

10 May 2011

MEDIA STATEMENT

Embargoed until 10:00am, Tuesday 10 May 2011

Struan Little
Deputy Secretary
The Treasury

FINANCIAL STATEMENTS OF THE GOVERNMENT OF NEW ZEALAND FOR THE NINE MONTHS ENDED 31 MARCH 2011

The *Financial Statements of the Government of New Zealand* for the nine months ended 31 March 2011 were released by the Treasury today.

The monthly financial statements are compared against monthly forecast tracks based on the *2010 Half Year Economic and Fiscal Update* published in December 2010.

The key features of the results were:

- Overall, **core Crown tax revenue** was \$37.9 billion, \$19 million (0.1%) higher than forecast, with source deductions \$242 million (1.6%) above forecast offset by GST revenue which was \$263 million (2.6%) below forecast.
- **Core Crown expenses** was \$50.4 billion, \$422 million (0.8%) lower than forecast due to underspends across a number of areas.
- The **residual cash deficit** was close to forecast at \$12.4 billion.
- The total Crown operating **balance before gains and losses deficit** was \$10.2 billion, \$1.3 billion (14.8%) higher than forecast due mainly to EQC's estimated \$1.5 billion share of costs for the 22 February earthquake in Christchurch, which was not forecast.
- However, the **operating balance deficit** was \$3.8 billion stronger than expected, primarily due to gains on investments and derivatives held by the NZS Fund and ACC and actuarial gains on the valuation of ACC's long term liabilities.

- There was a significant increase in gross debt during March with \$2.8 billion of bonds sold, a record month for bond issuance. The increase was driven by strong demand from investors, putting **gross debt** \$2.5 billion ahead of forecast at \$66.7 billion (34.3% of GDP), after being \$0.6 billion lower than forecast at 28 February.
- Despite the higher than expected increase in gross debt, **net debt** was similar to forecast at \$39.4 billion (20.2% of GDP), because the proceeds from the bond issuances were largely invested in financial assets.

\$ million	Year to date				Full Year
	March	March	Variance to HYEFU	Variance to HYEFU	June
	2011	2011			2011
	Actual ¹	Forecast ¹	\$m	%	HYEFU Forecast ²
Core Crown					
Core Crown tax revenue	37,907	37,888	19	0.1	52,527
Core Crown revenue	41,513	41,979	(466)	(1.1)	58,446
Core Crown expenses	50,350	50,772	422	0.8	70,560
Core Crown residual cash	(12,412)	(12,310)	(102)	(0.8)	(15,602)
Gross debt ³	66,704	64,166	(2,538)	(4.0)	67,400
<i>as a percentage of GDP</i>	34.3%	33.0%			33.3%
Net debt ⁴	39,404	39,578	174	0.4	42,078
<i>as a percentage of GDP</i>	20.2%	20.3%			20.8%
Total Crown					
Operating balance before gains and losses	(10,167)	(8,859)	(1,308)	(14.8)	(11,098)
Operating balance	(3,340)	(7,178)	3,838	53.5	(9,116)
Net worth	91,612	87,739	3,873	4.4	85,809

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

2 Using forecast GDP for the year ended 30 June 2011 of \$202,398 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

For enquiries: Kamlesh Patel

Macroeconomic and Fiscal Environment Portfolio

Telephone: 64 4 917-6094

E-mail: Kamlesh.patel@treasury.govt.nz

Financial Statements of the Government of New Zealand

For the Nine Months Ended
31 March 2011



Prepared by The Treasury
10 May 2011

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



This report is printed on paper that is manufactured from 100% recycled post consumer waste in a Process Chlorine Free (PCF) process independently certified by the Forest Stewardship Council (FSC). The mill operates under the ISO14001 environmental management system.

CONTENTS

Commentary

Summary	2
Analysis	4
Year-on-Year Perspective	9

Financial Statements

Statement of Accounting Policies	12
<i>The statement outlines the summary accounting policies underpinning the preparation of the financial statements of the Government. It refers readers to the Treasury website where the accounting policies are set out in full.</i>	
Statement of Financial Performance	14
<i>The statement outlines the operating results of the total Government (i.e., the revenues and expenses of all departments + Reserve Bank + NZS Fund (core Crown), SOEs (including Air New Zealand), and Crown entities). Expense by functional class is also shown for total Crown and core Crown.</i>	
Statement of Comprehensive Income	15
<i>The statement reports changes in net worth due to the operating balance, items of income or expense that are recognised directly in net worth, the effect of certain accounting changes, and corrections of errors.</i>	
Analysis of Expenses by Functional Classification	16
<i>Breakdown of expenses by function for total Crown and core Crown.</i>	
Statement of Cash Flows	17
<i>The statement sets out the cash flows that result from the operating, investing and financing activities of the Government. The net cash flows from operations are reconciled to the operating balance reported in the statement of financial performance.</i>	
Statement of Changes in Net Worth	19
<i>The statement provides a reconciliation of opening and closing net worth for the period.</i>	
Statement of Financial Position	20
<i>The statement outlines the balance sheet of the total Government (i.e., the assets and liabilities of the core Crown, SOEs, and Crown entities).</i>	
Statement of Borrowings	21
<i>The statement outlines total borrowings (split by sovereign-guaranteed debt and non sovereign-guaranteed debt), including the calculation of the core Crown debt indicators.</i>	
Statement of Commitments	22
<i>The statement outlines the commitments of the total Government by type and segment.</i>	
Statement of Contingent Liabilities and Assets	22
<i>The statement outlines the contingent liabilities and assets of the total Government by type and segment.</i>	
Notes to the Financial Statements	23
<i>The notes are an integral part of the financial statements, providing further explanatory material to that provided in the main statements.</i>	

Officer for Enquiries

Kamlesh Patel (phone 64-4-917-6094) (E-mail: kamlesh.patel@treasury.govt.nz)
Macroeconomic and Fiscal Environment Portfolio
The Treasury (1 The Terrace), PO Box 3724, Wellington
NEW ZEALAND
Facsimile: 64-4-473-1151



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 nine months ended 31 March 2011 and its financial position as at that date.

The March results are reported against forecasts based on the *2010 Half Year Economic and Fiscal Update (HYEFU)*, published on 14 December 2010.

At a Glance

Table 1 – Key indicators for the nine months ended 31 March 2011 compared to HYEFU

\$ million	Year to date				Full Year
	March	March	Variance	Variance	June
	2011	2011	to HYEFU	to HYEFU	2011
	Actual ¹	Forecast ¹	\$m	%	Forecast ²
Core Crown					
Core Crown tax revenue	37,907	37,888	19	0.1	52,527
Core Crown revenue	41,513	41,979	(466)	(1.1)	58,446
Core Crown expenses	50,350	50,772	422	0.8	70,560
Core Crown residual cash	(12,412)	(12,310)	(102)	(0.8)	(15,602)
Gross debt ³	66,704	64,166	(2,538)	(4.0)	67,400
<i>as a percentage of GDP</i>	34.3%	33.0%			33.3%
Net debt ⁴	39,404	39,578	174	0.4	42,078
<i>as a percentage of GDP</i>	20.2%	20.3%			20.8%
Total Crown					
Operating balance before gains and losses	(10,167)	(8,859)	(1,308)	(14.8)	(11,098)
Operating balance	(3,340)	(7,178)	3,838	53.5	(9,116)
Net worth	91,612	87,739	3,873	4.4	85,809

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

2 Using forecast GDP for the year ended 30 June 2011 of \$202,398 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 nine months ended 31 March 2011:

- **Core Crown tax revenue** was close to forecast at \$19 million (0.1%) above forecast. The main features being:
 1. revenue from source deductions was \$242 million (1.6%) higher than forecast because it appears the impact of the October 2010 income tax rate cuts has not been as large as anticipated; offset by
 2. GST revenue at \$263 million (2.6%) below forecast. This result reflected underlying weakness in private consumption and residential investment.
- **Core Crown expenses** were \$422 million lower than forecast. This was mainly due to underspends across a number of areas, partly offset by a \$331 million revision in the estimate of recoveries relating to the deposit guarantee scheme which was not forecast.
- The Earthquake Commission's (EQC's) estimated net costs for the 22 February earthquake of \$1.5 billion were unforecast and have adversely impacted the **operating balance before gains and losses deficit** (which is \$1.3 billion higher than forecast).

- However, when unforecast gains are included, the **operating balance deficit** was \$3.8 billion lower than expected at \$3.3 billion. These unforecast gains primarily related to equity investments in the NZS Fund and ACC and actuarial gains on ACC and GSF liabilities.
- **Gross debt** was \$2.5 billion higher than forecast at \$66.7 billion (34.3% of GDP). March was a record month for bond issuance with \$2.8 billion of bonds sold, taking the year-to-date issuance total to \$13.9 billion. In response to strong demand from investors, on 30 March the NZDMO increased the 2010/11 bond programme by \$1.5 billion (to \$15 billion) to allow for continued issuance over the fiscal year.
- **Net debt** was \$174 million lower than forecast at \$39.4 billion, or 20.2% of GDP. Despite the higher than expected increase in gross debt, net debt was similar to forecast because the proceeds from the bond issuances were largely invested in financial assets.
- The **core Crown residual cash deficit** was close to forecast at \$12.4 billion. The two main features being:
 1. corporate tax receipts were \$488 million lower than expected; offset by
 2. purchases of physical assets were \$435 million lower than forecast, due mainly to delays in defence and education capital projects (\$175 million and \$71 million respectively).

The financial impact of the AMI support package is not yet included in these financial statements. Refer the separate note to the financial statements for further information.

Further analysis of the March results follows.

