

6 March 2012

**MEDIA STATEMENT**

Embargoed until 10.00am, Tuesday 6 March 2012

Fergus Welsh  
Chief Financial Officer  
The Treasury

## **Financial Statements of the Government of New Zealand for the Seven Months Ended 31 January 2012**

The *Financial Statements of the Government of New Zealand* for the seven months ended 31 January 2012 were released by the Treasury today.

The monthly financial statements are compared against monthly forecast tracks based on the 2011 *Pre-election Economic and Fiscal Update (PREFU)* published on 25 October 2011.

In the seven month period, **core Crown tax revenue** of \$31.4 billion was 2.9% below the *PREFU* forecast. The key drivers of this variance were:

- Source deductions were \$383 million (3.0%) below *PREFU* forecast, reflecting weaker than forecast labour market conditions.
- GST revenue was \$345 million (4.0%) below *PREFU* forecast with earthquake-related GST refunds to insurance companies continuing to account for most of this variance.
- Corporate tax was \$245 million (5.1%) below *PREFU* forecast. Corporate tax assessments in the month of January were below forecast which is a pattern that is now expected to persist to the end of the financial year.

In the 2012 *Budget Policy Statement (BPS)* published last month, the Treasury forecast the operating balance before gains and losses (OBEGAL) for the current year to be \$1.3 billion lower than in *PREFU*, primarily reflecting a weakening in economic activity. January tax data was in line with the *BPS* assessment although weaker labour market conditions now apparent suggest some downside risk to the full year source deductions forecast.

In the seven months to 31 January, core Crown expenses of \$39.4 billion were 3.1% lower than expected. Most of this variance was either offset by similar revenue impacts, or reflect timing of expenditure and is expected to reverse by the end of the financial year. The Treasury continues to expect that expenditure at year-end will be similar to that forecast at *PREFU*.

The **OBEGAL** was in deficit by \$4.3 billion, \$473 million higher than forecast driven in part by EQC expenses related to the 23 December 2011 earthquake (\$290 million).

Including gains and losses, the **operating balance** deficit, at \$8.9 billion, was \$2.5 billion higher than forecast. The main contributors continued to be higher-than-forecast actuarial losses on the Government Superannuation Fund liability (\$1.0 billion) and ACC's outstanding claims liability (\$721 million), as well as higher-than-assumed losses on investment portfolios across the Crown (\$205 million).

The **residual cash deficit** and **net debt** were largely in line with forecast, with net debt at \$48.1 billion (23.7% of GDP). **Gross debt**, at \$74.2 billion (36.5% of GDP), was 1.1% lower than expected due to lower than forecast government stock issuances.

\$ million	<i>Year to date</i>				<i>Full Year</i>
	January 2012	January 2012	<i>Variance</i>	<i>Variance</i>	June 2012
	Actual <sup>1</sup>	Forecast <sup>1</sup>	<i>to PREFU</i>	<i>to PREFU</i>	PREFU Forecast <sup>2</sup>
			<i>\$m</i>	<i>%</i>	
<b>Core Crown</b>					
Core Crown tax revenue	<b>31,360</b>	32,306	(946)	(2.9)	55,451
Core Crown revenue	<b>33,935</b>	35,323	(1,388)	(3.9)	61,165
Core Crown expenses	<b>39,419</b>	40,661	1,242	3.1	74,460
Core Crown residual cash	<b>(7,859)</b>	(7,912)	53	0.7	(13,626)
Gross debt <sup>3</sup>	<b>74,234</b>	75,066	832	1.1	79,779
<i>as a percentage of GDP</i>	<b>36.5%</b>	36.9%			37.7%
Net debt <sup>4</sup>	<b>48,146</b>	48,385	239	0.5	53,823
<i>as a percentage of GDP</i>	<b>23.7%</b>	23.8%			25.4%
<b>Total Crown</b>					
Operating balance before gains and losses	<b>(4,314)</b>	(3,841)	(473)	(12.3)	(10,809)
Operating balance	<b>(8,928)</b>	(6,458)	(2,470)	(38.2)	(12,601)
Net worth	<b>72,105</b>	74,349	(2,244)	(3.0)	68,282

1 Using GDP for the year ended 30 September 2011 of \$203,340 million (Source: Statistics New Zealand)

2 Using forecast GDP for the year ended 30 June 2012 of \$211,773 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

ENDS

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# Financial Statements of the Government of New Zealand

For the Seven Months Ended  
31 January 2012



Prepared by the Treasury  
6 March 2012

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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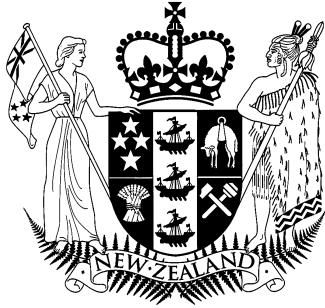
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## COMMENTARY

## S U M M A R Y

The Financial Statements of the Government provide a record of the Government's financial performance over the seven months ended 31 January 2012 and its financial position as at that date.

The January results are reported against forecasts based on the *2011 Pre-election Economic and Fiscal Update (PREFU)*, published on 25 October 2011.

### At a Glance

**Table 1** – Key indicators for the seven months ended 31 January 2012 compared to *PREFU*

\$ million	Year to date				Full Year
	January	January	Variance to <i>PREFU</i> \$m	Variance to <i>PREFU</i> %	June
	2012 Actual <sup>1</sup>	2012 PREFU Forecast <sup>1</sup>			2012 PREFU Forecast <sup>2</sup>
<b>Core Crown</b>					
Core Crown tax revenue	31,360	32,306	(946)	(2.9)	55,451
Core Crown revenue	33,935	35,323	(1,388)	(3.9)	61,165
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Gross debt <sup>3</sup>	74,234	75,066	832	1.1	79,779
<i>as a percentage of GDP</i>	36.5%	36.9%			37.7%
Net debt <sup>4</sup>	48,146	48,385	239	0.5	53,823
<i>as a percentage of GDP</i>	23.7%	23.8%			25.4%
<b>Total Crown</b>					
Operating balance before gains and losses	(4,314)	(3,841)	(473)	(12.3)	(10,809)
Operating balance	(8,928)	(6,458)	(2,470)	(38.2)	(12,601)
Net worth	72,105	74,349	(2,244)	(3.0)	68,282

1 Using GDP for the year ended 30 September 2011 of \$203,340 million (Source: Statistics New Zealand)

2 Using forecast GDP for the year ended 30 June 2012 of \$211,773 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 seven months ended 31 January 2012

In the seven month period, **Core Crown tax revenue** of \$31.4 billion was 2.9% below the *PREFU* forecast. The key drivers of this variance were:

- Source deductions were \$383 million (3.0%) below *PREFU* forecast, reflecting weaker than forecast labour market conditions.
- GST revenue was \$345 million (4.0%) below *PREFU* forecast with earthquake-related GST refunds to insurance companies continuing to account for most of this variance.
- Corporate tax was \$245 million (5.1%) below *PREFU* forecast. Corporate tax assessments in the month of January were below forecast which is a pattern that is now expected to persist to the end of the financial year.

In the *2012 Budget Policy Statement (BPS)* published last month, the Treasury forecast the operating balance before gains and losses (OBEGAL) for the current year to be \$1.3 billion lower than in *PREFU*, primarily reflecting a weakening in economic activity. January tax data was in line with the *BPS* assessment although weaker labour market conditions now apparent suggest some downside risk to the full year source deductions forecast.



In the seven months to 31 January, **Core Crown expenses** of \$39.4 billion were 3.1% lower than expected. Most of this variance was either offset by similar revenue impacts, or reflect timing of expenditure and is expected to reverse by the end of the financial year. The Treasury continues to expect that expenditure at year-end will be similar to that forecast at *PREFU*.

The **OBEGAL** was in deficit by \$4.3 billion, \$473 million higher than forecast driven in part by EQC expenses related to the 23 December 2011 earthquake (\$290 million).

Including gains and losses, the **operating balance** deficit, at \$8.9 billion, was \$2.5 billion higher than forecast. The main contributors continued to be higher-than-forecast actuarial losses on the Government Superannuation Fund liability (\$1.0 billion) and ACC's outstanding claims liability (\$721 million), as well as higher-than-assumed losses on investment portfolios across the Crown (\$205 million).

The **residual cash deficit** and **net debt** were largely in line with forecast, with net debt at \$48.1 billion (23.7% of GDP). **Gross debt**, at \$74.2 billion (36.5% of GDP), was 1.1% lower than expected due to lower than forecast government stock issuances.

Further analysis of the January results follows.

## ANALYSIS

**Table 2** – Key indicator variances for the seven months ended 31 January 2012 compared to *PREFU*

Item/indicator	Variance <sup>1</sup>	Key drivers
<b>Core Crown</b>		
Core Crown revenue	-\$1,388 million (lower than forecast)	<p>Core Crown tax revenue was \$946m or 2.9% lower than forecast. The main components of this variance were:</p> <ul style="list-style-type: none"> <li>• Source deductions were \$383m (3.0%) below forecast. Recent labour market data (Dec 2011 quarter) was also slightly weaker than expected. Wage growth and employment were below the <i>PREFU</i> forecast suggesting some downside to the full year source deductions results. The source deduction receipts variance also widened in January to match revenue, reinforcing that there is some underlying weakness.</li> <li>• GST revenue was \$345m (4.0%) below forecast. Earthquake-related GST refunds to insurance companies continue to account for most of this variance. Retail sales were strong in the December quarter but residential investment was slightly weaker. Excluding the insurance refunds the GST base is on track. However, it is expected that the higher refunds will result in a lower net GST result than forecast at year end, with recoveries extending into next year as the rebuild gets underway.</li> <li>• Corporate tax revenue was \$245m (5.1%) lower than forecast. January's assessments were below forecast which is a pattern that is now expected to persist to the end of the year. This negative variance is expected to widen by year end consistent with the recent <i>Budget Policy Statement (BPS)</i> forecast.</li> </ul> <p>In addition to the tax revenue result, other core Crown revenue was also under forecast, by \$442m. This was due to two factors; a review of child support penalties by IRD which led to the reversal of \$278m in penalties; and Emissions Trading Scheme (ETS) revenue being \$124m below forecast due to reductions in the carbon price used to value estimates of surrender units. Both of these factors are offset by lower than forecast expenses (\$243m and \$280m respectively) – refer comments below.</p>
Core Crown expenses	\$1,242 million (lower than forecast)	<p>Core Crown expenses were 3.1% lower than forecast. There were six key drivers:</p> <ul style="list-style-type: none"> <li>• Impairment of child support debt was \$243m lower than forecast. However, most of this is offset against the reversal in core Crown revenue, with the impact largely fiscally neutral (as mentioned above).</li> <li>• The cost of units allocated under the ETS was \$280m lower than expected. This was primarily due to a decrease in the carbon price of units from NZ\$15.90 per tonne when the forecast was made to NZ\$10.41 as at 31 January. The decrease in price also had an impact on ETS revenue, which was \$124m lower than forecast by 31 January (refer above).</li> <li>• Education expenses were \$229m lower than forecast mainly due to a phasing issue in the Ministry's forecasts relating to teacher's holiday pay. This is expected to reverse in coming months.</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>• A number of Treaty settlement deeds totalling around \$118m were forecast to be initialled by January 2012 but have been rescheduled as final details are worked through. This may result in an underspend at year-end.</li> <li>• Expenses relating to the Auckland Rail Development (ARD) and National Land Transport Programme (NLTP) were behind forecast by around \$55m and \$41m respectively. A number of factors contributed to the ARD underspend, including subcontractor and tender delays. The NLTP was below forecast due to a modification to the financial assistance rate for local roads agreed by Auckland Transport and the New Zealand Transport Agency (NZTA).</li> <li>• Core Government services expenditure was \$184m lower than forecast. The largest item within this was a \$72m underspend by Canterbury Earthquake Recovery Authority (CERA); the remainder being small variances across a number of departments. The lower than forecast costs for CERA were related to delays in demolition work caused by continued aftershocks, and the costs with the acquisition and management of red zone properties. These costs are expected to be incurred as the demolition work progresses with the year-end impact unclear at this stage.</li> </ul>
Core Crown residual cash deficit	\$53 million (lower than forecast)	<p>The core Crown residual cash deficit was \$7,859m, \$53m lower than forecast. The main contributing factors were:</p> <p>Core Crown tax receipts were \$998m lower than forecast (increasing the deficit) across a number of tax types:</p> <ul style="list-style-type: none"> <li>• Corporate tax was \$329m lower than forecast, consistent with the variance in revenue. The current weakness in profits relative to forecast should see receipts decline further against the forecast in line with the revenue expectations.</li> <li>• GST and source deductions were \$277m and \$303m lower than forecast (respectively), for reasons similar to their tax revenue results (see above).</li> <li>• Other individuals tax was \$149m lower than forecast. January is a significant month for provisional tax payments. These lower than forecast receipts suggest that underlying profitability in the 2011/12 tax year for individuals is below our expectations at <i>PREFU</i>. As such we expect this variance to persist until year end. This impact was built into the recent <i>BPS</i> fiscal update.</li> </ul> <p>Although tax receipts were lower than expected, the impact on residual cash was partially offset by delays in capital spending and lower than forecast operating payments. Lower operating payments (\$383m) are consistent with core Crown expenses being below forecast. The delays in capital spending (\$681m) mainly related to:</p> <ul style="list-style-type: none"> <li>• Net purchases of physical assets were \$289m lower than forecast, largely due to delays in payments for defence assets (\$136m).</li> <li>• Advances being \$290m below forecast. The majority of this related to forecast advances to NZTA from the NZ Debt Management Office not being drawn.</li> </ul>

