness benefit	534	533	(1)	(0.2)	580
382	342	Student allowances	345	343	(2)	(0.6)	384
270	248	Disability allowances	255	255	-	-	278
-	-	KiwiSaver	969	927	(42)	(4.5)	1,030
2,192	1,963	Other social assistance benefits	2,109	2,119	10	0.5	2,390
<b>16,016</b>	<b>14,620</b>	<b>Total social assistance</b>	<b>16,341</b>	<b>16,356</b>	<b>15</b>	<b>0.1</b>	<b>18,122</b>
330	306	Official development assistance	321	368	47	12.8	398
<b>16,346</b>	<b>14,926</b>	<b>Total social assistance and official development assistance</b>	<b>16,662</b>	<b>16,724</b>	<b>62</b>	<b>0.4</b>	<b>18,520</b>
<b>NOTE 4: Personnel Expenses</b>							
5,092	4,774	Core Crown	5,126	5,151	25	0.5	5,621
8,183	7,260	Crown entities	7,926	7,901	(25)	(0.3)	8,624
2,018	1,801	State-owned Enterprises	1,983	1,990	7	0.4	2,186
(9)	(2)	Inter-segment eliminations	(8)	(8)	-	-	(9)
<b>15,284</b>	<b>13,833</b>	<b>Total personnel expenses</b>	<b>15,027</b>	<b>15,034</b>	<b>7</b>	<b>-</b>	<b>16,422</b>
<b>NOTE 5: Operating Expenses</b>							
<i>By type</i>							
3,397	2,945	Depreciation and amortisation	3,294	3,282	(12)	(0.4)	3,618
27,579	24,356	Other operating expenses	26,166	25,645	(521)	(2.0)	29,217
-	-	Forecast new operating spending	-	-	-	-	-
-	-	Top-down expense adjustment	-	(120)	(120)	(100.0)	(240)
<b>30,976</b>	<b>27,301</b>	<b>Total operating expenses</b>	<b>29,460</b>	<b>28,807</b>	<b>(653)</b>	<b>(2.3)</b>	<b>32,595</b>
<i>By source</i>							
30,120	25,914	Core Crown	27,035	27,033	(2)	-	30,551
13,485	12,637	Crown entities	12,957	13,000	43	0.3	14,789
8,294	7,483	State-owned Enterprises	9,486	8,702	(784)	(9.0)	9,434
(20,923)	(18,733)	Inter-segment eliminations	(20,018)	(19,928)	90	0.5	(22,179)
<b>30,976</b>	<b>27,301</b>	<b>Total operating expenses</b>	<b>29,460</b>	<b>28,807</b>	<b>(653)</b>	<b>(2.3)</b>	<b>32,595</b>

## NOTES TO THE FINANCIAL STATEMENTS

Prior Year to 30 June 2007 Actual \$m	11 Months to 31 May 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>							
2,867	2,515	Interest on financial liabilities	2,793	2,776	(17)	(0.6)	2,930
18	96	Interest unwind on provisions	15	17	2	11.8	24
<b>2,885</b>	<b>2,611</b>	<b>Total interest expenses</b>	<b>2,808</b>	<b>2,793</b>	<b>(15)</b>	<b>(0.5)</b>	<b>2,954</b>
<i>By source</i>							
2,330	2,134	Core Crown	2,201	2,371	170	7.2	2,527
265	231	Crown entities	207	173	(34)	(19.7)	275
685	632	State-owned Enterprises	814	659	(155)	(23.5)	734
(395)	(386)	Inter-segment eliminations	(414)	(410)	4	1.0	(582)
<b>2,885</b>	<b>2,611</b>	<b>Total interest expenses</b>	<b>2,808</b>	<b>2,793</b>	<b>(15)</b>	<b>(0.5)</b>	<b>2,954</b>
<b>NOTE 7: Insurance Expenses</b>							
<i>By type</i>							
3,143	3,737	ACC (including ACC payments)	2,778	3,491	713	20.4	4,001
77	69	EQC	87	78	(9)	(11.5)	82
18	7	Other insurance expenses	13	87	74	85.1	12
<b>3,238</b>	<b>3,813</b>	<b>Total insurance expenses</b>	<b>2,878</b>	<b>3,656</b>	<b>778</b>	<b>21.3</b>	<b>4,095</b>
<b>NOTE 8: Gains and Losses on Financial Instruments</b>							
<i>By source</i>							
1,179	1,547	Core Crown	694	80	614	-	200
365	664	Crown entities	(388)	(737)	349	47.4	(691)
63	135	State-owned Enterprises	(129)	(145)	16	11.0	(138)
(41)	(50)	Inter-segment eliminations	(68)	(173)	105	60.7	(195)