ANALYSIS

Table 2 – Key indicator variances for the nine months ended 31 March 2011 compared to *HYEFU*

Item/indicator	Variance ¹	Key drivers
Core Crown		
Core Crown revenue	-\$466 million (lower than forecast)	<p>Core Crown tax revenue was \$19m (0.1%) higher than forecast. The main components were:</p> <ul style="list-style-type: none"> • Source deductions were \$242m (1.6%) higher than forecast. While the gap between the actual and forecast amount has been closing over recent months (from 2.6% in December), and despite recent volatility in labour market data, it appears the impact of the tax cuts has not been as large as anticipated. Therefore, it is likely that a part of this variance will persist to year end. • Corporate tax was \$89m (1.8%) higher than forecast. This reflects stronger than expected terminal tax revenue from the 2010 tax year, with profits from listed companies being higher than anticipated. In contrast, provisional tax assessments for the 2011 tax year were lower than expected. We believe this is indicative of underlying conditions and expect that the tax take will remain weaker than forecast in the coming months. <p>This was largely offset by:</p> <ul style="list-style-type: none"> • GST revenue was \$263m (2.6%) lower than forecast. The result reflected underlying weakness in private consumption and residential investment, contributed to by reduced household spending and the delay of rebuilding activity in Christchurch due to the earthquake on 22 February. • Other individuals tax was \$86m (4.2%) lower than forecast. In contrast to corporate tax, terminal tax for individuals and small business was lower than forecast. This was partially offset by provisional tax being higher than expected due to profitability and incomes in the 2011 tax year being stronger than anticipated. <p>Other tax revenue types were largely on forecast.</p> <p>Other core Crown revenue was \$485m lower than expected. This was mainly due to:</p> <ul style="list-style-type: none"> • Interest and dividend income was \$374m lower than forecast: <ul style="list-style-type: none"> ○ The main component was \$301m of foreign exchange swaps income that was reclassified from interest income to gains. The reclassification has had no impact on the operating deficit, as there was a matching (offsetting) variance in gains within the operating balance. ○ Dividend income was \$124m lower than forecast. • Fewer than expected NZ units were surrendered under the Emissions Trading Scheme (ETS) (\$121m). The units are now expected to be surrendered in April. There was a corresponding variance in core Crown expenses offsetting this – refer next page.

¹ Favourable variances against forecast have a positive sign and unfavourable variances against forecast have a negative sign.

Item/indicator	Variance ¹	Key drivers
Core Crown expenses	\$422 million (lower than forecast)	<p>Core Crown expenses were within 1% of forecast at \$50,350m. The largest variances were reported by three entities, with the remainder due to individually small variances across a number of other departments.</p> <ul style="list-style-type: none"> • Two treaty settlement deeds amounting to \$143m were forecast to be initialled in February but this is now expected to happen in May 2011. • Fewer NZ units were issued under the ETS than expected, resulting in \$143m lower expenditure than forecast. These allocations are now expected to occur in April. • The impairment of sovereign receivables and bad debt write-offs were \$142m lower than expected. While the forecasts included an allowance for flow-on impacts from the recession these have not yet materialised to the extent anticipated. However, this may be a timing issue as write-offs are contingent on the outcome of legal proceedings. <p>Partly offsetting the lower-than-forecast expenses was a revision (in February) of the expected recovery amount relating to the deposit guarantee scheme of \$331m, which was not forecast.</p>
Core Crown residual cash deficit	-\$102 million (higher than forecast)	<ul style="list-style-type: none"> • Core Crown tax receipts were \$425m lower than forecast, with the main component relating to corporate tax which was \$488m lower than forecast. We believe this variance is partly attributable to the earthquake in Christchurch of 22 February, with the consequent disruptions affecting the ability of companies to make tax payments. However, it is unclear to what extent this is the case. • Receipts from interest and dividends were \$165m lower than forecast largely reflecting lower than expected dividend revenue as discussed earlier. <p>These variances were mostly offset by:</p> <ul style="list-style-type: none"> • Net purchases of physical assets were \$435m less than forecast. The main contributors being delays in: defence projects amounting to \$175m (including the NH90 medium utility helicopter, P3 Orion systems upgrade and the minor capital programme); and school property capital programmes (\$71m). • The remainder of the variance relates to spending delays across a number of departments (refer core Crown expenses comment).

Item/indicator	Variance ¹	Key drivers
Gross debt	-\$2,538 million (higher than forecast)	<p>Gross debt was \$66,704m, 4.0% above forecast. The main contributors were:</p> <ul style="list-style-type: none"> • Government stock issuances, at \$3,295m above forecast due to strong investor demand. • Unsettled trades at 31 March of \$1,037m held by the Reserve Bank. These are short-term positions that are not forecast. <p>These higher-than-forecast items were partially offset by:</p> <ul style="list-style-type: none"> • Other financial liabilities which were \$1,952m lower than forecast mainly due to: <ul style="list-style-type: none"> ○ Settlement deposit balances being \$869m lower than expected. ○ Issuances of Euro Commercial Paper (ECP) were \$684m lower than forecast due to the stronger demand in the domestic market for government securities.
Net debt	\$174 million (lower than forecast)	Net debt at \$39,404m was within 1% of forecast. Although gross debt was significantly higher than forecast, the proceeds from the issuance of the bonds were largely invested in financial assets.
Total Crown		
Operating balance before gains and losses deficit	-\$1,308 million (higher than forecast)	With the core Crown revenue and expenses variances effectively offsetting each other, the main reason for the deficit being \$1.3b higher than expected was the (unforecast) estimated \$1.5b net cost for EQC arising from the 22 February earthquake.
Operating balance deficit	\$3,838 million (lower than forecast)	<p>Although the OBEGAL deficit has increased, continued investment and actuarial gains resulted in a lower than expected operating balance deficit.</p> <p>The NZS Fund reported gains on their investments and derivatives that were \$2,221m above forecast. ACC and EQC also experienced higher-than-forecast gains on their investments of \$664m due to strong equity markets.</p> <p>Furthermore, ACC and GSF (the Government Superannuation Fund) experienced favourable changes in claims experience, and the discount rate used to calculate the present value of the future expected payments increased. These two factors resulted in an actuarial gain for ACC of \$1,151m (\$1,988m higher than the forecast actuarial loss of \$837m); and an actuarial gain for GSF of \$287m (\$144m higher than forecast).</p>
Net worth	\$3,873 million (higher than forecast)	Net worth was higher than expected, due mainly to the lower than forecast operating balance deficit mentioned above.

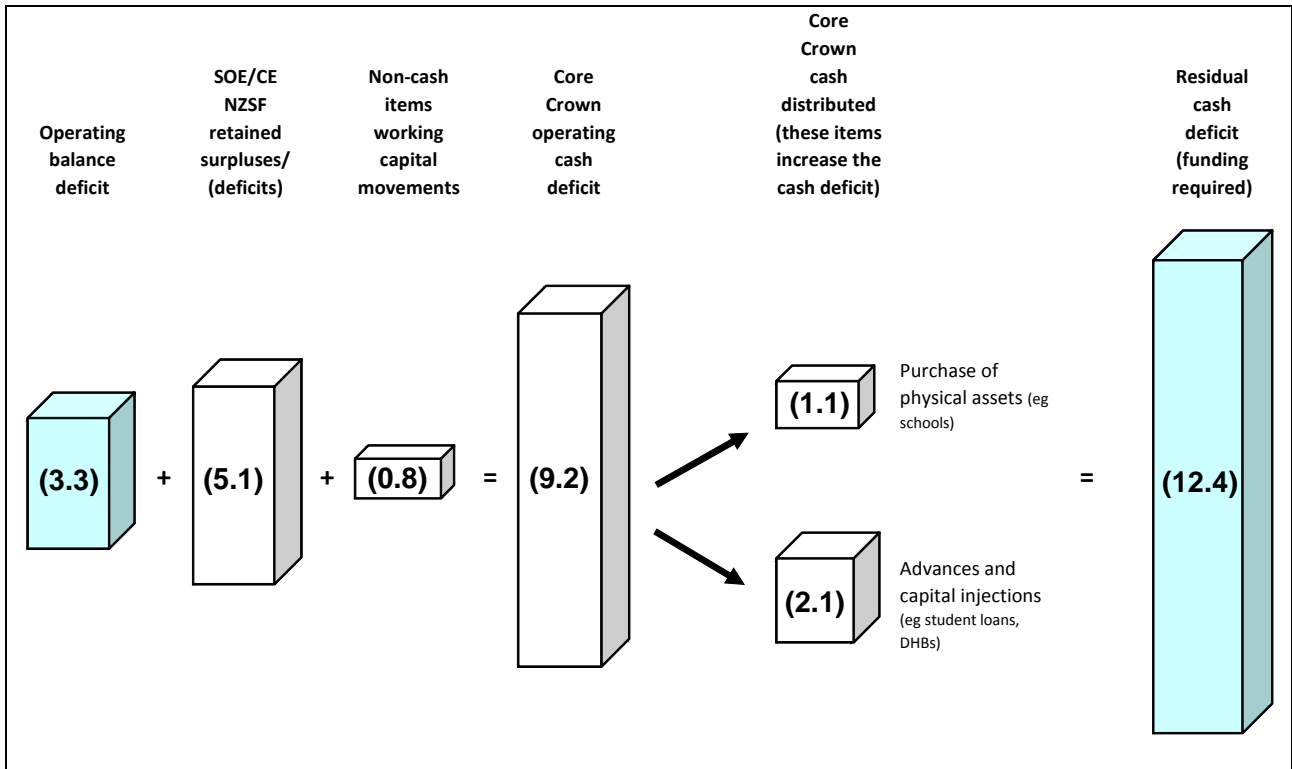
Table 3 – Fiscal Strategy and financial results

Fiscal Strategy		Financial Results		Ref	31 Mar 2011 Actual \$m	31 Mar 2011 Forecast \$m	Variance \$m	Variance %	Annual Forecast \$m
Operating revenue Ensure sufficient revenue to meet the operating balance objective	Taxation as a % of GDP	1	26.0%		26.0%				26.0%
	Core Crown taxation revenue ...		37,907	37,888	19	0.1		52,527	
Operating expenses Reduce the growth in government spending to ensure operating expenses are consistent with the operating balance objective	... combined with other core Crown revenue ...		3,606	4,091	(485)	(11.9)		5,919	
	... fund core Crown expenses...		(50,350)	(50,772)	422	0.8		(70,560)	
Operating balance 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	... and with SOE and Crown entity results and core Crown gains and losses...		5,497	1,615	3,882	240.4		2,998	
	... result in an operating surplus or deficit...		(3,340)	(7,178)	3,838	53.5		(9,116)	
	...with income in SOEs, CEs and the NZS Fund retained...		(5,084)	(1,588)	(3,496)	(220.2)		(2,984)	
	... and some items do not impact cash ...		(827)	(16)	(811)	-		2,203	
Debt Manage total debt at prudent levels ensuring net debt remains consistently below 40% of GDP and brought back to a level no higher than 20% of GDP by the early 2020's	... leaving operating cash flows to ...		(9,251)	(8,782)	(469)	(5.3)		(9,897)	
	... build up assets in the NZS Fund ...		-	-	-	-		-	
	... meet the capital expenditure budget ...		(1,096)	(1,391)	295	21.2		(2,264)	
	... and make advances (e.g. to students and DHBs)		(2,065)	(2,137)	72	3.4		(3,441)	
Debt Manage total debt at prudent levels ensuring net debt remains consistently below 40% of GDP and brought back to a level no higher than 20% of GDP by the early 2020's	With the residual cash ...		(12,412)	(12,310)	(102)	(0.8)		(15,602)	
	... when combined with opening net debt ...		26,738	26,738	-	-		26,738	
	... and other fair value movements in financial assets and financial liabilities ...		254	530	276	52.1		(262)	
	... results in a closing net debt ...		39,404	39,578	174	0.4		42,078	
... and as a % of GDP			20.2%	20.3%				20.8%	