Item/indicator	Variance <sup>1</sup>	Key drivers
Gross debt	\$832 million (lower than forecast)	<p>Gross debt at \$74,234m was 1.1% lower than forecast. The main contributors were:</p> <ul style="list-style-type: none"> <li>• Govt stock issuances were \$965m lower than forecast partly due to seasonally weak demand (\$750m) and also due to the NZ Debt Management Office (DMO) repurchasing approximately \$400m of NZ Government Stock and Inflation Indexed Bonds from EQC in the last five months, \$215m more than was expected.</li> <li>• DMO's collateral deposits from counterparties for derivative contracts were \$396m lower than forecast. Depreciation in the NZD exchange rate since the forecast base month has decreased the mark-to-market (MTM) value of derivatives. This decrease in value means less collateral is required from counterparties to offset credit exposure.</li> <li>• Reserve Bank bond lending (borrowing) was \$565m lower than expected due to fewer US Treasury securities available to the bank for use as collateral. (Instead of investing in US Treasury securities at the current low yields, higher levels of USD cash were held by Reserve Bank.)</li> </ul> <p>These were partly offset by:</p> <ul style="list-style-type: none"> <li>• Higher than forecast issuance of Treasury bills (\$376m) due to strong investor demand.</li> <li>• Unsettled trades at 31 January of \$575m held by the Reserve Bank are short-term positions that are not forecast.</li> </ul> <p>All the differences outlined were net debt neutral because they were offset by corresponding differences in holdings of financial assets.</p>
Net debt	\$239 million (lower than forecast)	<p>Net debt at \$48,146m was 0.5% lower than forecast. This was mainly due to higher than forecast issuance of currency in circulation (\$256m) which increased the Reserve Bank financial asset holdings (thereby reducing net debt).</p>

Item/indicator	Variance	Key drivers
<b>Total Crown</b>		
Operating balance before gains and losses deficit	-\$473 million (higher than forecast)	The OBEGAL deficit at \$4,314m was \$473m higher than forecast. While core Crown revenue was \$1,388m lower than forecast, this was largely offset by a similar underspend in core Crown expenditure (as detailed earlier). In addition to core Crown, EQC's insurance expenses were \$290m higher than forecast for the seven months. This is due to ongoing earthquakes and aftershocks with the cost of the 23 December earthquake being estimated at \$300m.
Operating balance deficit	-\$2,470 million (higher than forecast)	The operating balance deficit of \$8,928m was higher than expected due to: <ul style="list-style-type: none"> <li>• Unforecast, actuarial losses of \$1,039m on the GSF liability were recorded. These losses arose from an increase in the allowance for future mortality rate improvements (\$932m) which resulted in an increase in the GSF liability. This actuarial loss was first recognised in the 31 October financial statements.</li> <li>• Year-to-date actuarial losses on ACC's liability for outstanding claims were \$721m higher than forecast (a \$32m clawback from last month). These losses were largely due to a decrease in the discount rate used to calculate the present value of expected claims payments, partially offset by a level of favourable claims experience.</li> <li>• Net losses on investment portfolios were \$205m higher than forecast. These losses are attributable to a number of different entities across the Crown.</li> </ul>
Net worth	-\$2,244 million (lower than forecast)	Net worth was lower than forecast, reflecting the higher-than-forecast operating balance deficit, as detailed above.

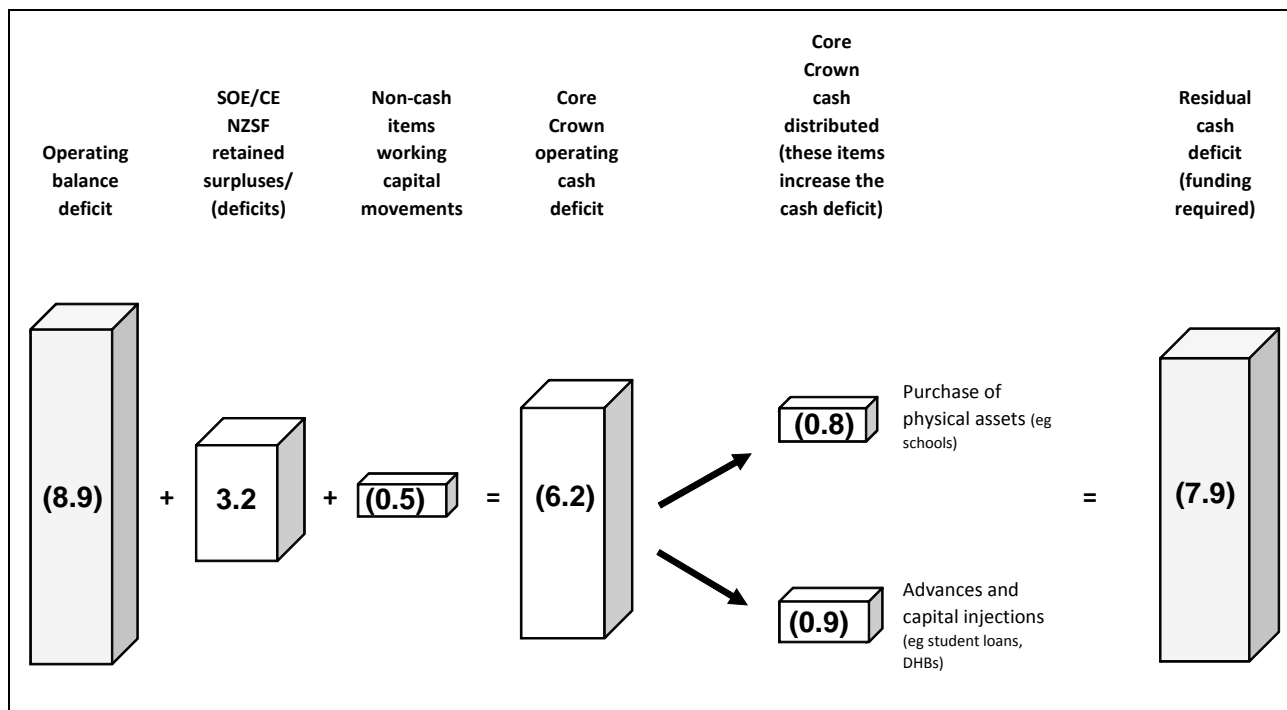
**Table 3 – Fiscal Strategy and financial results**

Fiscal Strategy		Financial Results		Ref	31 Jan 2012 Actual \$m	31 Jan 2012 Forecast \$m	Variance \$m	Variance %	Annual Forecast \$m
		Taxation as a % of GDP		1	26.4%	27.2%			26.2%
<b>Operating revenue</b> Ensure sufficient revenue to meet the operating balance objective		Core Crown taxation revenue ...			31,360	32,306	(946)	(2.9)	55,451
		... combined with other core Crown revenue ...			2,575	3,017	(442)	(14.7)	5,714
<b>Operating expenses</b> To control the growth in spending so that over time, core Crown expenses are reduced to 30% of GDP.		... fund core Crown expenses...			(39,419)	(40,661)	1,242	3.1	(74,460)
		... and with SOE and Crown entity results and core Crown gains and losses...			(3,444)	(1,120)	(2,324)	(207.5)	694
<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...			(8,928)	(6,458)	(2,470)	(38.2)	(12,601)
		...with income in SOEs, CEs and the NZS Fund retained...			3,208	690	2,518	364.9	(1,182)
		... and some items do not impact cash ...			(513)	163	(676)	(414.7)	4,467
		... leaving operating cash flows to ...			<b>(6,233)</b>	<b>(5,605)</b>	<b>(628)</b>	<b>(11.2)</b>	<b>(9,316)</b>
<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		... meet the capital expenditure budget ...			(745)	(1,034)	289	27.9	(2,025)
		... and make advances (e.g. to students and DHBs)			(881)	(1,273)	392	30.8	(2,285)
		With the residual cash ...			<b>(7,859)</b>	<b>(7,912)</b>	<b>53</b>	<b>0.7</b>	<b>(13,626)</b>
		... when combined with opening net debt ...			40,128	40,128	-	-	40,128
	... and fair value movements and other changes in financial assets and financial liabilities ...			159	345	186	53.9	69	
	... results in a closing net debt ...			<b>48,146</b>	<b>48,385</b>	<b>239</b>	<b>0.5</b>	<b>53,823</b>	
	... and as a % of GDP			<b>23.7%</b>	<b>23.8%</b>			<b>25.4%</b>	

<sup>1</sup> GDP for the seven months ended 31 January 2012 (actual and forecast) is the actual data for the year ended 30 September 2011 (Source: Statistics New Zealand) pro-rated for seven 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