<b>1,566</b>	<b>2,296</b>	<b>Net gains/(losses) on financial instruments</b>	<b>109</b>	<b>(975)</b>	<b>1,084</b>	<b>111.2</b>	<b>(824)</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	(906)	(906)	-	-	(906)
(481)	-	Actuarial gains/(losses) on ACC outstanding claims	(1,213)	(1,059)	(154)	(14.5)	(1,059)
(166)	(11)	Other	(37)	(45)	8	17.8	(42)
<b>486</b>	<b>(41)</b>		<b>(2,156)</b>	<b>(2,010)</b>	<b>(146)</b>	<b>(7.3)</b>	<b>(2,007)</b>
<i>By source</i>							
1,163	(35)	Core Crown	(1,054)	(1,053)	(1)	(0.1)	(1,057)
(495)	5	Crown entities	(1,219)	(1,074)	(145)	(13.5)	(1,078)
(181)	(11)	State-owned Enterprises	117	117	-	-	128
(1)	-	Inter-segment eliminations	-	-	-	-	-
<b>486</b>	<b>(41)</b>	<b>Net gains/(losses) on non-financial instruments</b>	<b>(2,156)</b>	<b>(2,010)</b>	<b>(146)</b>	<b>(7.3)</b>	<b>(2,007)</b>
<b>NOTE 10: Operating Balance</b>							
<i>By source</i>							
6,510	5,630	Core Crown	5,453	4,031	1,422	35.3	3,729
1,023	369	Crown entities	(91)	(1,205)	1,114	92.4	(1,285)
807	919	State-owned Enterprises	642	645	(3)	(0.5)	747
(317)	(453)	Inter-segment eliminations	(641)	(675)	34	5.0	(632)
<b>8,023</b>	<b>6,465</b>	<b>Total operating balance</b>	<b>5,363</b>	<b>2,796</b>	<b>2,567</b>	<b>91.8</b>	<b>2,559</b>



## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2007 \$m	As at 31 May 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 11: Financial Assets</b>							
4,163	2,893	Cash and cash equivalents	4,922	5,014	(92)	(1.8)	5,217
6,368	7,614	Tax receivables	7,213	5,643	1,570	27.8	6,005
5,690	5,425	Trade and other receivables	6,718	5,397	1,321	24.5	6,321
6,011	5,827	Student loans	6,517	6,511	6	0.1	6,278
3,637	3,527	KiwiBank mortgages	5,435	5,602	(167)	(3.0)	5,751
2,110	2,015	Long-term deposits	1,927	1,951	(24)	(1.2)	1,741
183	292	Reserve position at the IMF	183	151	32	21.2	151
2,145	1,838	Other loans	1,625	1,886	(261)	(13.8)	1,878
13,581	14,359	Share investments	13,702	12,860	842	6.5	12,790
2,352	1,602	Derivatives in gain	1,966	1,548	418	27.0	1,167
27,480	29,696	Other marketable securities	35,685	34,132	1,553	4.5	33,306
<b>73,720</b>	<b>75,088</b>	<b>Total financial assets</b>	<b>85,893</b>	<b>80,695</b>	<b>5,198</b>	<b>6.4</b>	<b>80,605</b>
<b>Financial assets by portfolio</b>							
22,577	20,119	Reserve Bank and DMO managed funds	24,243	24,696	(453)	(1.8)	23,559
12,576	12,817	NZ Superannuation Fund	14,145	13,764	381	2.8	13,816
14,403	17,857	Other core Crown	18,394	15,758	2,636	16.7	16,021
(952)	(808)	Intra-segment eliminations	(603)	(775)	172	22.2	(587)
<b>48,604</b>	<b>49,985</b>	<b>Total core Crown</b>	<b>56,179</b>	<b>53,443</b>	<b>2,736</b>	<b>5.1</b>	<b>52,809</b>
10,588	10,920	ACC portfolio	12,298	11,354	944	8.3	11,864
1,920	2,026	EQC portfolio	1,983	1,799	184	10.2	1,814
4,078	3,708	Other Crown entities	4,008	3,912	96	2.5	3,894
<b>16,586</b>	<b>16,654</b>	<b>Total Crown entities</b>	<b>18,289</b>	<b>17,065</b>	<b>1,224</b>	<b>7.2</b>	<b>17,572</b>
<b>8,530</b>	<b>8,449</b>	<b>Total State Owned Enterprises</b>	<b>11,425</b>	<b>10,187</b>	<b>1,238</b>	<b>12.2</b>	<b>10,224</b>
<b>73,720</b>	<b>75,088</b>	<b>Total financial assets by portfolio</b>	<b>85,893</b>	<b>80,695</b>	<b>5,198</b>	<b>6.4</b>	<b>80,605</b>
<b>NOTE 12: Property, Plant and Equipment</b>							
<b>By Class of asset</b>							