¹ GDP for the nine months ended 31 March 2011 (actual and forecast) is the actual data for the year ended 31 December 2010 (Source: Statistics New Zealand) pro-rated for nine 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

	March 2011 Actual \$m	March 2010 Actual \$m	Change ¹ \$m	Change %
Statement of Financial Performance				
Core Crown revenue				
Taxation revenue	37,907	36,523	1,384	3.8
Other revenue	3,606	4,302	(696)	(16.2)
Total Core Crown Revenue	41,513	40,825	688	1.7
Core Crown expenses				
Social security and welfare	16,129	15,484	645	4.2
GSF pension expenses	219	254	(35)	(13.8)
Health	10,245	9,805	440	4.5
Education	8,721	8,572	149	1.7
Core government services	2,787	2,448	339	13.8
Law and order	2,528	2,339	189	8.1
Defence	1,343	1,310	33	2.5
Transport and communications	1,681	1,617	64	4.0
Economic and industrial services	1,883	2,057	(174)	(8.5)
Primary services	510	344	166	48.3
Heritage, culture and recreation	1,538	739	799	108.1
Housing and community development	258	239	19	7.9
Other	310	70	240	342.9
Finance costs	2,198	1,707	491	28.8
Total Core Crown Expenses	50,350	46,985	3,365	7.2
Net surplus of SOE/CE's (and inter-segment eliminations)	(1,330)	888	(2,218)	(249.8)
OBEGAL	(10,167)	(5,272)	(4,895)	(92.8)
Total gains/(losses)	6,651	3,940	2,711	68.8
Other operating items	176	5	171	-
Operating Balance	(3,340)	(1,327)	(2,013)	(151.7)
Core Crown residual cash	(12,412)	(7,862)	(4,550)	(57.9)
Debt indicators				
Gross debt²	66,704	50,437	16,267	32.3
Net debt³	39,404	25,625	13,779	53.8

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

² Gross sovereign-issued debt excluding settlement cash and Reserve Bank bills.

³ Net core Crown debt excluding NZS Fund, student loans and other advances.

Revenue and Expenses

Core Crown taxation revenue for the nine months ended 31 March 2011 increased by \$1.4 billion (3.8%) on the same period last year. GST was the largest contributor to the rise in tax revenue as consumer spending has recovered following the recession of 2008/09 and the October 2010 GST rate rise has also flowed into the tax result.

Other core Crown revenue decreased \$0.7 billion (16.2%) from the same period last year largely due to dividends returned by energy companies in the early months of the 2010 financial year that were not repeated in the current financial year.

Total **core Crown expenses** have increased by \$3.4 billion (7.2%) 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
Heritage, Culture and recreation	+ \$0.8 billion	<ul style="list-style-type: none">Free allocation of NZ units under the Emissions Trading Scheme.
Social Security and Welfare	+ \$0.6 billion	<ul style="list-style-type: none">Indexation of welfare benefits and higher beneficiary recipient numbers
Finance Costs	+ \$0.5 billion	<ul style="list-style-type: none">A result of increased debt levels
Health	+ \$0.4 billion	<ul style="list-style-type: none">Funding provided in the 2010 Budget to maintain and improve existing service levels
Core Government Services	+ \$0.3 billion	<ul style="list-style-type: none">A revision in the expected recoveries relating to the deposit guarantee scheme.
Other	+ \$0.8 billion	
Total	+ \$3.4 billion	

Net surplus of SOE/CE's has decreased by \$2.2 billion on the same period last year. This is due largely to the impact of the Canterbury earthquakes on EQC resulting in a net deficit for the period.

Total gains/(losses) have increased by \$2.7 billion from the same period last year due to strong equity markets. NZS Fund, ACC and EQC reported large gains on their investments. In addition, larger actuarial gains for ACC in the current year arose from favourable changes in claims experience and the discount rate used to calculate the present value of the future expected payments.

Debt

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



FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

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 83 and 84 of the *2010 Half Year Economic and Fiscal Update* released on 14 December 2010.

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

2 General Accounting Policies

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

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

3 Specific Accounting Policies

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

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

4 Forecasts

The forecasts in these financial statements have been derived from the forecasts released in the *2010 Half Year Economic and Fiscal Update (HYEFU)*, on 14 December 2010.

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/hyefu2010>

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

5 Comparative Figures

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

6 Variance Percentages

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

STATEMENT OF FINANCIAL PERFORMANCE

for the nine months ended 31 March 2011

Year to 30 Jun 2010	9 months to 31 Mar 2010		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
		Revenue						
50,347	36,170	Taxation revenue	1	37,488	37,479	9	-	52,072
4,682	3,354	Other sovereign revenue	1	3,822	4,133	(311)	(7.5)	5,700
55,029	39,524	Total Revenue Levied through the Crown's Sovereign Power		41,310	41,612	(302)	(0.7)	57,772
14,331	10,886	Sales of goods and services		11,343	11,324	19	0.2	15,591
2,315	2,059	Interest revenue and dividends	2	1,898	1,916	(18)	(0.9)	2,888
3,050	2,142	Other revenue		5,594	2,765	2,829	102.3	3,608
19,696	15,087	Total revenue earned through the Crown's operations		18,835	16,005	2,830	17.7	22,087
74,725	54,611	Total revenue (excluding gains)		60,145	57,617	2,528	4.4	79,859
		Expenses						
21,213	15,739	Social assistance and official development assistance	3	16,389	16,555	166	1.0	22,411
18,477	13,564	Personnel expenses	4	14,103	14,079	(24)	(0.2)	18,939
4,229	3,074	Depreciation and amortisation	5	3,163	3,195	32	1.0	4,344
31,338	22,965	Other operating expenses	5	25,261	25,670	409	1.6	37,133
2,777	2,440	Interest expenses	6	2,861	2,705	(156)	(5.8)	3,388
3,006	2,101	Insurance expenses	7	8,535	4,485	(4,050)	(90.3)	5,362
-	-	Forecast new operating spending	5	-	-	-	-	230
-	-	Top-down expense adjustment	5	-	(213)	(213)	(100.0)	(850)
81,040	59,883	Total expenses (excluding losses)		70,312	66,476	(3,836)	(5.8)	90,957
(6,315)	(5,272)	Operating balance before gains/(losses)		(10,167)	(8,859)	(1,308)	(14.8)	(11,098)
2,522	4,094	Net gains/(losses) on financial instruments	8	4,914	2,076	2,838	136.7	2,227
(960)	(154)	Net gains/(losses) on non-financial instruments	9	1,737	(603)	2,340	388.1	(557)
1,562	3,940	Total gains/(losses)		6,651	1,473	5,178	351.5	1,670
227	5	Net surplus/(deficit) from associates and joint ventures	5	178	208	(30)	(14.4)	317
(4,526)	(1,327)	Operating balance from continuing activities		(3,338)	(7,178)	3,840	53.5	(9,111)
-	-	Gain/(loss) from discontinued operations		(2)	-	(2)	-	(5)
(4,526)	(1,327)	Operating balance (including minority interest)		(3,340)	(7,178)	3,838	53.5	(9,116)
17	-	Attributable to minority interest in Air New Zealand		-	-	-	-	-
(4,509)	(1,327)	Operating balance	10	(3,340)	(7,178)	3,838	53.5	(9,116)

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

STATEMENT OF COMPREHENSIVE INCOME

for the nine months ended 31 March 2011

Year to 30 Jun 2010 Actual \$m	9 months to 31 Mar 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
(4,526)	(1,327)	Operating Balance (including minority interest)	(3,340)	(7,178)	3,838	53.5	(9,116)
		Other comprehensive income					
196	4	Revaluation of physical assets	(62)	(36)	(26)	(72.2)	(41)
(112)	(205)	Effective portion of changes in value of cash flow hedges	31	(30)	61	203.3	5
(62)	(1)	Net change in fair value of cash flow hedges transferred to operating balance	(16)	(17)	1	5.9	-
(3)	(14)	Net change in fair value of cash flow hedges transferred to the hedged item	6	(5)	11	220.0	(14)
(11)	(12)	Foreign currency translation differences for foreign operations	3	(6)	9	150.0	(25)
3	(4)	Valuation gains/(losses) on investments available for sale taken to reserves	4	5	(1)	(20.0)	9
(1)	(1)	Other movements	(2)	18	(20)	(111.1)	3
10	(233)	Total other comprehensive income	(36)	(71)	35	49.3	(63)
(4,516)	(1,560)	Total comprehensive income	(3,376)	(7,249)	3,873	53.4	(9,179)
		Attributable to:					
(34)	-	- minority interest in Air New Zealand	-	-	-	-	-
(4,482)	(1,560)	- the Crown	(3,376)	(7,249)	3,873	53.4	(9,179)
(4,516)	(1,560)	Total comprehensive income	(3,376)	(7,249)	3,873	53.4	(9,179)