	January 2012 Actual \$m	January 2011 Actual \$m	Change <sup>1</sup> \$m	Change %
<b>Statement of Financial Performance</b>				
<b>Core Crown revenue</b>				
Taxation revenue	31,360	29,924	1,436	4.8
Other revenue	2,575	2,566	9	0.4
<b>Total Core Crown Revenue</b>	<b>33,935</b>	<b>32,490</b>	<b>1,445</b>	<b>4.4</b>
<b>Core Crown expenses</b>				
Social security and welfare	12,952	12,554	398	3.2
GSF pension expenses	108	179	(71)	(39.7)
Health	8,221	7,960	261	3.3
Education	6,499	6,447	52	0.8
Core government services	2,248	1,916	332	17.3
Law and order	1,956	1,949	7	0.4
Defence	1,067	1,034	33	3.2
Transport and communications	1,225	1,293	(68)	(5.3)
Economic and industrial services	1,286	1,485	(199)	(13.4)
Primary services	354	385	(31)	(8.1)
Heritage, culture and recreation	908	1,075	(167)	(15.5)
Housing and community development	204	210	(6)	(2.9)
Other	280	291	(11)	(3.8)
Finance costs	2,111	1,685	426	25.3
<b>Total Core Crown Expenses</b>	<b>39,419</b>	<b>38,463</b>	<b>956</b>	<b>2.5</b>
Net surplus of SOE/CE's (and inter-segment eliminations)	1,170	(234)	1,404	-
<b>OBEGAL</b>	<b>(4,314)</b>	<b>(6,207)</b>	<b>1,893</b>	<b>30.5</b>
Total gains/(losses)	(4,752)	5,073	(9,825)	(193.7)
Other operating items	138	136	2	1.5
<b>Operating Balance</b>	<b>(8,928)</b>	<b>(998)</b>	<b>(7,930)</b>	<b>-</b>
<b>Core Crown residual cash</b>	<b>(7,859)</b>	<b>(10,145)</b>	<b>2,286</b>	<b>22.5</b>
<b>Debt indicators</b>				
<b>Gross debt<sup>2</sup></b>	<b>74,234</b>	<b>63,048</b>	<b>11,186</b>	<b>17.7</b>
<b>Net debt<sup>3</sup></b>	<b>48,146</b>	<b>36,968</b>	<b>11,178</b>	<b>30.2</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 seven months ended 31 January 2012 increased by \$1,436 million (4.8%) on the same period last year. GST was the largest contributor (\$635 million) to the rise as the increase in the rate of GST in October 2010 continues to flow into tax outturns. The next highest contributor was corporate tax, up \$506 million (12.6%) as profitability continues to recover following the 2008/09 recession. Partially offsetting these increases in tax revenue was a decrease in source deductions (\$284 million) as a result of the lowering of personal income tax rates announced in Budget 2010.

Total **core Crown expenses** increased by \$956 million (2.5%) 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
Finance costs	+ \$426 million	<ul style="list-style-type: none"> <li>• A result of increased debt levels.</li> </ul>
Social security and welfare	+ \$398 million	<ul style="list-style-type: none"> <li>• Indexation of welfare benefits and higher beneficiary recipient numbers.</li> </ul>
Core government services	+ \$332 million	<ul style="list-style-type: none"> <li>• Impairments of Crown assets totalling \$116 million.</li> <li>• Costs associated with the Canterbury Earthquake Recovery Authority (a new department formed late in 2010/11) of \$111 million.</li> <li>• The remainder being individually small increases across a number of departments.</li> </ul>
Health	+ \$261 million	<ul style="list-style-type: none"> <li>• Funding provided in the 2011 Budget to maintain and improve existing service levels.</li> </ul>
Economic and industrial services	- \$199 million	<ul style="list-style-type: none"> <li>• A reduction in KiwiSaver Member Tax Credits in the 2011 Budget.</li> </ul>
Other functional classes	- \$262 million	
<b>Total</b>	<b>+ \$956 million</b>	

The **surplus of SOE/CE's** was \$1,170 million in the first seven months of this year, compared to a \$234 million deficit in the first seven months of the 2010/11 financial year. The change from last year is largely due to the impact of the Canterbury earthquakes on the EQC result in the 2010/11 financial year.

**Total losses** were \$4,752 million in the seven months to January 2012 due to weak global equity markets and increases in the valuation of the Crown's long-term liabilities (eg, ACC and GSF). In contrast, strong global equity markets in the first seven months of the 2010/11 financial year resulted in total gains of \$5,073 million to 31 January 2011.

## 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
- State-Owned Enterprises (SOEs)
- AMI Insurance Limited
- Departments
- New Zealand Superannuation Fund
- Crown Entities
- Air New Zealand Limited

A schedule of the entities that are included in the Government reporting entity was set out on pages 77 and 78 of the *PREFU* released on 25 October 2011.

With the exception of the 30 June 2011 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 *PREFU*, on 25 October 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/prefu2011>

## 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.

### 7 Judgements and Estimates

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future, as with the settlement of ACC outstanding claim obligations and Government Superannuation retirement benefits, depends critically on judgements regarding future cash flows, including inflation assumptions and the risk free discount rate used to calculate present values. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

A second area of uncertainty relates to the immature nature of the claims experience available to assist in estimating the claims and provisions arising from the Canterbury earthquakes. Actuarial valuations of these liabilities using the best available information have been used, however it is common in such cases for adjustments to be required as the claims experience develops.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

# STATEMENT OF FINANCIAL PERFORMANCE

for the seven months ended 31 January 2012

Year to 30 Jun 2011	7 months to 31 Jan 2011		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
		<b>Revenue</b>						
51,128	29,574	Taxation revenue	1	31,069	32,013	(944)	(2.9)	54,957
5,281	2,902	Other sovereign revenue	1	2,828	3,202	(374)	(11.7)	5,563
<b>56,409</b>	<b>32,476</b>	<b>Total Revenue Levied through the Crown's Sovereign Power</b>		<b>33,897</b>	<b>35,215</b>	<b>(1,318)</b>	<b>(3.7)</b>	<b>60,520</b>
15,084	8,867	Sales of goods and services		9,552	9,587	(35)	(0.4)	16,825
2,570	1,393	Interest revenue and dividends	2	1,584	1,580	4	0.3	2,814
7,500	3,201	Other revenue		1,945	1,863	82	4.4	3,478
<b>25,154</b>	<b>13,461</b>	<b>Total revenue earned through the Crown's operations</b>		<b>13,081</b>	<b>13,030</b>	<b>51</b>	<b>0.4</b>	<b>23,117</b>
<b>81,563</b>	<b>45,937</b>	<b>Total revenue (excluding gains)</b>		<b>46,978</b>	<b>48,245</b>	<b>(1,267)</b>	<b>(2.6)</b>	<b>83,637</b>
		<b>Expenses</b>						
		Social assistance and official development assistance	3	12,932	12,988	56	0.4	22,580
19,088	10,971	Personnel expenses	4	11,260	11,330	70	0.6	19,536
4,682	2,468	Depreciation and amortisation	5	3,112	3,143	31	1.0	4,562
35,829	19,002	Other operating expenses	5	19,511	20,648	1,137	5.5	40,685
3,596	2,178	Interest expenses	6	2,341	2,275	(66)	(2.9)	3,959
14,592	4,693	Insurance expenses	7	2,136	1,919	(217)	(11.3)	3,751
-	-	Forecast new operating spending	5	-	-	-	-	473
-	-	Top-down expense adjustment	5	-	(217)	(217)	(100.0)	(1,100)
<b>99,959</b>	<b>52,144</b>	<b>Total expenses (excluding losses)</b>		<b>51,292</b>	<b>52,086</b>	<b>794</b>	<b>1.5</b>	<b>94,446</b>
<b>(18,396)</b>	<b>(6,207)</b>	<b>Operating balance before gains/(losses)</b>		<b>(4,314)</b>	<b>(3,841)</b>	<b>(473)</b>	<b>(12.3)</b>	<b>(10,809)</b>
		Net gains/(losses) on financial instruments	8	(980)	(775)	(205)	(26.5)	(4)
		Net gains/(losses) on non-financial instruments	9	(3,772)	(1,996)	(1,776)	(89.0)	(2,064)
<b>4,698</b>	<b>5,073</b>	<b>Total gains/(losses)</b>		<b>(4,752)</b>	<b>(2,771)</b>	<b>(1,981)</b>	<b>(71.5)</b>	<b>(2,068)</b>
		Net surplus/(deficit) from associates and joint ventures		139	154	(15)	(9.7)	276
<b>(13,461)</b>	<b>(997)</b>	<b>Operating balance from continuing activities</b>		<b>(8,927)</b>	<b>(6,458)</b>	<b>(2,469)</b>	<b>(38.2)</b>	<b>(12,601)</b>
-		(1) Gain/(loss) from discontinued operations		(1)	-	(1)	-	-
<b>(13,461)</b>	<b>(998)</b>	<b>Operating balance (including minority interest)</b>		<b>(8,928)</b>	<b>(6,458)</b>	<b>(2,470)</b>	<b>(38.2)</b>	<b>(12,601)</b>
		Attributable to minority interest in Air New Zealand		-	-	-	-	-
<b>(13,360)</b>	<b>(998)</b>	<b>Operating balance</b>	10	<b>(8,928)</b>	<b>(6,458)</b>	<b>(2,470)</b>	<b>(38.2)</b>	<b>(12,601)</b>

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

# STATEMENT OF COMPREHENSIVE INCOME

for the seven months ended 31 January 2012

Year to 30 Jun 2011 Actual \$m	7 months to 31 Jan 2011 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
(13,461)	(998)	Operating Balance (including minority interest)	(8,928)	(6,458)	(2,470)	(38.2)	(12,601)
		<b>Other comprehensive income</b>					
(443)	(51)	Revaluation of physical assets	-	(83)	83	100.0	-
(252)	4	Effective portion of changes in value of cash flow hedges	153	5	148	-	7
17	(16)	Net change in fair value of cash flow hedges transferred to operating balance	1	1	-	-	1
95	12	Net change in fair value of cash flow hedges transferred to the hedged item	(19)	-	(19)	-	(21)
(37)	(19)	Foreign currency translation differences for foreign operations	3	3	-	-	6
(1)	(3)	Valuation gains/(losses) on investments available for sale taken to reserves	11	(7)	18	257.1	3
1	(1)	Other movements	(3)	1	(4)	(400.0)	-
<b>(620)</b>	<b>(74)</b>	<b>Total other comprehensive income</b>	<b>146</b>	<b>(80)</b>	<b>226</b>	<b>282.5</b>	<b>(4)</b>
<b>(14,081)</b>	<b>(1,072)</b>	<b>Total comprehensive income</b>	<b>(8,782)</b>	<b>(6,538)</b>	<b>(2,244)</b>	<b>(34.3)</b>	<b>(12,605)</b>
		<b>Attributable to:</b>					
(74)	-	- minority interest in Air New Zealand	-	-	-	-	-
(14,007)	(1,072)	- the Crown	(8,782)	(6,538)	(2,244)	(34.3)	(12,605)
<b>(14,081)</b>	<b>(1,072)</b>	<b>Total comprehensive income</b>	<b>(8,782)</b>	<b>(6,538)</b>	<b>(2,244)</b>	<b>(34.3)</b>	<b>(12,605)</b>

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

## ANALYSIS OF EXPENSES BY FUNCTIONAL CLASSIFICATION

for the seven months ended 31 January 2012

Year to 30 Jun 2011 Actual \$m	7 months to 31 Jan 2011 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		<b>Total Crown expenses</b>					
25,324	14,410	Social security and welfare	14,811	15,144	333	2.2	26,047
311	183	GSF pension expenses	111	122	11	9.0	210
13,068	7,597	Health	7,900	7,850	(50)	(0.6)	13,809
12,406	7,128	Education	7,180	7,449	269	3.6	13,052
5,515	1,902	Core government services	2,184	2,365	181	7.7	7,018
3,567	2,059	Law and order	2,058	2,111	53	2.5	3,823
1,778	1,018	Defence	1,041	1,056	15	1.4	1,856
8,402	4,743	Transport and communications	4,941	5,085	144	2.8	8,943
18,818	7,241	Economic and industrial services	5,148	4,702	(446)	(9.5)	8,884
1,603	913	Primary services	909	1,002	93	9.3	1,710
3,437	1,880	Heritage, culture and recreation	1,742	2,050	308	15.0	3,898
1,655	601	Housing and community development	646	648	2	0.3	1,158
479	291	Other	280	444	164	36.9	706
3,596	2,178	Finance costs	2,341	2,275	(66)	(2.9)	3,959
-	-	Forecast new operating spending	-	-	-	-	473
-	-	Top-down expense adjustment	-	(217)	(217)	(100.0)	(1,100)
<b>99,959</b>	<b>52,144</b>	<b>Total Crown expenses excluding losses</b>	<b>51,292</b>	<b>52,086</b>	<b>794</b>	<b>1.5</b>	<b>94,446</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.