<b>Net Carrying Value</b>							
21,140	18,722	Land (valuation)	21,263	21,391	(128)	(0.6)	21,418
20,777	20,578	Buildings (valuation)	21,159	21,144	15	0.1	21,368
1,972	1,976	Electricity distribution network (cost)	1,852	2,035	(183)	(9.0)	2,060
10,402	8,934	Electricity generation assets (valuation)	10,784	10,864	(80)	(0.7)	11,059
2,104	2,328	Aircraft (excl. military) (valuation)	2,052	2,051	1	-	1,955
19,400	18,542	State highways (valuation)	20,024	19,980	44	0.2	20,220
10,568	10,605	Rail network (valuation)	10,567	10,583	(16)	(0.2)	10,581
3,079	3,321	Specialist military equipment (valuation)	3,135	3,149	(14)	(0.4)	3,157
3,227	3,803	Other plant and equipment (cost)	3,546	3,341	205	6.1	3,656
2,351	1,717	Specified cultural and heritage assets (valuation)	2,359	2,382	(23)	(1.0)	2,391
578	406	Other assets (valuation)	348	496	(148)	(29.8)	490
<b>95,598</b>	<b>90,932</b>	<b>Total net carrying value</b>	<b>97,089</b>	<b>97,416</b>	<b>(327)</b>	<b>(0.3)</b>	<b>98,355</b>



## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2007 \$m	As at 31 May 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 13: NZ Superannuation Fund</b>							
436	401	Revenue	340	347	(7)	(2.0)	381
707	631	Less current tax expense	385	236	(149)	(63.1)	259
(52)	23	Less other expenses <sup>1</sup>	36	37	1	2.7	51
1,313	1,396	Add gains/(losses)	(347)	(764)	417	54.6	(686)
<b>1,094</b>	<b>1,143</b>	<b>Operating balance</b>	<b>(428)</b>	<b>(690)</b>	<b>262</b>	<b>38.0</b>	<b>(615)</b>
9,855	9,855	Opening net worth	12,973	12,973	-	-	12,973
2,049	1,891	Gross contribution from the Crown	1,941	1,941	-	-	2,103
1,094	1,143	Operating balance	(428)	(690)	262	38.0	(615)
(25)	(21)	Other movements in reserves	(1)	-	(1)	-	-
<b>12,973</b>	<b>12,868</b>	<b>Closing net worth</b>	<b>14,485</b>	<b>14,224</b>	<b>261</b>	<b>1.8</b>	<b>14,461</b>
<i>comprising:</i>							
12,576	12,817	Financial assets	14,145	13,764	381	2.8	13,816
397	51	Net other assets	340	460	(120)	(26.1)	645
<b>12,973</b>	<b>12,868</b>	<b>Closing net worth</b>	<b>14,485</b>	<b>14,224</b>	<b>261</b>	<b>1.8</b>	<b>14,461</b>
<b>Core Crown revenue (excl NZS Fund)</b>							
58,210	51,952	Core Crown revenue	56,957	56,394	563	1.0	61,936
436	401	Less NZS Fund revenue	340	347	(7)	(2.0)	381
707	631	Add back NZS Fund intra-segment revenue	385	236	149	63.1	259
<b>58,481</b>	<b>52,182</b>	<b>Core Crown revenue (excl NZS Fund)</b>	<b>57,002</b>	<b>56,283</b>	<b>719</b>	<b>1.3</b>	<b>61,814</b>
<b>OBEGAL excluding NZS Fund</b>							
5,860	4,116	Total Crown OBEGAL	7,269	5,633	1,636	29.0	5,227
436	401	Less NZS Fund revenue	340	347	(7)	(2.0)	381
119	107	Less NZS Fund expenses	82	101	(19)	(18.8)	114
707	631	Add back NZS Fund tax	385	236	149	63.1	259
<b>6,250</b>	<b>4,453</b>	<b>OBEGAL excluding NZS Fund</b>	<b>7,396</b>	<b>5,623</b>	<b>1,773</b>	<b>31.5</b>	<b>5,219</b>

## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2007 \$m	As at 31 May 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 14: Payables</b>							
4,896	4,604	Accounts payable	4,893	4,192	(701)	(16.7)	5,244
3,179	4,631	Taxes repayable	4,178	3,179	(999)	(31.4)	3,179
<b>8,075</b>	<b>9,235</b>	<b>Total payables</b>	<b>9,071</b>	<b>7,371</b>	<b>(1,700)</b>	<b>(23.1)</b>	<b>8,423</b>
<b>NOTE 15: Insurance liabilities</b>							