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

ANALYSIS OF EXPENSES BY FUNCTIONAL CLASSIFICATION

for the nine months ended 31 March 2011

Year to 30 Jun 2010	9 months to 31 Mar 2010		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		Total Crown expenses					
24,206	17,585	Social security and welfare	18,641	18,728	87	0.5	25,708
333	259	GSF pension expenses	223	237	14	5.9	312
12,673	9,457	Health	9,746	9,741	(5)	(0.1)	13,308
12,440	9,115	Education	9,291	9,426	135	1.4	12,793
2,830	2,367	Core government services	2,736	2,690	(46)	(1.7)	3,919
3,354	2,472	Law and order	2,675	2,690	15	0.6	3,689
1,771	1,276	Defence	1,323	1,359	36	2.6	1,922
7,991	5,935	Transport and communications	6,222	6,258	36	0.6	8,464
7,541	5,416	Economic and industrial services	11,712	7,709	(4,003)	(51.9)	10,424
1,373	1,094	Primary services	1,197	1,231	34	2.8	1,690
2,584	1,632	Heritage, culture and recreation	2,591	2,662	71	2.7	3,525
1,087	765	Housing and community development	784	809	25	3.1	1,823
80	70	Other	310	444	134	30.2	612
2,777	2,440	Finance costs	2,861	2,705	(156)	(5.8)	3,388
-	-	Forecast new operating spending	-	-	-	-	230
-	-	Top-down expense adjustment	-	(213)	(213)	(100.0)	(850)
81,040	59,883	Total Crown expenses excluding losses	70,312	66,476	(3,836)	(5.8)	90,957

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

Year to 30 Jun 2010	9 months to 31 Mar 2010		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		Core Crown expenses					
21,185	15,484	Social security and welfare	16,129	16,051	(78)	(0.5)	22,052
328	254	GSF pension expenses	219	230	11	4.8	304
13,128	9,805	Health	10,245	10,290	45	0.4	13,956
11,724	8,572	Education	8,721	8,800	79	0.9	12,048
2,974	2,448	Core government services	2,787	2,736	(51)	(1.9)	4,069
3,191	2,339	Law and order	2,528	2,567	39	1.5	3,481
1,814	1,310	Defence	1,343	1,396	53	3.8	1,972
2,345	1,617	Transport and communications	1,681	1,761	80	4.5	2,563
2,839	2,057	Economic and industrial services	1,883	1,988	105	5.3	2,989
507	344	Primary services	510	548	38	6.9	792
1,281	739	Heritage, culture and recreation	1,538	1,669	131	7.8	2,187
306	239	Housing and community development	258	268	10	3.7	1,073
80	70	Other	310	444	134	30.2	612
2,311	1,707	Finance costs	2,198	2,237	39	1.7	3,082
-	-	Forecast new operating spending	-	-	-	-	230
-	-	Top-down expense adjustment	-	(213)	(213)	(100.0)	(850)
64,013	46,985	Core Crown expenses excluding losses	50,350	50,772	422	0.8	70,560

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

STATEMENT OF CASH FLOWS

for the nine months ended 31 March 2011

Year to 30 Jun 2010 Actual \$m	9 months to 31 Mar 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		Cash Flows From Operations					
		Cash was provided from					
50,104	36,587	Taxation receipts	36,324	37,126	(802)	(2.2)	51,665
4,268	3,201	Other sovereign receipts	3,750	3,695	55	1.5	4,797
14,411	11,225	Sales of goods and services	11,315	11,517	(202)	(1.8)	15,232
2,378	2,185	Interest and dividends	1,975	2,063	(88)	(4.3)	2,650
2,974	1,746	Other operating receipts	2,055	2,233	(178)	(8.0)	3,452
74,135	54,944	Total cash provided from operations	55,419	56,634	(1,215)	(2.1)	77,796
		Cash was disbursed to					
		Social assistance and official development assistance					
21,335	16,180		16,800	16,997	197	1.2	22,436
50,767	38,744	Personnel and operating payments	42,348	42,943	595	1.4	57,679
2,420	1,868	Interest payments	1,793	2,165	372	17.2	3,190
-	-	Forecast new operating spending	-	-	-	-	230
-	-	Top-down expense adjustment	-	(213)	(213)	(100.0)	(850)
74,522	56,792	Total cash disbursed to operations	60,941	61,892	951	1.5	82,685
(387)	(1,848)	Net cash flows from operations	(5,522)	(5,258)	(264)	(5.0)	(4,889)
		Cash Flows From Investing Activities					
		Cash was provided from/(disbursed to)					
(5,865)	(4,439)	Net purchase of physical assets	(4,871)	(5,233)	362	6.9	(7,718)
2,092	3,203	Net purchase of shares and other securities	(1,424)	1,045	(2,469)	(236.3)	281
(377)	(208)	Net purchase of intangible assets	(300)	(345)	45	13.0	(537)
(310)	(174)	Net (issue)/repayment of advances	(160)	(855)	695	81.3	(1,503)
(198)	31	Net acquisition of investments in associates	52	32	20	62.5	(122)
-	-	Capital contingency provision	-	-	-	-	(292)
-	-	Top-down capital adjustment	-	140	(140)	(100.0)	350
(4,658)	(1,587)	Net cash flows from investing activities	(6,703)	(5,216)	(1,487)	(28.5)	(9,541)
(5,045)	(3,435)	Net cash flows from operating and investing activities	(12,225)	(10,474)	(1,751)	(16.7)	(14,430)
		Cash Flows From Financing Activities					
		Cash was provided from/(disbursed to)					
15	276	Issues of circulating currency	349	91	258	283.5	117
7,157	4,832	Net issue/(repayment) of Government stock ¹	12,851	10,888	1,963	18.0	13,753
3,296	3,449	Net issue/(repayment) of foreign currency borrowing	2,418	(3,470)	5,888	169.7	(4,789)
(3,764)	(4,229)	Net issue/(repayment) of other New Zealand dollar borrowing	(2,209)	5,204	(7,413)	(142.4)	7,384
6,704	4,328	Net cash flows from financing activities	13,409	12,713	696	5.5	16,465
1,659	893	Net movement in cash	1,184	2,239	(1,055)	(47.1)	2,035
6,268	6,268	Opening Cash Balance	7,774	7,774	-	-	7,774
		Foreign-exchange gains/(losses) on opening cash					
(153)	(246)		(206)	(121)	(85)	(70.2)	(122)
7,774	6,915	Closing Cash Balance	8,752	9,892	(1,140)	(11.5)	9,687

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 nine months ended 31 March 2011

Year to 30 Jun 2010 Actual \$m	9 months to 31 Mar 2010 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
(387)	(1,848)	Net Cash Flows from Operations	(5,522)	(5,258)	(264)	(5.0)	(4,889)
		<i>Items included in the operating balance but not in net cash flows from operations.</i>					
		Gains/(losses)					
2,522	4,094	Gains/(losses) on other financial instruments	4,914	2,076	2,838	136.7	2,227
(960)	(154)	Gains/(losses) on other non-financial instruments	1,737	(603)	2,340	388.1	(557)
1,562	3,940	Total gains/(losses)	6,651	1,473	5,178	351.5	1,670
Other Non-cash Items in Operating Balance							
(4,229)	(3,074)	Depreciation and amortisation	(3,163)	(3,195)	32	1.0	(4,344)
(855)	(671)	Write-down on initial recognition of loans	(693)	(684)	(9)	(1.3)	(809)
33	1	Impairment on financial assets (excluding receivables)	49	20	29	145.0	16
284	239	Decrease/(increase) in defined benefit retirement plan liabilities	281	257	24	9.3	356
(974)	1,471	Decrease/(increase) in insurance liabilities	(3,962)	416	(4,378)	-	(1,642)
244	8	Other	177	211	(34)	(16.1)	317
(5,497)	(2,026)	Total other non-cash items	(7,311)	(2,975)	(4,336)	(145.7)	(6,106)
Movements in Working Capital							
(338)	(2,767)	Increase/(decrease) in receivables	2,510	(843)	3,353	397.7	1,086
(420)	(698)	Increase/(decrease) in accrued interest	(1,144)	(687)	(457)	(66.5)	41
78	94	Increase/(decrease) in inventories	106	72	34	47.2	86
18	283	Increase/(decrease) in prepayments	393	286	107	37.4	(12)
(202)	(223)	Decrease/(increase) in deferred revenue	(62)	(5)	(57)	-	192
677	1,918	Decrease/(increase) in payables	1,039	759	280	36.9	(1,184)
(187)	(1,393)	Total movements in working capital	2,842	(418)	3,260	-	209
(4,509)	(1,327)	Operating Balance	(3,340)	(7,178)	3,838	53.5	(9,116)

STATEMENT OF CHANGES IN NET WORTH

for the nine months ended 31 March 2011

Year to 30 Jun 2010 Actual \$m	9 months to 31 Mar 2010 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
99,515	99,515	Opening net worth	94,988	94,988	-	-	94,988
(4,526)	(1,327)	Operating balance (including minority interest)	(3,340)	(7,178)	3,838	53.5	(9,116)
196	4	Net revaluations	(62)	(36)	(26)	(72.2)	(41)
(96)	(210)	Transfers to/(from) reserves	36	(25)	61	244.0	8
(60)	(1)	(Gains)/losses transferred to the statement of financial performance	(16)	(16)	-	-	-
(30)	(26)	Other movements	6	6	-	-	(30)
(4,516)	(1,560)	Total comprehensive income	(3,376)	(7,249)	3,873	53.4	(9,179)
(11)	-	Transactions with minority interest in Air New Zealand	-	-	-	-	-
94,988	97,955	Closing net worth	91,612	87,739	3,873	4.4	85,809