Year to 30 Jun 2011 Actual \$m	7 months to 31 Jan 2011 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		<b>Core Crown expenses</b>					
22,005	12,554	Social security and welfare	12,952	13,194	242	1.8	22,560
305	179	GSF pension expenses	108	117	9	7.7	201
13,753	7,960	Health	8,221	8,205	(16)	(0.2)	14,350
11,650	6,447	Education	6,499	6,728	229	3.4	12,269
5,563	1,916	Core government services	2,248	2,432	184	7.6	7,138
3,382	1,949	Law and order	1,956	2,009	53	2.6	3,635
1,809	1,034	Defence	1,067	1,079	12	1.1	1,903
2,281	1,293	Transport and communications	1,225	1,351	126	9.3	2,468
2,609	1,485	Economic and industrial services	1,286	1,327	41	3.1	2,529
706	385	Primary services	354	382	28	7.3	783
1,966	1,075	Heritage, culture and recreation	908	1,236	328	26.5	2,490
876	210	Housing and community development	204	233	29	12.4	400
479	291	Other	280	444	164	36.9	706
3,066	1,685	Finance costs	2,111	2,141	30	1.4	3,655
-	-	Forecast new operating spending	-	-	-	-	473
-	-	Top-down expense adjustment	-	(217)	(217)	(100.0)	(1,100)
<b>70,450</b>	<b>38,463</b>	<b>Core Crown expenses excluding losses</b>	<b>39,419</b>	<b>40,661</b>	<b>1,242</b>	<b>3.1</b>	<b>74,460</b>

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



# STATEMENT OF CASH FLOWS

for the seven months ended 31 January 2012

Year to 30 Jun 2011 Actual \$m	7 months to 31 Jan 2011 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		<b>Cash Flows From Operations</b>					
		<b>Cash was provided from</b>					
50,418	28,979	Taxation receipts	30,062	30,967	(905)	(2.9)	54,070
4,693	2,991	Other sovereign receipts	2,950	3,087	(137)	(4.4)	4,884
14,899	8,893	Sales of goods and services	9,732	9,619	113	1.2	16,424
2,682	1,552	Interest and dividends	1,549	1,464	85	5.8	2,602
2,990	1,680	Other operating receipts	2,389	2,293	96	4.2	5,164
<b>75,682</b>	<b>44,095</b>	<b>Total cash provided from operations</b>	<b>46,682</b>	<b>47,430</b>	<b>(748)</b>	<b>(1.6)</b>	<b>83,144</b>
		<b>Cash was disbursed to</b>					
		Social assistance and official development assistance					
22,172	13,405		13,827	13,902	75	0.5	23,089
55,152	33,575	Personnel and operating payments	35,430	35,276	(154)	(0.4)	62,029
3,107	1,539	Interest payments	2,129	2,064	(65)	(3.1)	4,100
-	-	Forecast new operating spending	-	-	-	-	623
-	-	Top-down expense adjustment	-	(217)	(217)	(100.0)	(1,100)
<b>80,431</b>	<b>48,519</b>	<b>Total cash disbursed to operations</b>	<b>51,386</b>	<b>51,025</b>	<b>(361)</b>	<b>(0.7)</b>	<b>88,741</b>
<b>(4,749)</b>	<b>(4,424)</b>	<b>Net cash flows from operations</b>	<b>(4,704)</b>	<b>(3,595)</b>	<b>(1,109)</b>	<b>(30.8)</b>	<b>(5,597)</b>
		<b>Cash Flows From Investing Activities</b>					
		<b>Cash was provided from/(disbursed to)</b>					
(5,996)	(3,822)	Net purchase of physical assets	(3,483)	(4,401)	918	20.9	(7,841)
(8,405)	(1,319)	Net purchase of shares and other securities	(1,695)	1,575	(3,270)	(207.6)	(2)
(600)	(236)	Net purchase of intangible assets	(281)	(283)	2	0.7	(582)
(1,003)	(126)	Net (issue)/repayment of advances	(531)	(815)	284	34.8	(1,673)
173	33	Net acquisition of investments in associates	23	8	15	187.5	(30)
-	-	Capital contingency provision	-	-	-	-	(242)
-	-	Top-down capital adjustment	-	-	-	-	350
<b>(15,831)</b>	<b>(5,470)</b>	<b>Net cash flows from investing activities</b>	<b>(5,967)</b>	<b>(3,916)</b>	<b>(2,051)</b>	<b>(52.4)</b>	<b>(10,020)</b>
<b>(20,580)</b>	<b>(9,894)</b>	<b>Net cash flows from operating and investing activities</b>	<b>(10,671)</b>	<b>(7,511)</b>	<b>(3,160)</b>	<b>(42.1)</b>	<b>(15,617)</b>
		<b>Cash Flows From Financing Activities</b>					
		<b>Cash was provided from/(disbursed to)</b>					
234	303	Issues of circulating currency	300	44	256	-	89
21,088	9,434	Net issue/(repayment) of Government stock <sup>1</sup>	10,930	3,940	6,990	177.4	10,312
1,809	2,079	Net issue/(repayment) of foreign currency borrowing	(6,695)	(6,505)	(190)	(2.9)	(7,720)
81	(1,262)	Net issue/(repayment) of other New Zealand dollar borrowing	10,601	10,454	147	1.4	12,454
<b>23,212</b>	<b>10,554</b>	<b>Net cash flows from financing activities</b>	<b>15,136</b>	<b>7,933</b>	<b>7,203</b>	<b>90.8</b>	<b>15,135</b>
<b>2,632</b>	<b>660</b>	<b>Net movement in cash</b>	<b>4,465</b>	<b>422</b>	<b>4,043</b>	<b>-</b>	<b>(482)</b>
7,774	7,774	Opening Cash Balance	9,801	9,801	-	-	9,801
(605)	(289)	Foreign-exchange gains/(losses) on opening cash	48	(135)	183	135.6	(134)
<b>9,801</b>	<b>8,145</b>	<b>Closing Cash Balance</b>	<b>14,314</b>	<b>10,088</b>	<b>4,226</b>	<b>41.9</b>	<b>9,185</b>

1 Net issues of Government stock include movements within government stock holdings of entities such as RBNZ, 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 seven months ended 31 January 2012

Year to 30 Jun 2011 Actual \$m	7 months to 31 Jan 2011 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
<b>Reconciliation Between the Net Cash Flows from Operations and the Operating Balance</b>							
<b>(4,749)</b>	<b>(4,424)</b>	<b>Net Cash Flows from Operations</b>	<b>(4,704)</b>	<b>(3,595)</b>	<b>(1,109)</b>	<b>(30.8)</b>	<b>(5,597)</b>
<i>Items included in the operating balance but not in net cash flows from operations.</i>							
<b>Gains/(losses)</b>							
4,619	3,998	Gains/(losses) on other financial instruments	(980)	(775)	(205)	(26.5)	(4)
79	1,075	Gains/(losses) on other non-financial instruments	(3,772)	(1,996)	(1,776)	(89.0)	(2,064)
<b>4,698</b>	<b>5,073</b>	<b>Total gains/(losses)</b>	<b>(4,752)</b>	<b>(2,771)</b>	<b>(1,981)</b>	<b>(71.5)</b>	<b>(2,068)</b>
<b>Other Non-cash Items in Operating Balance</b>							
(4,682)	(2,468)	Depreciation and amortisation	(3,112)	(3,143)	31	1.0	(4,562)
(807)	(336)	Write-down on initial recognition of loans	(345)	(283)	(62)	(21.9)	(798)
105	37	Impairment on financial assets (excluding receivables)	48	46	2	4.3	79
358	203	Decrease/(increase) in defined benefit retirement plan liabilities	261	197	64	32.5	475
(13,179)	(1,189)	Decrease/(increase) in insurance liabilities	2,591	2,499	92	3.7	2,460
238	139	Other	137	154	(17)	(11.0)	281
<b>(17,967)</b>	<b>(3,614)</b>	<b>Total other non-cash Items</b>	<b>(420)</b>	<b>(530)</b>	<b>110</b>	<b>20.8</b>	<b>(2,065)</b>
<b>Movements in Working Capital</b>							
6,605	893	Increase/(decrease) in receivables	(1,709)	(2,686)	977	36.4	(1,532)
(599)	(796)	Increase/(decrease) in accrued interest	(177)	(95)	(82)	(86.3)	353
149	113	Increase/(decrease) in inventories	23	12	11	91.7	11
39	266	Increase/(decrease) in prepayments	287	67	220	328.4	4
(46)	(35)	Decrease/(increase) in deferred revenue	339	79	260	329.1	164
(1,490)	1,526	Decrease/(increase) in payables/provisions	2,185	3,061	(876)	(28.6)	(1,871)
<b>4,658</b>	<b>1,967</b>	<b>Total movements in working capital</b>	<b>948</b>	<b>438</b>	<b>510</b>	<b>116.4</b>	<b>(2,871)</b>
<b>(13,360)</b>	<b>(998)</b>	<b>Operating Balance</b>	<b>(8,928)</b>	<b>(6,458)</b>	<b>(2,470)</b>	<b>(38.2)</b>	<b>(12,601)</b>

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

## STATEMENT OF CHANGES IN NET WORTH

for the seven months ended 31 January 2012

Year to 30 Jun 2011 Actual \$m	7 months to 31 Jan 2011 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
<b>94,988</b>	<b>94,988</b>	<b>Opening net worth</b>	<b>80,887</b>	<b>80,887</b>	-	-	<b>80,887</b>
(13,461)	(998)	Operating balance (including minority interest)	(8,928)	(6,458)	(2,470)	(38.2)	(12,601)
(443)	(51)	Net revaluations	-	(83)	83	100.0	-
(279)	1	Transfers to/(from) reserves (Gains)/losses transferred to the	164	(2)	166	-	7
17	(16)	statement of financial performance	1	1	-	-	1
85	(8)	Other movements	(19)	4	(23)	-	(12)
<b>(14,081)</b>	<b>(1,072)</b>	<b>Total comprehensive income</b>	<b>(8,782)</b>	<b>(6,538)</b>	<b>(2,244)</b>	<b>(34.3)</b>	<b>(12,605)</b>
(20)	-	Transactions with minority interest in Air New Zealand	-	-	-	-	-
<b>80,887</b>	<b>93,916</b>	<b>Closing net worth</b>	<b>72,105</b>	<b>74,349</b>	<b>(2,244)</b>	<b>(3.0)</b>	<b>68,282</b>