17,328	17,938	ACC liability	19,550	19,744	194	1.0	20,663
68	67	EQC liability	63	78	15	19.2	79
22	21	Other insurance liabilities	12	13	1	7.7	10
<b>17,418</b>	<b>18,026</b>	<b>Total insurance liabilities</b>	<b>19,625</b>	<b>19,835</b>	<b>210</b>	<b>1.1</b>	<b>20,752</b>
<b>NOTE 16: Provisions</b>							
704	544	Provision for Kyoto	481	485	4	0.8	482
771	805	Provision for National Provident Fund guarantee	780	780	-	-	780
1,828	1,780	Provision for employee entitlements	1,812	1,778	(34)	(1.9)	1,738
1,257	1,080	Other provisions	827	1,053	226	21.5	1,045
<b>4,560</b>	<b>4,209</b>	<b>Total provisions</b>	<b>3,900</b>	<b>4,096</b>	<b>196</b>	<b>4.8</b>	<b>4,045</b>
<b>NOTE 17: Changes in Net Worth</b>							
36,214	36,214	Opening taxpayers funds	44,222	44,222	-	-	44,222
8,023	6,465	Operating balance excluding minority interest	5,363	2,796	2,567	91.8	2,559
(15)	(89)	Transfers from/(to) other reserves	17	(16)	33	206.3	(14)
<b>44,222</b>	<b>42,590</b>	<b>Closing taxpayers funds</b>	<b>49,602</b>	<b>47,002</b>	<b>2,600</b>	<b>5.5</b>	<b>46,767</b>
47,153	47,153	Opening revaluation reserve	52,442	52,442	-	-	52,442
5,262	(7)	Net Revaluations	1	-	1	-	43
27	88	Transfers from/(to) other reserves	(17)	13	(30)	(230.8)	13
<b>52,442</b>	<b>47,234</b>	<b>Closing revaluation reserve</b>	<b>52,426</b>	<b>52,455</b>	<b>(29)</b>	<b>(0.1)</b>	<b>52,498</b>
326	326	Opening other reserves	(133)	(133)	-	-	(133)
(459)	(362)	Net movements	(113)	(31)	(82)	(264.5)	(45)
<b>(133)</b>	<b>(36)</b>	<b>Closing other reserves</b>	<b>(246)</b>	<b>(164)</b>	<b>(82)</b>	<b>(50.0)</b>	<b>(178)</b>

# NOTES TO THE FINANCIAL STATEMENTS

Prior Year 11 Months		Current Year Actual vs Forecast				Annual	
to 30 June	to 31 May	Actual	Forecast	Variance		Forecast	
2007	2007	\$m	\$m	\$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>							
53,278	48,733	Total tax receipts	51,489	51,496	(7)	-	56,392
395	425	Total other sovereign receipts	453	445	8	1.8	494
1,896	1,793	Interest, profits and dividends	1,965	1,839	126	6.9	1,980
1,433	1,168	Sale of goods & services and other receipts	1,307	1,422	(115)	(8.1)	1,654
(17,234)	(14,993)	Subsidies and transfer payments	(16,733)	(16,560)	(173)	(1.0)	(19,931)
(28,962)	(27,356)	Personnel and operating costs	(29,659)	(29,669)	10	-	(31,478)
(2,220)	(2,070)	Finance costs	(2,207)	(2,235)	28	1.3	(2,333)
-	-	Forecast for future new operating spending	-	-	-	-	-
-	-	Top-down expense adjustment	-	120	(120)	(100.0)	240
<b>8,586</b>	<b>7,700</b>	<b>Net cash flows from core Crown operations</b>	<b>6,615</b>	<b>6,858</b>	<b>(243)</b>	<b>(3.5)</b>	<b>7,018</b>
(1,755)	(1,613)	Net purchase of physical assets	(1,256)	(1,311)	55	4.2	(1,544)
(1,125)	(1,166)	Net increase in advances	(1,030)	(1,017)	(13)	(1.3)	(1,254)
(281)	(275)	Net purchase of investments	(525)	(561)	36	6.4	(519)
(2,048)	(1,892)	Contribution to NZ Superannuation Fund	(1,940)	(1,939)	(1)	(0.1)	(2,103)
(500)	(500)	Purchase of Reserve Bank reserves	-	-	-	-	-
-	-	Forecast for future new capital spending	-	-	-	-	(690)
-	-	Top-down capital adjustment	-	-	-	-	-
<b>2,877</b>	<b>2,254</b>	<b>Residual cash</b>	<b>1,864</b>	<b>2,030</b>	<b>(166)</b>	<b>(8.2)</b>	<b>908</b>
<b>Financed by:</b>							