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

STATEMENT OF FINANCIAL POSITION

as at 31 March 2011

As at 30 Jun 2010 Actual \$m	As at 31 Mar 2010 Actual \$m		Note	Current Year Actual vs Forecast			Annual Forecast \$m	
				Actual \$m	Forecast \$m	Variance \$m		%
Assets								
7,774	6,915	Cash and cash equivalents	11	8,752	9,892	(1,140)	(11.5)	9,687
13,884	11,456	Receivables	11	18,704	12,754	5,950	46.7	14,970
		Marketable securities, deposits and derivatives in gain						
43,687	42,795		11	43,756	41,312	2,444	5.9	42,375
12,179	13,398	Share investments	11	14,285	12,901	1,384	10.7	13,704
18,447	17,704	Advances	11	19,694	20,169	(475)	(2.4)	19,642
1,160	1,175	Inventory		1,266	1,231	35	2.8	1,245
1,661	1,833	Other assets		2,079	1,975	104	5.3	1,705
113,330	111,774	Property, plant & equipment	12	115,205	115,796	(591)	(0.5)	117,328
9,049	8,811	Equity accounted investments ¹		9,321	9,298	23	0.2	9,345
2,184	2,164	Intangible assets and goodwill ²		2,453	2,241	212	9.5	2,369
-	-	Forecast for new capital spending		-	-	-	-	292
-	-	Top-down capital adjustment		-	(140)	140	100.0	(350)
223,355	218,025	Total assets		235,515	227,429	8,086	3.6	232,312
Liabilities								
4,020	4,281	Issued currency		4,370	4,112	(258)	(6.3)	4,137
9,931	7,329	Payables	14	8,567	8,437	(130)	(1.5)	9,562
1,628	1,649	Deferred revenue		1,690	1,633	(57)	(3.5)	1,436
69,733	67,454	Borrowings		84,290	82,696	(1,594)	(1.9)	85,876
27,131	24,923	Insurance liabilities	15	29,942	27,551	(2,391)	(8.7)	29,604
9,940	9,162	Retirement plan liabilities		9,372	9,539	167	1.8	9,436
5,984	5,272	Provisions	16	5,672	5,722	50	0.9	6,452
128,367	120,070	Total liabilities		143,903	139,690	(4,213)	(3.0)	146,503
94,988	97,955	Total assets less total liabilities		91,612	87,739	3,873	4.4	85,809
Net Worth								
31,087	35,271	Taxpayer funds	17	27,892	23,967	3,925	16.4	22,010
63,593	62,398	Revaluation reserve	17	63,384	63,516	(132)	(0.2)	63,516
(94)	(161)	Other reserves	17	(66)	(146)	80	54.8	(119)
94,586	97,508	Total net worth attributable to the Crown		91,210	87,337	3,873	4.4	85,407
		Net worth attributable to minority interest in Air New Zealand		402	402	-	-	402
94,988	97,955	Total net worth		91,612	87,739	3,873	4.4	85,809

¹ Tertiary education institutions constitute most equity accounted investments.

² Intangible assets include the Kyoto net asset of \$445 million.

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

STATEMENT OF BORROWINGS

as at 31 March 2011

As at 30 Jun 2010 Actual \$m	As at 31 Mar 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
27,926	26,329	Government stock ¹	41,365	38,212	(3,153)	(8.3)	40,153
7,625	8,200	Treasury bills	7,447	7,336	(111)	(1.5)	7,428
309	329	Government retail stock	267	295	28	9.5	295
6,679	6,390	Settlement deposits with Reserve Bank	6,239	7,108	869	12.2	7,108
2,376	1,750	Derivatives in loss	2,121	1,759	(362)	(20.6)	1,555
920	921	Finance lease liabilities	1,049	814	(235)	(28.9)	1,052
23,898	23,535	Other borrowings	25,802	27,172	1,370	5.0	28,285
69,733	67,454	Total borrowings	84,290	82,696	(1,594)	(1.9)	85,876
50,017	47,626	Sovereign-guaranteed debt	62,568	60,881	(1,687)	(2.8)	64,188
19,716	19,828	Non sovereign-guaranteed debt	21,722	21,815	93	0.4	21,688
69,733	67,454	Total borrowings	84,290	82,696	(1,594)	(1.9)	85,876
		Net Debt:					
58,583	54,887	Core Crown borrowings ²	71,307	69,673	(1,634)	(2.3)	73,001
308	568	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	131	152	21	13.8	58
58,891	55,455	Gross sovereign-issued debt³	71,438	69,825	(1,613)	(2.3)	73,059
57,209	55,775	Less core Crown financial assets ⁴	59,435	57,446	1,989	3.5	58,816
1,682	(320)	Net core Crown debt (incl NZS Fund)⁵	12,003	12,379	376	3.0	14,243
14,189	14,918	Add back NZS Fund holdings of core Crown financial assets and NZS Fund fin assets ⁶	15,744	15,344	400	2.6	15,785
15,871	14,598	Net core Crown debt (excl NZS Fund)⁵	27,747	27,723	(24)	(0.1)	30,028
10,867	11,027	Core crown advances	11,657	11,855	198	1.7	12,050
26,738	25,625	Net core Crown debt (excl NZS Fund and advances)⁷	39,404	39,578	174	0.4	42,078
		Gross Debt:					
58,891	55,455	Gross sovereign-issued debt ³	71,438	69,825	(1,613)	(2.3)	73,059
(6,900)	(6,618)	Less Reserve Bank settlement cash and Reserve Bank bills	(6,334)	(7,259)	(925)	(12.7)	(7,259)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash ⁸	1,600	1,600	-	-	1,600
53,591	50,437	Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve bank bills	66,704	64,166	(2,538)	(4.0)	67,400

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 March 2011

	As at 31 Mar 2011 \$m	As at 30 Jun 2010 \$m	As at 31 Mar 2010 \$m
Capital Commitments			
Specialist military equipment	387	422	486
Land and buildings	820	849	685
Other property, plant and equipment	7,025	6,370	6,735
Other capital commitments	220	224	427
Tertiary Education Institutions	302	302	245
Total capital commitments	8,754	8,167	8,578
Operating Commitments			
Non-cancellable accommodation leases	2,871	2,862	2,654
Other non-cancellable leases	3,209	3,230	2,442
Non-cancellable contracts for the supply of goods and services	2,253	2,258	2,208
Other operating commitments	7,340	9,376	8,753
Tertiary Education Institutions	304	304	335
Total operating commitments	15,977	18,030	16,392
Total commitments	24,731	26,197	24,970
Total Commitments by Segment			
Core Crown	12,751	20,983	11,610
Crown entities	11,137	13,811	13,769
State-owned Enterprises	7,917	7,242	5,865
Inter-segment eliminations	(7,074)	(15,839)	(6,274)
Total commitments	24,731	26,197	24,970

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 March 2011

	As at 31 Mar 2011 \$m	As at 30 Jun 2010 \$m	As at 31 Mar 2010 \$m
Quantifiable Contingent Liabilities			
Guarantees and indemnities	102	106	116
Uncalled capital	4,340	2,310	2,283
Legal proceedings and disputes	401	414	342
Other contingent liabilities	3,361	3,535	3,652
Total quantifiable contingent liabilities	8,204	6,365	6,393
Total Quantifiable Contingent Liabilities by Segment			
Core Crown	7,874	6,050	6,184
Crown entities	261	171	80
State-owned Enterprises	69	144	129
Inter-segment eliminations	-	-	-
Total quantifiable contingent liabilities	8,204	6,365	6,393
Quantifiable Contingent Assets			
Core Crown	701	570	271
Crown entities	3	2	3
Total quantifiable contingent assets	704	572	274

The above table does not include:

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	9 months to 31 Mar 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 1: Revenue Collected Through the Crown's Sovereign Power							
Taxation Revenue (accrual)							
Individuals							
21,774	16,145	Source deductions	15,573	15,332	241	1.6	20,376
3,987	2,951	Other persons	2,730	2,807	(77)	(2.7)	3,883
(1,831)	(1,207)	Refunds	(1,105)	(1,091)	(14)	(1.3)	(1,629)
461	356	Fringe benefit tax	359	354	5	1.4	441
24,391	18,245	Total individuals	17,557	17,402	155	0.9	23,071
Corporate Tax							
6,698	3,367	Gross companies tax	4,437	4,401	36	0.8	7,897
(379)	(261)	Refunds	(139)	(187)	48	25.7	(371)
884	887	Non-resident withholding tax	362	362	-	-	495
(3)	(3)	Foreign-source dividend w/holding payments	-	-	-	-	2
7,200	3,990	Total corporate tax	4,660	4,576	84	1.8	8,023
Other Income Tax							
1,804	1,360	Resident w/holding tax on interest income	1,285	1,217	68	5.6	1,589
130	85	Resident w/holding tax on dividend income	129	141	(12)	(8.5)	221
2	1	Estate and gift duties	2	1	1	100.0	1
1,936	1,446	Total other income tax	1,416	1,359	57	4.2	1,811
33,527	23,681	Total income tax	23,633	23,337	296	1.3	32,905
Goods and Services Tax							
19,797	14,609	Gross goods and services tax	17,034	17,126	(92)	(0.5)	23,726
(7,880)	(5,779)	Refunds	(7,078)	(6,907)	(171)	(2.5)	(9,703)
11,917	8,830	Total goods and services tax	9,956	10,219	(263)	(2.6)	14,023
Other Taxation							
910	683	Road user charges	761	722	39	5.4	963
805	603	Petroleum fuels excise - domestic production	623	668	(45)	(6.7)	895
600	488	Alcohol excise - domestic production	517	514	3	0.6	625
217	156	Tobacco excise - domestic production	145	163	(18)	(11.0)	194
622	444	Petroleum fuels excise - imports ¹	427	445	(18)	(4.0)	597
225	175	Alcohol excise - imports ¹	177	185	(8)	(4.3)	234
851	600	Tobacco excise - imports ¹	746	677	69	10.2	908
175	141	Other customs duty	146	172	(26)	(15.1)	220
219	169	Gaming duties	156	164	(8)	(4.9)	218
171	128	Motor vehicle fees	129	132	(3)	(2.3)	176
69	44	Approved issuer levy and cheque duty	46	53	(7)	(13.2)	76
39	28	Energy resources levies	26	28	(2)	(7.1)	38
4,903	3,659	Total other indirect taxation	3,899	3,923	(24)	(0.6)	5,144
16,820	12,489	Total indirect taxation	13,855	14,142	(287)	(2.0)	19,167
50,347	36,170	Total taxation revenue	37,488	37,479	9	-	52,072
Other Sovereign Revenue (accrual)							
3,261	2,303	ACC levies	2,691	2,815	(124)	(4.4)	3,855
301	228	Fire Service levies	234	235	(1)	(0.4)	306
86	65	EQC levies	65	65	-	-	87
1,034	758	Other miscellaneous items	832	1,018	(186)	(18.3)	1,452
4,682	3,354	Total other sovereign revenue	3,822	4,133	(311)	(7.5)	5,700
55,029	39,524	Total sovereign revenue	41,310	41,612	(302)	(0.7)	57,772