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

# STATEMENT OF FINANCIAL POSITION

as at 31 January 2012

As at 30 Jun 2011 Actual \$m	As at 31 Jan 2011 Actual \$m		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
		<b>Assets</b>						
9,801	8,145	Cash and cash equivalents	11	14,314	10,088	4,226	41.9	9,185
21,690	16,435	Receivables	11	19,458	18,640	818	4.4	18,798
		Marketable securities, deposits and derivatives in gain						
49,056	43,526		11	40,655	42,679	(2,024)	(4.7)	42,497
14,248	13,985	Share investments	11	14,045	17,100	(3,055)	(17.9)	18,443
20,567	19,216	Advances	11	21,305	21,361	(56)	(0.3)	22,181
1,308	1,272	Inventory		1,331	1,320	11	0.8	1,320
1,996	1,948	Other assets		2,282	2,033	249	12.2	1,946
114,854	114,743	Property, plant & equipment	12	116,022	116,988	(966)	(0.8)	119,067
9,301	9,300	Equity accounted investments <sup>1</sup>		9,727	9,799	(72)	(0.7)	9,689
2,394	2,203	Intangible assets and goodwill <sup>2</sup>		2,296	2,448	(152)	(6.2)	2,597
-	-	Forecast for new capital spending		-	-	-	-	242
-	-	Top-down capital adjustment		-	-	-	-	(350)
<b>245,215</b>	<b>230,773</b>	<b>Total assets</b>		<b>241,435</b>	<b>242,456</b>	<b>(1,021)</b>	<b>(0.4)</b>	<b>245,615</b>
		<b>Liabilities</b>						
4,254	4,323	Issued currency		4,554	4,316	(238)	(5.5)	4,361
11,099	8,158	Payables	14	10,856	10,625	(231)	(2.2)	12,303
1,674	1,663	Deferred revenue		1,335	1,595	260	16.3	1,510
90,245	80,260	Borrowings		95,365	95,622	257	0.3	101,237
39,314	27,439	Insurance liabilities	15	38,741	38,112	(629)	(1.7)	38,272
10,156	9,593	Retirement plan liabilities		11,835	10,859	(976)	(9.0)	10,581
7,586	5,421	Provisions	16	6,644	6,978	334	4.8	9,069
<b>164,328</b>	<b>136,857</b>	<b>Total liabilities</b>		<b>169,330</b>	<b>168,107</b>	<b>(1,223)</b>	<b>(0.7)</b>	<b>177,333</b>
<b>80,887</b>	<b>93,916</b>	<b>Total assets less total liabilities</b>		<b>72,105</b>	<b>74,349</b>	<b>(2,244)</b>	<b>(3.0)</b>	<b>68,282</b>
		<b>Net Worth</b>						
18,188	30,218	Taxpayer funds	17	9,377	11,753	(2,376)	(20.2)	5,631
62,690	63,412	Revaluation reserve	17	62,570	62,585	(15)	-	62,646
(299)	(116)	Other reserves	17	(150)	(297)	147	49.5	(303)
<b>80,579</b>	<b>93,514</b>	<b>Total net worth attributable to the Crown</b>		<b>71,797</b>	<b>74,041</b>	<b>(2,244)</b>	<b>(3.0)</b>	<b>67,974</b>
308	402	Net worth attributable to minority interest in Air New Zealand		308	308	-	-	308
<b>80,887</b>	<b>93,916</b>	<b>Total net worth</b>		<b>72,105</b>	<b>74,349</b>	<b>(2,244)</b>	<b>(3.0)</b>	<b>68,282</b>

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

<sup>2</sup> Intangible assets include the Kyoto net asset of \$174 million.

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

# STATEMENT OF BORROWINGS

as at 31 January 2012

As at 30 Jun 2011 Actual \$m	As at 31 Jan 2011 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
46,018	37,714	Government stock <sup>1</sup>	46,869	47,699	830	1.7	52,630
7,028	7,562	Treasury bills	8,957	8,716	(241)	(2.8)	8,997
261	275	Government retail stock	251	258	7	2.7	258
6,276	6,814	Settlement deposits with Reserve Bank	6,244	5,429	(815)	(15.0)	5,429
2,767	1,931	Derivatives in loss	2,863	2,983	120	4.0	2,638
1,176	843	Finance lease liabilities	1,135	1,116	(19)	(1.7)	1,556
26,719	25,121	Other borrowings	29,046	29,421	375	1.3	29,729
<b>90,245</b>	<b>80,260</b>	<b>Total borrowings</b>	<b>95,365</b>	<b>95,622</b>	<b>257</b>	<b>0.3</b>	<b>101,237</b>
67,765	59,572	Sovereign-guaranteed debt	71,028	71,528	500	0.7	76,415
22,480	20,688	Non sovereign-guaranteed debt	24,337	24,094	(243)	(1.0)	24,822
<b>90,245</b>	<b>80,260</b>	<b>Total borrowings</b>	<b>95,365</b>	<b>95,622</b>	<b>257</b>	<b>0.3</b>	<b>101,237</b>
		<b>Net Debt:</b>					
76,885	68,155	Core Crown borrowings <sup>2</sup>	79,729	79,844	115	0.1	84,636
405	191	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(820)	(793)	27	3.4	(872)
<b>77,290</b>	<b>68,346</b>	<b>Gross sovereign-issued debt<sup>3</sup></b>	<b>78,909</b>	<b>79,051</b>	<b>142</b>	<b>0.2</b>	<b>83,764</b>
65,400	58,389	Less core Crown financial assets <sup>4</sup>	60,472	60,764	(292)	(0.5)	61,028
<b>11,890</b>	<b>9,957</b>	<b>Net core Crown debt (incl NZS Fund)<sup>5</sup></b>	<b>18,437</b>	<b>18,287</b>	<b>(150)</b>	<b>(0.8)</b>	<b>22,736</b>
16,159	15,688	Add back NZS Fund holdings of core Crown financial assets and NZS Fund fin assets <sup>6</sup>	17,318	17,415	(97)	(0.6)	18,171
<b>28,049</b>	<b>25,645</b>	<b>Net core Crown debt (excl NZS Fund)<sup>5</sup></b>	<b>35,755</b>	<b>35,702</b>	<b>(53)</b>	<b>(0.1)</b>	<b>40,907</b>
12,079	11,323	Core crown advances	12,391	12,683	292	2.3	12,916
<b>40,128</b>	<b>36,968</b>	<b>Net core Crown debt (excl NZS Fund and advances)<sup>7</sup></b>	<b>48,146</b>	<b>48,385</b>	<b>239</b>	<b>0.5</b>	<b>53,823</b>
		<b>Gross Debt:</b>					
77,290	68,346	Gross sovereign-issued debt <sup>3</sup>	78,909	79,051	142	0.2	83,764
(6,470)	(6,898)	Less Reserve Bank settlement cash and Reserve Bank bills	(6,275)	(5,585)	690	12.4	(5,585)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash <sup>8</sup>	1,600	1,600	-	-	1,600
<b>72,420</b>	<b>63,048</b>	<b>Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve bank bills</b>	<b>74,234</b>	<b>75,066</b>	<b>832</b>	<b>1.1</b>	<b>79,779</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 January 2012

	As at 31 Jan 2012 \$m	As at 30 Jun 2011 \$m	As at 31 Jan 2011 \$m
<b>Capital Commitments</b>			
Specialist military equipment	334	369	388
Land and buildings	612	701	821
Other property, plant and equipment	6,987	7,032	6,912
Other capital commitments	417	408	228
Tertiary Education Institutions	413	413	302
<b>Total capital commitments</b>	<b>8,763</b>	<b>8,923</b>	<b>8,651</b>
<b>Operating Commitments</b>			
Non-cancellable accommodation leases	2,765	2,909	2,922
Other non-cancellable leases	2,983	3,171	3,223
Non-cancellable contracts for the supply of goods and services	5,440	5,520	2,322
Other operating commitments	7,168	7,415	8,903
Tertiary Education Institutions	366	366	304
<b>Total operating commitments</b>	<b>18,722</b>	<b>19,381</b>	<b>17,674</b>
<b>Total commitments</b>	<b>27,485</b>	<b>28,304</b>	<b>26,325</b>
<b>Total Commitments by Segment</b>			
Core Crown	14,448	22,129	13,200
Crown entities	13,284	12,925	12,819
State-owned Enterprises	10,282	10,410	7,817
Inter-segment eliminations	(10,529)	(17,160)	(7,511)
<b>Total commitments</b>	<b>27,485</b>	<b>28,304</b>	<b>26,325</b>

## STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 January 2012

	As at 31 Jan 2012 \$m	As at 30 Jun 2011 \$m	As at 31 Jan 2011 \$m
<b>Quantifiable Contingent Liabilities</b>			
Guarantees and indemnities	81	78	102
Uncalled capital	5,159	4,033	4,245
Legal proceedings and disputes	361	331	399
Other contingent liabilities	2,256	2,699	3,431
<b>Total quantifiable contingent liabilities</b>	<b>7,857</b>	<b>7,141</b>	<b>8,177</b>
<b>Total Quantifiable Contingent Liabilities by Segment</b>			
Core Crown	7,554	6,884	7,848
Crown entities	174	173	260
State-owned Enterprises	129	84	69
Inter-segment eliminations	-	-	-
<b>Total quantifiable contingent liabilities</b>	<b>7,857</b>	<b>7,141</b>	<b>8,177</b>
<b>Quantifiable Contingent Assets</b>			
Core Crown	662	702	650
Crown entities	20	2	3
<b>Total quantifiable contingent assets</b>	<b>682</b>	<b>704</b>	<b>653</b>

A list of unquantified contingent liabilities (such as the deposit guarantee scheme and the Canterbury earthquakes) as at 30 June 2011 is included on the Treasury's website <http://www.treasury.govt.nz/government/financialstatements/yearend/jun11/69.htm>