(5,040)	(5,389)	Other net sale/(purchase) of marketable securities and deposits	(3,984)	(4,104)	120	2.9	(2,863)
<b>(2,163)</b>	<b>(3,135)</b>	<b>Total operating and investing activities</b>	<b>(2,120)</b>	<b>(2,074)</b>	<b>(46)</b>	<b>(2.2)</b>	<b>(1,955)</b>
<b>Used in:</b>							
1,120	2,755	Net (repayment)/issue of other New Zealand dollar borrowing	(1,016)	(1,296)	280	21.6	167
1,775	635	Net (repayment)/issue of foreign currency borrowing	1,000	1,354	(354)	(26.1)	(504)
81	169	Issues of circulating currency	172	260	(88)	(33.8)	260
(479)	116	Increase/(decrease) in cash	33	(603)	636	105.5	(572)
<b>2,497</b>	<b>3,675</b>		<b>189</b>	<b>(285)</b>	<b>474</b>	<b>166.3</b>	<b>(649)</b>
<b>334</b>	<b>540</b>	<b>Net cash inflow/(outflow) to be offset by domestic bonds</b>	<b>(1,931)</b>	<b>(2,359)</b>	<b>428</b>	<b>18.1</b>	<b>(2,604)</b>
<b>Gross Cash Proceeds from Domestic Bonds</b>							
2,294	2,100	Domestic bonds (market)	1,561	2,129	(568)	(26.7)	2,415
570	558	Domestic bonds (non-market)	130	130	-	-	189
<b>2,864</b>	<b>2,658</b>	<b>Total gross cash proceeds from domestic bonds</b>	<b>1,691</b>	<b>2,259</b>	<b>(568)</b>	<b>(25.1)</b>	<b>2,604</b>
(2,777)	(2,777)	Repayment of domestic bonds (market)	200	100	100	100.0	-
(421)	(421)	Repayment of domestic bonds (non-market)	40	-	40	-	-
<b>(3,198)</b>	<b>(3,198)</b>		<b>240</b>	<b>100</b>	<b>140</b>	<b>140.0</b>	<b>-</b>
<b>(334)</b>	<b>(540)</b>	<b>Net (repayments of)/cash proceeds from domestic bonds</b>	<b>1,931</b>	<b>2,359</b>	<b>(428)</b>	<b>(18.1)</b>	<b>2,604</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 31 May 2007 and as at 30 June 2007
- Operating Balance for the year ended 30 June 2007 and for the eleven months ended 31 May 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 31 May 2007 \$m
<b>Net worth per old GAAP published accounts</b>		<b>71,403</b>	<b>95,836</b>	<b>88,961</b>
Rail network valuation	a	10,330	-	-
<b>Amended net worth per old GAAP</b>		<b>81,733</b>	<b>95,836</b>	<b>88,961</b>
<b>Changes as a result of transition to NZ IFRS</b>				
Revaluation of GSF	b	3,133	3,137	3,167
Inclusion of a risk premium on ACC liability	c	(1,603)	(1,976)	(1,955)
Inclusion of derivatives	d	304	(355)	(362)
Fair value adjustments to receivables	e	(369)	(598)	(573)
Revaluation of NPF liability	f	195	182	195
Goodwill amortisation	g	-	98	75
Other movements		196	503	558
<b>Net worth per NZ IFRS published accounts</b>		<b>83,589</b>	<b>96,827</b>	<b>90,066</b>
	<b>Note</b>		<b>Prior Year to 30 June 2007 \$m</b>	<b>11 months to 31 May 2007 \$m</b>
<b>Operating balance per old GAAP published accounts</b>			<b>8,663</b>	<b>7,198</b>
<b>Changes as a result of transition to NZ IFRS</b>				
Revaluation of GSF	b		4	34
Inclusion of a risk premium on ACC liability	c		(373)	(352)
Inclusion of derivatives	d		(250)	(345)
Fair value adjustments to receivables	e		(229)	(204)
Revaluation of NPF liability	f		(13)	-
Goodwill amortisation	g		98	75
Other movements			123	58
<b>Operating balance per NZ IFRS published accounts</b>			<b>8,023</b>	<b>6,464</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 statements 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 due 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, and
  - 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.