1. Customs excise-equivalent duty

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	9 months to 31 Mar 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 1 (continued): Receipts Collected Through the Crown's Sovereign Power							
Income Tax Receipts (cash)							
Individuals							
21,744	16,225	Source deductions	15,549	15,479	70	0.5	20,483
4,630	2,808	Other persons	2,622	2,609	13	0.5	4,319
(2,793)	(2,127)	Refunds	(1,867)	(1,784)	(83)	(4.7)	(2,298)
469	341	Fringe benefit tax	340	327	13	4.0	440
24,050	17,247	Total individuals	16,644	16,631	13	0.1	22,944
Corporate Tax							
8,650	6,366	Gross companies tax	5,477	6,191	(714)	(11.5)	8,908
(1,644)	(1,041)	Refunds	(522)	(718)	196	27.3	(1,141)
889	771	Non-resident withholding tax	358	361	(3)	(0.8)	494
6	5	Foreign-source dividend w/holding payments	(2)	-	(2)	-	2
7,901	6,101	Total corporate tax	5,311	5,834	(523)	(9.0)	8,263
Other Income Tax							
1,833	1,300	Resident w/holding tax on interest income	1,213	1,141	72	6.3	1,588
114	69	Resident w/holding tax on dividend income	126	142	(16)	(11.3)	221
2	1	Estate and gift duties	2	1	1	100.0	1
1,949	1,370	Total other income tax	1,341	1,284	57	4.4	1,810
33,900	24,718	Total income tax	23,296	23,749	(453)	(1.9)	33,017
Goods and Services Tax							
18,797	13,783	Gross goods and services tax	15,831	15,938	(107)	(0.7)	22,562
(7,456)	(5,542)	Refunds	(6,716)	(6,458)	(258)	(4.0)	(9,059)
11,341	8,241	Total goods and services tax	9,115	9,480	(365)	(3.9)	13,503
Other Taxation							
908	682	Road user charges	760	702	58	8.3	963
805	604	Petroleum fuels excise - domestic production	653	675	(22)	(3.3)	895
622	473	Alcohol excise - domestic production	474	467	7	1.5	625
214	150	Tobacco excise - domestic production	154	174	(20)	(11.5)	194
1,805	1,330	Customs duty	1,519	1,502	17	1.1	1,959
218	168	Gaming duties	157	164	(7)	(4.3)	219
195	153	Motor vehicle fees	123	132	(9)	(6.8)	176
59	40	Approved issuer levy and cheque duty	47	53	(6)	(11.3)	76
37	28	Energy resources levies	26	28	(2)	(7.1)	38
4,863	3,628	Total other indirect taxation	3,913	3,897	16	0.4	5,145
16,204	11,869	Total indirect taxation	13,028	13,377	(349)	(2.6)	18,648
50,104	36,587	Total tax receipts collected	36,324	37,126	(802)	(2.2)	51,665
Other Sovereign Receipts (cash)							
3,291	2,466	ACC levies	2,856	2,876	(20)	(0.7)	3,760
301	228	Fire Service levies	234	235	(1)	(0.4)	306
86	65	EQC levies	68	65	3	4.6	87
590	442	Other miscellaneous items	592	519	73	14.1	644
4,268	3,201	Total other sovereign receipts	3,750	3,695	55	1.5	4,797
54,372	39,788	Total sovereign receipts	40,074	40,821	(747)	(1.8)	56,462

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010	9 months to 31 Mar 2010		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		NOTE 2: Interest Revenue and Dividends					
		<i>By type</i>					
1,926	1,793	Interest revenue	1,614	1,628	(14)	(0.9)	2,432
389	266	Dividends	284	288	(4)	(1.4)	456
2,315	2,059	Total interest revenue and dividends	1,898	1,916	(18)	(0.9)	2,888
		<i>By source</i>					
2,135	1,737	Core Crown	1,194	1,568	(374)	(23.9)	2,128
1,146	742	Crown entities	694	834	(140)	(16.8)	1,075
626	772	State-owned Enterprises	605	462	143	31.0	859
(1,592)	(1,192)	Inter-segment eliminations	(595)	(948)	353	37.2	(1,174)
2,315	2,059	Total interest revenue and dividends	1,898	1,916	(18)	(0.9)	2,888
		NOTE 3: Social Assistance and Official Development Assistance					
8,290	6,154	New Zealand superannuation	6,525	6,527	2	-	8,817
1,693	1,261	Domestic purposes benefit	1,309	1,317	8	0.6	1,771
930	708	Unemployment benefit	730	746	16	2.1	980
1,303	973	Invalids benefit	975	977	2	0.2	1,314
2,168	1,626	Family tax credit	1,571	1,596	25	1.6	2,219
1,154	864	Accommodation supplement	902	912	10	1.1	1,214
710	530	Sickness benefit	552	544	(8)	(1.5)	726
570	376	Student allowances	417	422	5	1.2	624
411	308	Disability allowances	308	309	1	0.3	413
1,024	728	KiwiSaver	767	768	1	0.1	1,066
2,525	1,863	Other social assistance benefits	2,010	2,055	45	2.2	2,774
20,778	15,391	Total social assistance	16,066	16,173	107	0.7	21,918
435	348	Official development assistance	323	382	59	15.4	493
21,213	15,739	Total social assistance and official development assistance	16,389	16,555	166	1.0	22,411
		NOTE 4: Personnel Expenses					
5,991	4,358	Core Crown	4,425	4,469	44	1.0	5,979
10,043	7,397	Crown entities	7,704	7,697	(7)	(0.1)	10,318
2,455	1,816	State-owned Enterprises	1,981	1,919	(62)	(3.2)	2,651
(12)	(7)	Inter-segment eliminations	(7)	(6)	1	16.7	(9)
18,477	13,564	Total personnel expenses	14,103	14,079	(24)	(0.2)	18,939
		NOTE 5: Operating Expenses					
		<i>By type</i>					
4,229	3,074	Depreciation and amortisation	3,163	3,195	32	1.0	4,344
31,338	22,965	Other operating expenses	25,261	25,670	409	1.6	37,133
-	-	Forecast new operating spending	-	-	-	-	230
-	-	Top-down expense adjustment	-	(213)	(213)	(100.0)	(850)
35,567	26,039	Total operating expenses	28,424	28,652	228	0.8	40,857
		<i>By source</i>					
34,226	24,977	Core Crown	27,294	27,470	176	0.6	39,031
18,392	13,057	Crown entities	13,277	13,328	51	0.4	17,991
9,494	7,111	State-owned Enterprises	7,367	7,540	173	2.3	10,356
(26,545)	(19,106)	Inter-segment eliminations	(19,514)	(19,686)	(172)	(0.9)	(26,521)
35,567	26,039	Total operating expenses	28,424	28,652	228	0.8	40,857

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 Actual \$m	9 months to 31 Mar 2010 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		NOTE 6: Interest Expenses					
		<i>By type</i>					
2,724	2,383	Interest on financial liabilities	2,828	2,649	(179)	(6.8)	3,303
53	57	Interest unwind on provisions	33	56	23	41.1	85
2,777	2,440	Total interest expenses	2,861	2,705	(156)	(5.8)	3,388
		<i>By source</i>					
2,311	1,707	Core Crown	2,198	2,237	39	1.7	3,082
245	122	Crown entities	180	189	9	4.8	263
845	916	State-owned Enterprises	761	949	188	19.8	1,074
(624)	(305)	Inter-segment eliminations	(278)	(670)	(392)	(58.5)	(1,031)
2,777	2,440	Total interest expenses	2,861	2,705	(156)	(5.8)	3,388
		NOTE 7: Insurance Expenses					
		<i>By entity</i>					
2,922	2,039	ACC	2,264	2,425	161	6.6	3,298
64	46	EQC (refer note 20)	6,251	2,034	(4,217)	(207.3)	2,046
20	16	Other insurance expenses	20	26	6	23.1	18
3,006	2,101	Total insurance expenses	8,535	4,485	(4,050)	(90.3)	5,362
		NOTE 8: Gains and Losses on Financial Instruments					
		<i>By source</i>					
2,094	2,940	Core Crown	3,941	1,409	2,532	179.7	1,902
787	1,312	Crown entities	1,287	621	666	107.2	615
(105)	(32)	State-owned Enterprises	(136)	224	(360)	(160.7)	(65)
(254)	(126)	Inter-segment eliminations	(178)	(178)	-	-	(225)
2,522	4,094	Net gains/(losses) on financial instruments	4,914	2,076	2,838	136.7	2,227
		NOTE 9: Gains and Losses on Non-Financial Instruments					
		<i>By type</i>					
(1,231)	(408)	Actuarial gains/(losses) on GSF liability	287	144	143	99.3	144
410	173	Actuarial gains/(losses) on ACC liability	1,151	(837)	1,988	237.5	(831)
(139)	81	Other	299	90	209	232.2	130
(960)	(154)	Net gains/(losses) on non-financial instruments	1,737	(603)	2,340	388.1	(557)
		<i>By source</i>					
(1,351)	(413)	Core Crown	484	121	363	300.0	122
398	143	Crown entities	1,139	(846)	1,985	234.6	(846)
(7)	115	State-owned Enterprises	115	122	(7)	(5.7)	168
-	1	Inter-segment eliminations	(1)	-	(1)	-	(1)
(960)	(154)	Net gains/(losses) on non-financial instruments	1,737	(603)	2,340	388.1	(557)
		NOTE 10: Operating Balance					
		<i>By source</i>					
(7,000)	(3,675)	Core Crown	(4,379)	(7,217)	2,838	39.3	(10,022)
2,373	2,667	Crown entities	965	(186)	1,151	-	234
635	763	State-owned Enterprises	696	746	(50)	(6.7)	1,059
(517)	(1,082)	Inter-segment eliminations	(622)	(521)	(101)	(19.4)	(387)
(4,509)	(1,327)	Total operating balance	(3,340)	(7,178)	3,838	53.5	(9,116)