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

## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2011 Actual \$m	7 months to 31 Jan 2011 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>							
20,857	12,621	Source deductions	12,337	12,720	(383)	(3.0)	21,304
3,791	2,008	Other persons	2,333	2,368	(35)	(1.5)	4,290
(1,679)	(906)	Refunds	(923)	(883)	(40)	(4.5)	(1,616)
462	273	Fringe benefit tax	255	255	-	-	440
<b>23,431</b>	<b>13,996</b>	<b>Total individuals</b>	<b>14,002</b>	<b>14,460</b>	<b>(458)</b>	<b>(3.2)</b>	<b>24,418</b>
<b>Corporate Tax</b>							
6,687	3,473	Gross companies tax	4,042	4,334	(292)	(6.7)	8,025
(197)	(95)	Refunds	(94)	(120)	26	21.7	(260)
467	318	Non-resident withholding tax	309	287	22	7.7	427
-	(1)	Foreign-source dividend w/holding payments	4	(1)	5	-	-
<b>6,957</b>	<b>3,695</b>	<b>Total corporate tax</b>	<b>4,261</b>	<b>4,500</b>	<b>(239)</b>	<b>(5.3)</b>	<b>8,192</b>
<b>Other Income Tax</b>							
1,704	918	Resident w/holding tax on interest income	921	916	5	0.5	1,646
195	106	Resident w/holding tax on dividend income	160	120	40	33.3	207
2	1	Estate and gift duties	-	-	-	-	-
<b>1,901</b>	<b>1,025</b>	<b>Total other income tax</b>	<b>1,081</b>	<b>1,036</b>	<b>45</b>	<b>4.3</b>	<b>1,853</b>
<b>32,289</b>	<b>18,716</b>	<b>Total income tax</b>	<b>19,344</b>	<b>19,996</b>	<b>(652)</b>	<b>(3.3)</b>	<b>34,463</b>
<b>Goods and Services Tax</b>							
23,484	13,041	Gross goods and services tax	14,625	14,865	(240)	(1.6)	25,626
(9,776)	(5,362)	Refunds	(6,311)	(6,206)	(105)	(1.7)	(10,557)
<b>13,708</b>	<b>7,679</b>	<b>Total goods and services tax</b>	<b>8,314</b>	<b>8,659</b>	<b>(345)</b>	<b>(4.0)</b>	<b>15,069</b>
<b>Other Taxation</b>							
1,016	576	Road user charges	603	614	(11)	(1.8)	1,073
872	556	Petroleum fuels excise - domestic production	541	577	(36)	(6.2)	921
623	414	Alcohol excise - domestic production	409	424	(15)	(3.5)	712
220	145	Tobacco excise - domestic production	217	173	44	25.4	210
575	350	Petroleum fuels excise - imports <sup>1</sup>	395	360	35	9.7	640
229	145	Alcohol excise - imports <sup>1</sup>	150	157	(7)	(4.5)	245
924	602	Tobacco excise - imports <sup>1</sup>	697	652	45	6.9	956
188	112	Other customs duty	112	108	4	3.7	178
214	120	Gaming duties	130	134	(4)	(3.0)	224
172	99	Motor vehicle fees	101	99	2	2.0	168
62	38	Approved issuer levy and cheque duty	36	39	(3)	(7.7)	60
36	22	Energy resources levies	20	21	(1)	(4.8)	38
<b>5,131</b>	<b>3,179</b>	<b>Total other indirect taxation</b>	<b>3,411</b>	<b>3,358</b>	<b>53</b>	<b>1.6</b>	<b>5,425</b>
<b>18,839</b>	<b>10,858</b>	<b>Total indirect taxation</b>	<b>11,725</b>	<b>12,017</b>	<b>(292)</b>	<b>(2.4)</b>	<b>20,494</b>
<b>51,128</b>	<b>29,574</b>	<b>Total taxation revenue</b>	<b>31,069</b>	<b>32,013</b>	<b>(944)</b>	<b>(2.9)</b>	<b>54,957</b>
<b>Other Sovereign Revenue (accrual)</b>							
3,586	2,079	ACC levies	2,176	2,170	6	0.3	3,686
312	194	Fire Service levies	204	197	7	3.6	309
88	50	EQC levies	55	60	(5)	(8.3)	103
1,295	579	Other miscellaneous items	393	775	(382)	(49.3)	1,465
<b>5,281</b>	<b>2,902</b>	<b>Total other sovereign revenue</b>	<b>2,828</b>	<b>3,202</b>	<b>(374)</b>	<b>(11.7)</b>	<b>5,563</b>
<b>56,409</b>	<b>32,476</b>	<b>Total sovereign revenue</b>	<b>33,897</b>	<b>35,215</b>	<b>(1,318)</b>	<b>(3.7)</b>	<b>60,520</b>

1. Customs excise-equivalent duty

## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2011 Actual \$m	7 months to 31 Jan 2011 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>							
20,699	12,479	Source deductions	12,075	12,381	(306)	(2.5)	21,212
4,386	2,233	Other persons	2,268	2,409	(141)	(5.9)	4,897
(2,463)	(1,615)	Refunds	(1,553)	(1,541)	(12)	(0.8)	(2,342)
457	331	Fringe benefit tax	317	313	4	1.3	439
<b>23,079</b>	<b>13,428</b>	<b>Total individuals</b>	<b>13,107</b>	<b>13,562</b>	<b>(455)</b>	<b>(3.4)</b>	<b>24,206</b>
<b>Corporate Tax</b>							
7,588	4,300	Gross companies tax	4,573	5,004	(431)	(8.6)	8,603
(772)	(430)	Refunds	(316)	(440)	124	28.2	(918)
462	323	Non-resident withholding tax	286	286	-	-	427
(1)	(2)	Foreign-source dividend w/holding payments	4	(1)	5	-	-
<b>7,277</b>	<b>4,191</b>	<b>Total corporate tax</b>	<b>4,547</b>	<b>4,849</b>	<b>(302)</b>	<b>(6.2)</b>	<b>8,112</b>
<b>Other Income Tax</b>							
1,701	963	Resident w/holding tax on interest income	970	955	15	1.6	1,645
196	111	Resident w/holding tax on dividend income	160	123	37	30.1	206
2	1	Estate and gift duties	-	-	-	-	-
<b>1,899</b>	<b>1,075</b>	<b>Total other income tax</b>	<b>1,130</b>	<b>1,078</b>	<b>52</b>	<b>4.8</b>	<b>1,851</b>
<b>32,255</b>	<b>18,694</b>	<b>Total income tax</b>	<b>18,784</b>	<b>19,489</b>	<b>(705)</b>	<b>(3.6)</b>	<b>34,169</b>
<b>Goods and Services Tax</b>							
22,162	11,899	Gross goods and services tax	14,052	13,885	167	1.2	24,370
(9,177)	(4,745)	Refunds	(6,126)	(5,745)	(381)	(6.6)	(9,896)
<b>12,985</b>	<b>7,154</b>	<b>Total goods and services tax</b>	<b>7,926</b>	<b>8,140</b>	<b>(214)</b>	<b>(2.6)</b>	<b>14,474</b>
<b>Other Taxation</b>							
1,015	575	Road user charges	606	614	(8)	(1.3)	1,073
869	513	Petroleum fuels excise - domestic production	503	538	(35)	(6.5)	921
625	389	Alcohol excise - domestic production	405	439	(34)	(7.7)	712
181	153	Tobacco excise - domestic production	223	178	45	25.3	210
2,005	1,238	Customs duty	1,361	1,276	85	6.7	2,019
216	125	Gaming duties	130	135	(5)	(3.7)	225
171	77	Motor vehicle fees	69	99	(30)	(30.3)	168
60	39	Approved issuer levy and cheque duty	35	38	(3)	(7.9)	61
36	22	Energy resources levies	20	21	(1)	(4.8)	38
<b>5,178</b>	<b>3,131</b>	<b>Total other indirect taxation</b>	<b>3,352</b>	<b>3,338</b>	<b>14</b>	<b>0.4</b>	<b>5,427</b>
<b>18,163</b>	<b>10,285</b>	<b>Total indirect taxation</b>	<b>11,278</b>	<b>11,478</b>	<b>(200)</b>	<b>(1.7)</b>	<b>19,901</b>
<b>50,418</b>	<b>28,979</b>	<b>Total tax receipts collected</b>	<b>30,062</b>	<b>30,967</b>	<b>(905)</b>	<b>(2.9)</b>	<b>54,070</b>
<b>Other Sovereign Receipts (cash)</b>							
3,612	2,344	ACC levies	2,308	2,454	(146)	(5.9)	3,712
312	194	Fire Service levies	204	197	7	3.6	309
88	55	EQC levies	57	58	(1)	(1.7)	135
681	398	Other miscellaneous items	381	378	3	0.8	728
<b>4,693</b>	<b>2,991</b>	<b>Total other sovereign receipts</b>	<b>2,950</b>	<b>3,087</b>	<b>(137)</b>	<b>(4.4)</b>	<b>4,884</b>
<b>55,111</b>	<b>31,970</b>	<b>Total sovereign receipts</b>	<b>33,012</b>	<b>34,054</b>	<b>(1,042)</b>	<b>(3.1)</b>	<b>58,954</b>



## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2011	7 months to 31 Jan 2011	Current Year Actual vs Forecast				Annual Forecast \$m
		Actual \$m	Forecast \$m	Variance \$m	%	
		<b>NOTE 2: Interest Revenue and Dividends</b>				
		<i>By type</i>				
2,142	1,193	1,332	1,296	36	2.8	2,272
428	200	252	284	(32)	(11.3)	542
<b>2,570</b>	<b>1,393</b>	<b>1,584</b>	<b>1,580</b>	<b>4</b>	<b>0.3</b>	<b>2,814</b>
		<i>By source</i>				
2,169	826	978	1,066	(88)	(8.3)	2,039
1,234	530	692	833	(141)	(16.9)	1,325
801	415	499	477	22	4.6	828
(1,634)	(378)	(585)	(796)	211	26.5	(1,378)
<b>2,570</b>	<b>1,393</b>	<b>1,584</b>	<b>1,580</b>	<b>4</b>	<b>0.3</b>	<b>2,814</b>
		<b>NOTE 3: Social Assistance and Official Development Assistance</b>				
8,830	5,106	5,537	5,540	3	0.1	9,597
1,757	1,030	1,066	1,073	7	0.7	1,840
943	576	538	521	(17)	(3.3)	860
1,306	767	779	777	(2)	(0.3)	1,327
2,139	1,259	1,225	1,235	10	0.8	2,131
1,197	707	705	704	(1)	(0.1)	1,199
743	433	454	450	(4)	(0.9)	770
620	335	353	357	4	1.1	634
409	242	237	238	1	0.4	403
1,042	570	387	393	6	1.5	685
2,691	1,551	1,453	1,468	15	1.0	2,590
<b>21,677</b>	<b>12,576</b>	<b>12,734</b>	<b>12,756</b>	<b>22</b>	<b>0.2</b>	<b>22,036</b>
495	256	198	232	34	14.7	544
<b>22,172</b>	<b>12,832</b>	<b>12,932</b>	<b>12,988</b>	<b>56</b>	<b>0.4</b>	<b>22,580</b>
		<b>NOTE 4: Personnel Expenses</b>				
5,996	3,437	3,390	3,462	72	2.1	6,011
10,410	5,997	6,218	6,242	24	0.4	10,724
2,695	1,543	1,658	1,632	(26)	(1.6)	2,811
(13)	(6)	(6)	(6)	-	-	(10)
<b>19,088</b>	<b>10,971</b>	<b>11,260</b>	<b>11,330</b>	<b>70</b>	<b>0.6</b>	<b>19,536</b>
		<b>NOTE 5: Operating Expenses</b>				
		<i>By type</i>				
4,682	2,468	3,112	3,143	31	1.0	4,562
35,829	19,002	19,511	20,648	1,137	5.5	40,685
-	-	-	-	-	-	473
-	-	-	(217)	(217)	(100.0)	(1,100)
<b>40,511</b>	<b>21,470</b>	<b>22,623</b>	<b>23,574</b>	<b>951</b>	<b>4.0</b>	<b>44,620</b>
		<i>By source</i>				
39,157	20,475	20,974	22,058	1,084	4.9	42,197
17,905	10,518	10,348	10,685	337	3.2	18,433
9,567	5,613	6,313	6,300	(13)	(0.2)	10,993
(26,118)	(15,136)	(15,012)	(15,469)	(457)	(3.0)	(27,003)
<b>40,511</b>	<b>21,470</b>	<b>22,623</b>	<b>23,574</b>	<b>951</b>	<b>4.0</b>	<b>44,620</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2011 Actual \$m	7 months to 31 Jan 2011 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>					
3,545	2,144	Interest on financial liabilities	2,325	2,248	(77)	(3.4)	3,914
51	34	Interest unwind on provisions	16	27	11	40.7	45
<b>3,596</b>	<b>2,178</b>	<b>Total interest expenses</b>	<b>2,341</b>	<b>2,275</b>	<b>(66)</b>	<b>(2.9)</b>	<b>3,959</b>
		<i>By source</i>					
3,066	1,685	Core Crown	2,111	2,141	30	1.4	3,655
248	142	Crown entities	145	156	11	7.1	266
1,027	694	State-owned Enterprises	643	652	9	1.4	1,129
(745)	(343)	Inter-segment eliminations	(558)	(674)	(116)	(17.2)	(1,091)
<b>3,596</b>	<b>2,178</b>	<b>Total interest expenses</b>	<b>2,341</b>	<b>2,275</b>	<b>(66)</b>	<b>(2.9)</b>	<b>3,959</b>
		<b>NOTE 7: Insurance Expenses</b>					
		<i>By entity</i>					
2,979	1,704	ACC	1,632	1,710	78	4.6	3,129
11,776	2,966	EQC	354	64	(290)	(453.1)	427
(163)	23	Other insurance expenses	150	145	(5)	(3.4)	195
<b>14,592</b>	<b>4,693</b>	<b>Total insurance expenses</b>	<b>2,136</b>	<b>1,919</b>	<b>(217)</b>	<b>(11.3)</b>	<b>3,751</b>
		<b>NOTE 8: Gains and Losses on Financial Instruments</b>					
		<i>By source</i>					
4,116	3,055	Core Crown	(305)	(705)	400	56.7	36
1,058	1,049	Crown entities	287	(113)	400	354.0	32
(281)	27	State-owned Enterprises	(352)	(61)	(291)	(477.0)	(86)
(274)	(133)	Inter-segment eliminations	(610)	104	(714)	-	14
<b>4,619</b>	<b>3,998</b>	<b>Net gains/(losses) on financial instruments</b>	<b>(980)</b>	<b>(775)</b>	<b>(205)</b>	<b>(26.5)</b>	<b>(4)</b>
		<b>NOTE 9: Gains and Losses on Non-Financial Instruments</b>					
		<i>By type</i>					
(574)	144	Actuarial gains/(losses) on GSF liability	(1,939)	(900)	(1,039)	(115.4)	(900)
996	881	Actuarial gains/(losses) on ACC liability	(2,018)	(1,297)	(721)	(55.6)	(1,418)
(343)	50	Other	185	201	(16)	(8.0)	254
<b>79</b>	<b>1,075</b>	<b>Net gains/(losses) on non-financial instruments</b>	<b>(3,772)</b>	<b>(1,996)</b>	<b>(1,776)</b>	<b>(89.0)</b>	<b>(2,064)</b>
		<i>By source</i>					
(588)	119	Core Crown	(1,852)	(805)	(1,047)	(130.1)	(834)
931	862	Crown entities	(2,023)	(1,302)	(721)	(55.4)	(1,429)
(264)	93	State-owned Enterprises	103	112	(9)	(8.0)	199
-	1	Inter-segment eliminations	-	(1)	1	100.0	-
<b>79</b>	<b>1,075</b>	<b>Net gains/(losses) on non-financial instruments</b>	<b>(3,772)</b>	<b>(1,996)</b>	<b>(1,776)</b>	<b>(89.0)</b>	<b>(2,064)</b>
		<b>NOTE 10: Operating Balance</b>					
		<i>By source</i>					
(9,267)	(2,775)	Core Crown	(7,613)	(6,799)	(814)	(12.0)	(14,010)
(3,143)	1,651	Crown entities	(484)	(8)	(476)	-	538
327	637	State-owned Enterprises	189	632	(443)	(70.1)	1,097
(1,277)	(511)	Inter-segment eliminations	(1,020)	(283)	(737)	(260.4)	(226)
<b>(13,360)</b>	<b>(998)</b>	<b>Total operating balance</b>	<b>(8,928)</b>	<b>(6,458)</b>	<b>(2,470)</b>	<b>(38.2)</b>	<b>(12,601)</b>

## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2011 \$m	As at 31 Jan 2011 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 11: Financial Assets and Sovereign Receivables</b>							
9,801	8,145	Cash and cash equivalents	14,314	10,088	4,226	41.9	9,185
7,104	7,201	Tax receivables	7,299	7,336	(37)	(0.5)	7,348
14,586	9,234	Trade and other receivables	12,159	11,304	855	7.6	11,450
7,460	6,890	Student loans	7,609	7,600	9	0.1	7,932
11,495	11,011	Kiwibank mortgages	12,158	12,416	(258)	(2.1)	12,950
2,259	2,691	Long-term deposits	2,131	2,045	86	4.2	2,402
2,168	2,205	IMF financial assets	2,172	2,210	(38)	(1.7)	2,346
1,612	1,315	Other advances	1,538	1,345	193	14.3	1,299
14,248	13,985	Share investments	14,045	17,100	(3,055)	(17.9)	18,443
5,415	4,066	Derivatives in gain	5,863	4,561	1,302	28.5	4,188
39,214	34,564	Other marketable securities	30,489	33,863	(3,374)	(10.0)	33,561
<b>115,362</b>	<b>101,307</b>	<b>Total financial assets and sovereign receivables</b>	<b>109,777</b>	<b>109,868</b>	<b>(91)</b>	<b>(0.1)</b>	<b>111,104</b>
<b>Financial assets by entity</b>							
29,928	23,615	NZDMO	22,455	24,179	(1,724)	(7.1)	23,314
17,909	18,211	Reserve Bank of New Zealand	18,183	16,873	1,310	7.8	16,752
18,687	18,005	NZ Superannuation Fund	18,587	17,996	591	3.3	18,872
19,116	18,764	Other core Crown	19,395	19,129	266	1.4	19,110
(9,165)	(8,607)	Intra-segment eliminations	(7,793)	(7,681)	(112)	(1.5)	(7,538)
<b>76,475</b>	<b>69,988</b>	<b>Total core Crown segment</b>	<b>70,827</b>	<b>70,496</b>	<b>331</b>	<b>0.5</b>	<b>70,510</b>
21,569	17,727	ACC portfolio	22,610	22,137	473	2.1	24,548
9,305	7,060	EQC portfolio	7,386	7,821	(435)	(5.6)	6,495
8,831	6,679	Other Crown entities	8,509	8,548	(39)	(0)	8,284
(3,314)	(1,612)	Intra-segment eliminations	(3,450)	(3,495)	45	1.3	(3,426)
<b>36,391</b>	<b>29,854</b>	<b>Total Crown entities segment</b>	<b>35,055</b>	<b>35,011</b>	<b>44</b>	<b>0.1</b>	<b>35,901</b>
<b>20,241</b>	<b>16,742</b>	<b>Total State-owned enterprises segment</b>	<b>20,788</b>	<b>20,624</b>	<b>164</b>	<b>0.8</b>	<b>20,789</b>
(17,745)	(15,277)	Inter-segment eliminations	(16,893)	(16,263)	(630)	(3.9)	(16,096)
<b>115,362</b>	<b>101,307</b>	<b>Total financial assets</b>	<b>109,777</b>	<b>109,868</b>	<b>(91)</b>	<b>(0.1)</b>	<b>111,104</b>

## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2011 \$m	As at 31 Jan 2011 \$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>							
<i>By class of asset:</i>							
16,372	16,601	Land (valuation)	16,397	16,471	(74)	(0.4)	16,774
24,539	24,386	Buildings (valuation)	24,293	24,652	(359)	(1.5)	25,514
2,690	2,366	Electricity distribution network (cost)	3,022	3,031	(9)	(0.3)	3,267
14,439	13,789	Electricity generation assets (valuation)	14,643	14,837	(194)	(1.3)	15,208
1,805	2,072	Aircraft (excl military) (valuation)	2,174	2,119	55	2.6	2,048
25,126	25,354	State highways (valuation)	25,532	25,666	(134)	(0.5)	25,842
12,749	12,631	Rail network (valuation)	12,906	12,877	29	0.2	12,986
3,331	3,342	Specialist military equipment (valuation)	3,208	3,268	(60)	(1.8)	3,271
8,133	8,465	Specified cultural and heritage assets (valuation)	8,145	8,158	(13)	(0.2)	8,169
5,670	5,737	Other plant and equipment (cost)	5,702	5,909	(207)	(3.5)	5,988
<b>114,854</b>	<b>114,743</b>	<b>Total net carrying value</b>	<b>116,022</b>	<b>116,988</b>	<b>(966)</b>	<b>(0.8)</b>	<b>119,067</b>
<i>By source:</i>							
29,549	30,021	Core Crown	29,398	29,617	(219)	(0.7)	30,121
48,480	48,769	Crown entities	48,781	49,214	(433)	(0.9)	50,148
36,825	35,953	State-owned enterprises	37,843	38,157	(314)	(0.8)	38,798
-	-	Inter-segment eliminations	-	-	-	-	-
<b>114,854</b>	<b>114,743</b>	<b>Total net carrying value</b>	<b>116,022</b>	<b>116,988</b>	<b>(966)</b>	<b>(0.8)</b>	<b>119,067</b>
<b>Movement note</b>							
<b>Cost or valuation</b>							
123,941	123,941	Opening balance	126,601	126,601	-	-	126,601
6,644	4,117	Additions (refer below)	4,291	5,212	(921)	(17.7)	8,673
(1,283)	(367)	Disposals	(231)	(144)	(87)	(60.4)	(371)
(2,471)	-	Net revaluations	(84)	(154)	70	45.5	50
(230)	(196)	Other	(168)	247	(415)	(168.0)	231
<b>126,601</b>	<b>127,495</b>	<b>Total cost or valuation</b>	<b>130,409</b>	<b>131,762</b>	<b>(1,353)</b>	<b>(1.0)</b>	<b>135,184</b>
<b>Accumulated depreciation and impairment</b>							
10,611	10,611	Opening balance	11,747	11,747	-	-	11,747
(832)	(163)	Eliminated on disposal	(193)	(45)	(148)	(328.9)	(109)
(1,884)	-	Eliminated on revaluation	(18)	-	(18)	-	-
3,727	2,126	Depreciation expense	2,757	2,793	(36)	(1.3)	3,952
125	178	Other	94	279	(185)	(66.3)	527
<b>11,747</b>	<b>12,752</b>	<b>Total accumulated depreciation and impairment</b>	<b>14,387</b>	<b>14,774</b>	<b>(387)</b>	<b>(2.6)</b>	<b>16,117</b>
<b>114,854</b>	<b>114,743</b>	<b>Total property, plant and equipment</b>	<b>116,022</b>	<b>116,988</b>	<b>(966)</b>	<b>(0.8)</b>	<b>119,067</b>
<b>Additions - by functional classification</b>							
2,807	1,682	Transport and communications	1,499	1,604	(105)	(6.5)	2,401
1,200	671	Economic and industrial services	910	1,185	(275)	(23.2)	2,115
648	504	Education	969	1,030	(61)	(5.9)	886
617	380	Health	305	514	(209)	(40.7)	992
258	299	Defence	164	287	(123)	(42.9)	690
1,114	581	Other	444	592	(148)	(25.0)	1,589
<b>6,644</b>	<b>4,117</b>	<b>Total additions</b>	<b>4,291</b>	<b>5,212</b>	<b>(921)</b>	<b>(17.7)</b>	<b>8,673</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2011 \$m	7 months to 31 Jan 2011 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
<b>NOTE 13: NZ Superannuation Fund</b>							
518	266	Revenue	277	328	(51)	(15.5)	590
872	623	Less current tax expense	7	(174)	(181)	(104.0)	(20)
169	129	Less other expenses <sup>1</sup>	51	100	49	49.0	171
3,518	2,775	Add gains/(losses)	(657)	(938)	281	30.0	(425)
<b>2,995</b>	<b>2,289</b>	<b>Operating balance</b>	<b>(438)</b>	<b>(536)</b>	<b>98</b>	<b>18.3</b>	<b>14</b>
15,656	15,656	Opening net worth	18,652	18,652	-	-	18,652
2,995	2,289	Operating balance	(438)	(536)	98	18.3	14
1	1	Other movements in reserves	8	4	4	100.0	6
<b>18,652</b>	<b>17,946</b>	<b>Closing net worth</b>	<b>18,222</b>	<b>18,120</b>	<b>102</b>	<b>0.6</b>	<b>18,672</b>
<i>comprising:</i>							
18,687	18,005	Financial assets	18,587	17,996	591	3.3	18,872
(1,161)	(1,090)	Financial liabilities	(1,504)	(1,140)	(364)	(31.9)	(1,436)
1,126	1,031	Net other assets	1,139	1,264	(125)	(9.9)	1,236
<b>18,652</b>	<b>17,946</b>	<b>Closing net worth</b>	<b>18,222</b>	<b>18,120</b>	<b>102</b>	<b>0.6</b>	<b>18,672</b>
<b>Core Crown revenue (excl NZS Fund)</b>							
57,550	32,490	Core Crown revenue	33,935	35,323	(1,388)	(3.9)	61,165
518	266	Less NZS Fund revenue	277	328	(51)	(15.5)	590
872	623	Add back NZS Fund intra-segment revenue	7	(174)	181	104.0	(20)
<b>57,904</b>	<b>32,847</b>	<b>Core Crown revenue (excl NZS Fund)</b>	<b>33,665</b>	<b>34,821</b>	<b>(1,156)</b>	<b>(3.3)</b>	<b>60,555</b>
<b>OBEGAL excluding NZS Fund</b>							
(18,396)	(6,207)	Total Crown OBEGAL	(4,314)	(3,841)	(473)	(12.3)	(10,809)
518	266	Less NZS Fund revenue	277	328	(51)	(15.5)	590
111	50	Add back NZS Fund external expenses	34	72	(38)	(52.8)	122
872	623	Add back NZS Fund tax	7	(174)	181	104.0	(20)
<b>(17,931)</b>	<b>(5,800)</b>	<b>OBEGAL excluding NZS Fund</b>	<b>(4,550)</b>	<b>(4,271)</b>	<b>(279)</b>	<b>(6.5)</b>	<b>(11,297)</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2011 \$m	As at 31 Jan 2011 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		<b>NOTE 14: Payables</b>					
7,337	5,027	Accounts payable	7,937	7,713	(224)	(2.9)	8,541
3,762	3,131	Taxes repayable	2,919	2,912	(7)	(0.2)	3,762
<b>11,099</b>	<b>8,158</b>	<b>Total payables</b>	<b>10,856</b>	<b>10,625</b>	<b>(231)</b>	<b>(2.2)</b>	<b>12,303</b>
		<b>NOTE 15: Insurance liabilities</b>					
26,939	24,968	ACC liability	27,813	27,093	(720)	(2.7)	29,025
10,570	2,425	EQC property damage liability	8,809	8,821	12	0.1	7,616
2,082	-	AMI Liability	2,058	2,132	74	3.5	1,560
59	46	Other insurance liabilities	61	66	5	7.6	71
(336)	-	Inter-segment eliminations	-	-	-	-	-
<b>39,314</b>	<b>27,439</b>	<b>Total insurance liabilities</b>	<b>38,741</b>	<b>38,112</b>	<b>(629)</b>	<b>(1.7)</b>	<b>38,272</b>
		<b>NOTE 16: Provisions</b>					
612	468	Provision for ETS Credits	557	825	267	32.4	1,492
983	995	Provision for National Provident Fund guarantee	957	960	3	0.3	918
3,050	2,679	Provision for employee entitlements	2,797	2,705	(92)	(3.4)	2,990
1,039	-	Provision for Canterbury Red Zone support package	660	818	158	19.3	610
567	-	Provision for weathertight services financial assistance package	567	567	-	-	556
1,335	1,279	Other provisions	1,106	1,103	(2)	(0.2)	2,503
<b>7,586</b>	<b>5,421</b>	<b>Total provisions</b>	<b>6,644</b>	<b>6,978</b>	<b>334</b>	<b>4.8</b>	<b>9,069</b>
		<b>NOTE 17: Changes in Net Worth</b>					
31,087	31,087	Opening taxpayers funds	18,188	18,188	-	-	18,188
(13,360)	(998)	Operating balance excluding minority interest	(8,928)	(6,458)	(2,470)	(38.2)	(12,601)
461	129	Transfers from/(to) other reserves	117	23	94	408.7	44
<b>18,188</b>	<b>30,218</b>	<b>Closing taxpayers funds</b>	<b>9,377</b>	<b>11,753</b>	<b>(2,376)</b>	<b>(20.2)</b>	<b>5,631</b>
63,593	63,593	Opening revaluation reserve	62,690	62,690	-	-	62,690
(443)	(51)	Net revaluations	-	(83)	83	100.0	-
(460)	(130)	Transfers from/(to) other reserves	(120)	(22)	(98)	(445.5)	(44)
<b>62,690</b>	<b>63,412</b>	<b>Closing revaluation reserve</b>	<b>62,570</b>	<b>62,585</b>	<b>(15)</b>	<b>-</b>	<b>62,646</b>
(94)	(94)	Opening other reserves	(299)	(299)	-	-	(299)
(205)	(22)	Net movements	149	2	147	-	(4)
<b>(299)</b>	<b>(116)</b>	<b>Closing other reserves</b>	<b>(150)</b>	<b>(297)</b>	<b>147</b>	<b>49.5</b>	<b>(303)</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2011 \$m	7 months to 31 Jan 2011 \$m	Current Year Actual vs Forecast				Annual Forecast \$m	
		Actual \$m	Forecast \$m	Variance \$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>							
51,454	29,477	Total tax receipts	30,501	31,499	(998)	(3.2)	54,801
646	388	Total other sovereign receipts	368	366	2	0.5	693
1,817	606	Interest, profits and dividends	817	775	42	5.4	1,462
2,094	1,056	Sale of goods & services and other receipts	1,473	1,545	(72)	(4.7)	2,895
(22,226)	(13,437)	Subsidies and transfer payments	(13,835)	(13,910)	75	0.5	(23,103)
(40,433)	(24,869)	Personnel and operating costs	(23,820)	(24,345)	525	2.2	(43,091)
(2,637)	(1,193)	Finance costs	(1,737)	(1,752)	15	0.9	(3,450)
-	-	Forecast for future new operating spending	-	-	-	-	(623)
-	-	Top-down expense adjustment	-	217	(217)	(100.0)	1,100
<b>(9,285)</b>	<b>(7,972)</b>	<b>Net cash flows from core Crown operations</b>	<b>(6,233)</b>	<b>(5,605)</b>	<b>(628)</b>	<b>(11.2)</b>	<b>(9,316)</b>
(1,524)	(866)	Net purchase of physical assets	(745)	(1,034)	289	27.9	(2,133)
(1,242)	(423)	Net increase in advances	(251)	(541)	290	53.6	(1,125)
(1,292)	(884)	Net purchase of investments	(630)	(732)	102	13.9	(1,160)
-	-	Forecast for future new capital spending	-	-	-	-	(242)
-	-	Top-down capital adjustment	-	-	-	-	350
<b>(13,343)</b>	<b>(10,145)</b>	<b>Residual cash</b>	<b>(7,859)</b>	<b>(7,912)</b>	<b>53</b>	<b>0.7</b>	<b>(13,626)</b>
<b>Financed by:</b>							
(4,791)	(422)	Other net sale/(purchase) of marketable securities and deposits	9,815	5,830	3,985	68.4	6,517
<b>(18,134)</b>	<b>(10,567)</b>	<b>Total operating and investing activities</b>	<b>1,956</b>	<b>(2,082)</b>	<b>4,038</b>	<b>193.9</b>	<b>(7,109)</b>
<b>Used in:</b>							
(1,835)	(1,519)	Net (repayment)/issue of other New Zealand dollar borrowing	8,192	8,299	(107)	(1.3)	9,521
1,661	1,928	Net (repayment)/issue of foreign currency borrowing	(6,518)	(6,543)	25	0.4	(7,773)
234	303	Issues of circulating currency	300	44	256	-	89
(861)	90	Decrease/(increase) in cash	(4,143)	(1,086)	(3,057)	(281.5)	(1,260)
<b>(801)</b>	<b>802</b>		<b>(2,169)</b>	<b>714</b>	<b>(2,883)</b>	<b>(403.8)</b>	<b>577</b>
<b>(18,935)</b>	<b>(9,765)</b>	<b>Net cash inflow/(outflow) to be offset by domestic bonds</b>	<b>(213)</b>	<b>(1,368)</b>	<b>1,155</b>	<b>84.4</b>	<b>(6,532)</b>
<b>Gross Cash Proceeds from Domestic Bonds</b>							
19,468	9,825	Domestic bonds (market)	9,110	10,086	(976)	(9.7)	15,422
270	219	Domestic bonds (non-market)	-	-	-	-	448
<b>19,738</b>	<b>10,044</b>	<b>Total gross cash proceeds from domestic bonds</b>	<b>9,110</b>	<b>10,086</b>	<b>(976)</b>	<b>(9.7)</b>	<b>15,870</b>
-	-	Repayment of domestic bonds (market)	(7,602)	(7,602)	-	-	(7,602)
(803)	(279)	Repayment of domestic bonds (non-market)	(1,295)	(1,116)	(179)	(16.0)	(1,736)
<b>(803)</b>	<b>(279)</b>	<b>Total repayment of domestic bonds</b>	<b>(8,897)</b>	<b>(8,718)</b>	<b>(179)</b>	<b>(2.1)</b>	<b>(9,338)</b>
<b>18,935</b>	<b>9,765</b>	<b>Net (repayments of)/cash proceeds from domestic bonds</b>	<b>213</b>	<b>1,368</b>	<b>(1,155)</b>	<b>(84.4)</b>	<b>6,532</b>

## NOTES TO THE FINANCIAL STATEMENTS

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### **NOTE 19: Sale of AMI**

On 16 December 2011, the conditional sale of AMI Insurance to IAG was announced for \$380 million. As part of the deal, the Crown will retain ownership of AMI Insurance's Canterbury earthquake related claims in a new Crown company.

Any gain from the sale to IAG should it become unconditional will have a positive impact on the Crown's operating balance (but not OBEGAL).