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2010 \$m	As at 31 Mar 2010 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 11: Financial Assets							
7,774	6,915	Cash and cash equivalents	8,752	9,892	(1,140)	(11.5)	9,687
6,864	6,121	Tax receivables	7,508	6,767	741	11.0	6,214
7,020	5,335	Trade and other receivables	11,196	5,987	5,209	87.0	8,756
6,790	7,005	Student loans	7,261	7,243	18	0.2	7,239
10,419	10,055	Kiwibank mortgages	11,158	11,649	(491)	(4.2)	11,106
2,784	2,345	Long-term deposits	2,152	3,006	(854)	(28.4)	2,712
2,199	2,201	IMF financial assets	2,269	2,430	(161)	(6.6)	2,430
1,238	644	Other advances	1,275	1,277	(2)	(0.2)	1,297
12,179	13,398	Share investments	14,285	12,901	1,384	10.7	13,704
2,972	3,104	Derivatives in gain	3,963	3,123	840	26.9	2,839
35,732	35,145	Other marketable securities	35,372	32,753	2,619	8.0	34,394
95,971	92,268	Total financial assets	105,191	97,028	8,163	8.4	100,378
Financial assets by entity							
23,097	22,172	NZDMO	25,195	23,338	1,857	8.0	24,216
19,125	17,858	Reserve Bank of New Zealand	17,582	17,911	(329)	(1.8)	17,965
15,552	16,065	NZ Superannuation Fund	18,554	16,113	2,441	15.1	16,610
16,643	16,988	Other core Crown	18,827	18,721	106	0.6	17,027
(8,437)	(8,938)	Intra-segment eliminations	(8,631)	(8,938)	307	3.4	(8,190)
65,980	64,145	Total core Crown segment	71,527	67,145	4,382	6.5	67,628
16,985	14,455	ACC portfolio	18,436	17,721	715	4.0	20,513
6,003	6,065	EQC portfolio	8,717	5,670	3,047	53.7	5,299
6,631	6,579	Other Crown entities	6,718	6,550	168	3	6,406
(1,483)	(1,458)	Intra-segment eliminations	(1,584)	(1,604)	20	1.2	(1,200)
28,136	25,641	Total Crown entities segment	32,287	28,337	3,950	13.9	31,018
16,064	16,205	Total State-owned enterprises segment	17,566	18,024	(458)	(2.5)	17,721
(14,209)	(13,723)	Inter-segment eliminations	(16,189)	(16,478)	289	1.8	(15,989)
95,971	92,268	Total financial assets	105,191	97,028	8,163	8.4	100,378

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2010 \$m	As at 31 Mar 2010 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 12: Property, Plant and Equipment							
Net Carrying Value							
<i>By class of asset:</i>							
16,688	16,475	Land (valuation)	16,607	16,704	(97)	(0.6)	16,895
24,019	23,829	Buildings (valuation)	24,458	24,638	(180)	(0.7)	24,921
2,251	2,462	Electricity distribution network (cost)	2,458	2,604	(146)	(5.6)	2,722
13,642	11,699	Electricity generation assets (valuation)	13,802	13,812	(10)	(0.1)	13,830
1,731	2,237	Aircraft (excl military) (valuation)	2,294	1,838	456	24.8	1,842
24,838	24,647	State highways (valuation)	25,541	25,601	(60)	(0.2)	26,033
12,437	12,704	Rail network (valuation)	12,675	12,710	(35)	(0.3)	13,076
3,413	3,859	Specialist military equipment (valuation)	3,322	3,424	(102)	(3.0)	3,494
8,505	8,606	Specified cultural and heritage assets (valuation)	8,466	8,469	(3)	-	8,480
5,806	5,256	Other plant and equipment (cost)	5,582	5,996	(414)	(6.9)	6,035
113,330	111,774	Total net carrying value	115,205	115,796	(591)	(0.5)	117,328
<i>By source:</i>							
29,986		Core Crown	30,059	30,401	(342)	(1.1)	30,691
48,109		Crown entities	49,004	49,123	(119)	(0.2)	49,908
35,235		State-owned enterprises	36,142	36,272	(130)	(0.4)	36,729
-		Inter-segment eliminations	-	-	-	-	-
113,330		Total net carrying value	115,205	115,796	(591)	(0.5)	117,328
Movement note							
Cost or valuation							
119,547		Opening balance	123,941	123,941	-	-	123,941
6,555		Additions (refer below)	5,160	5,587	(427)	(7.6)	8,163
(977)		Disposals	(462)	(176)	(286)	(162.5)	(292)
(1,143)		Net revaluations	51	155	(104)	(67.1)	(41)
(41)		Other	(240)	(191)	(49)	(25.7)	231
123,941		Total cost or valuation	128,450	129,316	(866)	(0.7)	132,002
Accumulated depreciation and impairment							
9,412		Opening balance	10,611	10,611	-	-	10,611
(587)		Eliminated on disposal	(197)	(61)	(136)	(223.0)	(75)
(1,349)		Eliminated on revaluation	-	6	(6)	(100.0)	-
3,582		Depreciation expense	2,722	2,768	(46)	(1.7)	3,756
(447)		Other	109	196	(87)	(44.4)	382
10,611		Total accumulated depreciation and impairment	13,245	13,520	(275)	(2.0)	14,674
113,330		Total property, plant and equipment	115,205	115,796	(591)	(0.5)	117,328
Additions - by functional classification							
2,383		Transport and communications	2,176	1,940	236	12.2	2,764
1,425		Economic and industrial services	824	1,036	(212)	(20.5)	1,466
725		Education	655	709	(54)	(7.6)	983
430		Health	406	455	(49)	(10.8)	804
526		Defence	344	619	(275)	(44.4)	775
1,066		Other	755	828	(73)	(8.8)	1,371
6,555		Total additions	5,160	5,587	(427)	(7.6)	8,163

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 \$m	9 months to 31 Mar 2010 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 13: NZ Superannuation Fund							
433	294	Revenue	359	339	20	5.9	462
(27)	84	Less current tax expense	709	291	(418)	(143.6)	373
502	515	Less other expenses ¹	158	105	(53)	(50.5)	145
1,750	2,793	Add gains/(losses)	3,329	1,121	2,208	197.0	1,452
1,708	2,488	Operating balance	2,821	1,064	1,757	165.1	1,396
13,688	13,688	Opening net worth	15,656	15,656	-	-	15,656
250	250	Gross contribution from the Crown	-	-	-	-	-
1,708	2,488	Operating balance	2,821	1,064	1,757	165.1	1,396
10	8	Other movements in reserves	2	6	(4)	(66.7)	7
15,656	16,434	Closing net worth	18,479	16,726	1,753	10.5	17,059
<i>comprising:</i>							
15,552	16,065	Financial assets	18,554	16,113	2,441	15.1	16,610
(945)	(574)	Financial liabilities	(1,100)	(524)	(576)	(109.9)	(616)
1,049	943	Net other assets	1,025	1,137	(112)	(9.9)	1,065
15,656	16,434	Closing net worth	18,479	16,726	1,753	10.5	17,059
Core Crown revenue (excl NZS Fund)							
56,216	40,825	Core Crown revenue	41,513	41,979	(466)	(1.1)	58,446
433	294	Less NZS Fund revenue	359	339	20	5.9	462
(27)	84	Add back NZS Fund intra-segment revenue	709	291	418	143.6	373
55,756	40,615	Core Crown revenue (excl NZS Fund)	41,863	41,931	(68)	(0.2)	58,357
OBEGAL excluding NZS Fund							
(6,315)	(5,272)	Total Crown OBEGAL	(10,167)	(8,859)	(1,308)	(14.8)	(11,098)
433	294	Less NZS Fund revenue	359	339	20	5.9	462
81	59	Less NZS Fund external expenses	63	75	(12)	(16.0)	103
(27)	84	Add back NZS Fund tax	709	291	418	143.6	373
(6,694)	(5,423)	OBEGAL excluding NZS Fund	(9,754)	(8,832)	(922)	(10.4)	(11,084)

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

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2010 \$m	As at 31 Mar 2010 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 14: Payables							
6,703	4,500	Accounts payable	5,564	5,227	(337)	(6.4)	6,334
3,228	2,829	Taxes repayable	3,003	3,210	207	6.4	3,228
9,931	7,329	Total payables	8,567	8,437	(130)	(1.5)	9,562
NOTE 15: Insurance liabilities							
26,997	24,804	ACC liability	24,471	26,475	2,004	7.6	28,956
88	79	EQC liability (refer note 20)	5,422	1,028	(4,394)	(427.4)	597
46	40	Other insurance liabilities	49	48	(1)	(2.1)	51
27,131	24,923	Total insurance liabilities	29,942	27,551	(2,391)	(8.7)	29,604
NOTE 16: Provisions							
74	-	Provision for ETS Credits	701	715	14	2.0	720
748	881	Provision for the net cost of defaults under the deposit guarantee scheme (refer note 19)	-	-	-	-	-
1,007	928	Provision for National Provident Fund guarantee	988	983	(5)	(0.5)	965
2,836	2,465	Provision for employee entitlements	2,818	2,820	2	0.1	2,790
1,319	998	Other provisions	1,165	1,204	39	3.2	1,977
5,984	5,272	Total provisions	5,672	5,722	50	0.9	6,452
NOTE 17: Changes in Net Worth							
36,382	36,382	Opening taxpayers funds	31,087	31,087	-	-	31,087
(4,509)	(1,327)	Operating balance excluding minority interest	(3,340)	(7,178)	3,838	53.5	(9,116)
(786)	216	Transfers from/(to) other reserves	145	58	87	150.0	39
31,087	35,271	Closing taxpayers funds	27,892	23,967	3,925	16.4	22,010
62,612	62,612	Opening revaluation reserve	63,593	63,593	-	-	63,593
196	4	Net revaluations	(62)	(36)	(26)	(72.2)	(41)
785	(218)	Transfers from/(to) other reserves	(147)	(41)	(106)	(258.5)	(36)
63,593	62,398	Closing revaluation reserve	63,384	63,516	(132)	(0.2)	63,516
74	74	Opening other reserves	(94)	(94)	-	-	(94)
(168)	(235)	Net movements	28	(52)	80	153.8	(25)
(94)	(161)	Closing other reserves	(66)	(146)	80	54.8	(119)

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2010 \$m	9 months to 31 Mar 2010 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 18: Reconciliation of core Crown operating cash flows to residual core Crown cash							
Core Crown Cash Flows from Operations							
50,631	37,020	Total tax receipts	37,264	37,688	(424)	(1.1)	52,231
566	409	Total other sovereign receipts	572	483	89	18.4	607
1,897	1,540	Interest, profits and dividends	896	1,061	(165)	(15.6)	1,449
2,658	1,889	Sale of goods & services and other receipts	1,383	1,516	(133)	(8.8)	2,561
(21,605)	(16,383)	Subsidies and transfer payments	(16,842)	(17,038)	196	1.2	(22,491)
(37,157)	(28,148)	Personnel and operating costs	(31,228)	(31,253)	25	0.1	(42,127)
(1,981)	(1,028)	Finance costs	(1,296)	(1,452)	156	10.7	(2,747)
-	-	Forecast for future new operating spending	-	-	-	-	(230)
-	-	Top-down expense adjustment	-	213	(213)	(100.0)	850
(4,991)	(4,701)	Net cash flows from core Crown operations	(9,251)	(8,782)	(469)	(5.3)	(9,897)
(1,778)	(1,298)	Net purchase of physical assets	(1,096)	(1,531)	435	28.4	(2,322)
(926)	(810)	Net increase in advances	(1,015)	(1,174)	159	13.5	(1,718)
(1,055)	(803)	Net purchase of investments	(1,050)	(963)	(87)	(9.0)	(1,723)
(250)	(250)	Contribution to NZ Superannuation Fund	-	-	-	-	-
-	-	Forecast for future new capital spending	-	-	-	-	(292)
-	-	Top-down capital adjustment	-	140	(140)	(100.0)	350
(9,000)	(7,862)	Residual cash	(12,412)	(12,310)	(102)	(0.8)	(15,602)
Financed by:							
2,002	3,471	Other net sale/(purchase) of marketable securities and deposits	(70)	1,097	(1,167)	(106.4)	860
(6,998)	(4,391)	Total operating and investing activities	(12,482)	(11,213)	(1,269)	(11.3)	(14,742)
Used in:							
(3,938)	(4,223)	Net (repayment)/issue of other New Zealand dollar borrowing	(2,709)	4,436	(7,145)	(161.1)	6,678
3,368	3,403	Net (repayment)/issue of foreign currency borrowing	2,183	(3,433)	5,616	163.6	(4,759)
15	276	Issues of circulating currency	349	91	258	283.5	117
(817)	(749)	Decrease/(increase) in cash	(732)	(985)	253	25.7	(1,311)
(1,372)	(1,293)		(909)	109	(1,018)	-	725
(8,370)	(5,684)	Net cash inflow/(outflow) to be offset by domestic bonds	(13,391)	(11,104)	(2,287)	(20.6)	(14,017)
Gross Cash Proceeds from Domestic Bonds							
12,424	9,833	Domestic bonds (market)	13,590	11,098	2,492	22.5	14,011
799	704	Domestic bonds (non-market)	219	6	213	-	6
13,223	10,537	Total gross cash proceeds from domestic bonds	13,809	11,104	2,705	24.4	14,017
(4,197)	(4,197)	Repayment of domestic bonds (market)	-	-	-	-	-
(656)	(656)	Repayment of domestic bonds (non-market)	(418)	-	(418)	-	-
(4,853)	(4,853)	Total repayment of domestic bonds	(418)	-	(418)	-	-
8,370	5,684	Net (repayments of)/cash proceeds from domestic bonds	13,391	11,104	2,287	20.6	14,017

NOTE 19: Deposit Guarantee Schemes

The Government provides two guarantee schemes in relation to financial institution deposits: the Retail Deposit Guarantee Scheme and the Wholesale Funding Guarantee Facility. Information on the Government's exposure as a result of these schemes, the management of these exposures and the impact of these schemes is detailed below.

Retail Deposit Guarantee Scheme

Scheme Description

On 12 October 2008 the Minister of Finance initiated an opt-in Retail Deposit Guarantee Scheme. The objective of this scheme was to ensure ongoing retail depositor confidence in New Zealand's financial system given the international financial market turbulence.

On 12 October 2010 the original retail deposit guarantee scheme expired. The Extended Retail Deposit Guarantee Scheme started on 12 October 2010, immediately upon expiry of the previous scheme and will remain in place until 31 December 2011. The extended scheme has tightened eligibility criteria and additional limitations on coverage of the scheme. The changes to the scheme include restricting entry to the scheme to institutions with a credit rating of BB or higher, reducing the guaranteed amount of individual eligible deposits and changing the fee structure to include all deposits. The Crown guarantee is limited to those entities participating in the extended scheme, furthermore, the Crown guarantee excludes products issued by participating entities explicitly without the benefit of the guarantee.

Scheme Management

The Government is managing its exposure to this risk through requiring deposit takers who sign the guarantee to agree to certain controls on their business including:

- some restrictions on distributions to shareholders
- some assurance that the business dealings of the deposit taker are on arm's-length terms
- the ability for the Crown to appoint an inspector
- the ability for the Crown to withdraw the guarantee if the business is being deliberately operated in a way to undermine the intention of the guarantee, and
- personal undertakings from directors to ensure the non-bank deposit takers comply with the guarantee.

In addition, the Crown has a monitoring regime to continually assess the risk associated with the scheme.

Amounts Guaranteed and provision for loss

The Extended Guarantee Scheme

A total of seven financial institutions were approved under the extended scheme. As at 31 March 2011, following the default of one of these entities and the merger of three of these entities into the Combined Building Society, four financial institutions remained guaranteed under the extended scheme. On 5 January 2011 the Crown approved Combined Building Society for participation in the Extended Retail Deposit Guarantee Scheme. The four entities remaining in the scheme had deposits totalling \$1.9 billion under guarantee and are listed on the Treasury website. This is the maximum exposure and does not include any offset resulting from the recovery of the remaining assets of financial institutions in the event the guarantee is called upon. The Crown continually updates the likelihood of further default actions triggering the guarantee and assesses the likely loss in the event of default. The Crown assesses the risk of default by the remaining four entities participating in the extended scheme to be unlikely

NOTES TO THE FINANCIAL STATEMENTS

and therefore as at 31 March 2011 no provision was considered necessary in relation to the amount guaranteed by the Crown under the extended guarantee. While the provision represents a best estimate of the likely loss, a range of outcomes is possible under the scheme in terms of which entities may default and the eventual loss to the Crown following an event of default. This reflects the significant uncertainty as to the value that can be realised from an entity's assets following an event of default.

Entities guaranteed under the scheme now in receivership

As at 31 March 2011, nine entities guaranteed under the deposit guarantee scheme had been placed into receivership, eight of these entities were guaranteed under the original deposit guarantee scheme and one under the extended guarantee scheme. The Crown recognises its obligations under the scheme as liabilities and its rights of recovery from the receivers as assets. While the reported assets represent the receivers' best prudent estimate of likely recoveries from the receiverships the eventual loss to the Crown is dependent upon the value that can be realised from these entities' assets. A range of outcomes for eventual recoveries is possible. The estimated recoveries from all receiverships have been updated as at February 2011. The Crown has completed payments to investors in the eight entities under the original retail deposit guarantee scheme, but has included liabilities of \$180 million, being the gross cost of payments yet to be made to investors in Equitable Mortgages Ltd. Except as provided on the Treasury website, further information on the Retail Deposit Guarantee Scheme cannot be provided due to commercial sensitivity.

Wholesale Funding Guarantee Facility

On 1 November 2008 the Minister of Finance initiated an opt-in wholesale funding guarantee facility. The objective of the opt-in wholesale funding guarantee facility was to facilitate access to international financial markets by New Zealand financial institutions, in a global environment where international investors were highly risk averse and where many other governments had offered guarantees on their banks' wholesale debt. Under the wholesale funding guarantee facility, the Government received a fee from each participating institution based on the institution's credit rating and the term and amount of guaranteed debt issued. Deposit-taking financial institutions utilising the wholesale funding guarantee facility have applied for a guarantee under the Crown retail deposit guarantee scheme. In addition to the risk management under the retail scheme, the Government further managed its risk exposure by:

- limiting the availability of the facility to financial institutions that have an investment grade credit rating (BBB- or better), and have substantial New Zealand borrowing and lending operations (but not to institutions that are simply financing a parent or related company)
- limiting the amount of debt covered by the guarantee to debt up to 125% of the total stock of eligible types of debt in issue prior to the intensification of the crisis
- establishing additional capital buffers by requiring an additional two percent Tier 1 capital buffer above the four percent regulatory minimum, and
- requiring the debt issuer to hedge and manage any foreign exchange risk.

As at 31 March 2011, the value of wholesale securities guaranteed was \$9.7 billion. No provision is made in these financial statements for losses under this scheme as these are considered remote.

The Wholesale funding guarantee facility closed effective from 31 May 2010. At the time of closing the scheme, the Crown had issued 24 guarantee certificates; the benefit of those guarantees will remain in place for the underlying securities until the scheduled maturity of those securities. The terms of these securities range from 2 to 5 years. Over time, the value of securities issued with the benefit of Crown guarantees will reduce, with the last guarantee certificate expiring in October 2014.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20: Canterbury Earthquakes

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

Earthquake Commission (EQC) Costs

These financial statements include an initial net provision of \$3.0 billion for the likely costs to be incurred by EQC in settling claims for damage to residential property arising from both earthquakes. As at 31 March, EQC had made cash payments of approximately \$0.9 billion against this obligation.

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

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

EQC's net costs could also increase due to damage caused by delayed aftershocks. Aftershocks that occur more than 30 days after each event are not covered as part of the original event for reinsurance purposes. As at 31 March 2011 the additional cost for damage arising from delayed aftershocks was estimated to be less than \$50 million.

At this stage, no discount has been made for the time value of EQC's claim payments as the pattern of settlement payments is not known.

A summary of the earthquakes' impact on EQC and where it is reflected in these financial statements (Statement of Financial Performance and the Statement of Financial Position) is included on the next page.

Other Earthquake Costs

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

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

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

As at 31 March, the Government had recorded (and paid) expenses of approximately \$0.2 billion, in addition to EQC's costs. This mainly represented wage subsidies, job loss cover support and emergency response costs.

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

NOTES TO THE FINANCIAL STATEMENTS

Earthquake impact - EQC only for the nine months ended 31 March 2011

	Current Year Actual vs Forecast		
	Actual \$m	Forecast \$m	Variance \$m
Statement of Financial Performance			
Other revenue			
Insurance claim on reinsurers	3,200	500	2,700
Insurance expenses			
Insurance and underwriting expense ¹	6,251	2,034	(4,217)
Net impact on the Statement of Financial Performance	(3,051)	(1,534)	(1,517)
Statement of Financial Position			
Receivables			
Insurance claim on reinsurers ²	3,200	500	2,700
Insurance liabilities			
Insurance Liability - current	5,422	1,028	4,394

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

² EQC's receivable is included within the Trade and other receivables category in Note 11.

NOTES TO THE FINANCIAL STATEMENTS

Subsequent event note

AMI Insurance Limited

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

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

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

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

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

For financial reporting purposes the Government will consolidate AMI because the Government:

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

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