

Forecast Financial Statements

New Zealand Defence Force

Statement of Forecast Comprehensive Income for the year ending 30 June 2012

| | | 2009/10 | 2010/11 | | 2011/12 |
|-----------------------------------|------|------------------|----------------------------|------------------------------|-------------------|
| | Note | Actual \$000 | In 2010 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Income | | | | | |
| Crown | | 2,201,375 | 2,253,969 | 2,224,144 | 2,283,623 |
| Department(s) | | 15,344 | 25,142 | 25,830 | 24,117 |
| Other revenue | | 6,693 | 8,777 | 8,777 | 8,777 |
| Gains | 1 | 13,430 | - | (3,250) | (2,750) |
| Interest | | 14 | 100 | 100 | 100 |
| Total Income | | 2,236,856 | 2,287,988 | 2,255,601 | 2,313,867 |
| Expenses | | | | | |
| Personnel | | 837,276 | 862,172 | 867,013 | 857,559 |
| Operating | 2 | 573,436 | 607,297 | 606,181 | 630,468 |
| Depreciation and amortisation | | 342,306 | 382,695 | 336,647 | 374,769 |
| Capital charge | | 428,864 | 435,724 | 423,693 | 453,721 |
| Finance costs | | - | - | - | - |
| Other | | 23,994 | - | - | - |
| Total Expenses | 3 | 2,205,876 | 2,287,888 | 2,233,534 | 2,316,517 |
| Net Surplus / (Deficit) | | 30,980 | 100 | 22,067 | (2,650) |
| Other comprehensive income | 6 | (154,782) | - | (5,547) | - |
| Total Comprehensive Income | | (123,802) | 100 | 16,520 | (2,650) |

Statement of Forecast Changes in Taxpayers' Funds for the year ending 30 June 2012

| | Note | 2009/10 | 2010/11 | | 2011/12 |
|--|------|------------------|----------------------------|------------------------------|-------------------|
| | | Actual \$000 | In 2010 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Balance at 1 July | | | | | |
| General funds | | 3,618,986 | 3,619,899 | 3,713,286 | 3,716,671 |
| Revaluation reserve | | 2,101,943 | 2,101,943 | 1,939,440 | 1,933,893 |
| Other reserves | | - | - | - | - |
| Taxpayers' Funds Opening Balance | | 5,720,929 | 5,721,842 | 5,652,726 | 5,650,564 |
| Changes in Taxpayers' Funds | | | | | |
| Comprehensive income for the period | | (123,802) | 100 | 16,520 | (2,650) |
| Repayment of surplus | | (38,614) | (100) | (25,317) | (100) |
| Capital contribution | | 94,384 | - | 6,635 | 38,235 |
| Capital withdrawal | | (171) | - | - | - |
| Other | | - | - | - | - |
| Total Changes in Taxpayers' Funds | | (68,203) | - | (2,162) | 35,485 |
| Balance at 30 June | | | | | |
| General funds | | 3,713,286 | 3,619,899 | 3,716,671 | 3,752,156 |
| Revaluation reserve | | 1,939,440 | 2,101,943 | 1,933,893 | 1,933,893 |
| Other reserves | | - | - | - | - |
| Taxpayers' Funds Closing Balance | | 5,652,726 | 5,721,842 | 5,650,564 | 5,686,049 |

Forecast Statement of Financial Position as at 30 June 2012

| | Note | 2009/10 | 2010/11 | | 2011/12 |
|---|------|------------------|----------------------------|------------------------------|-------------------|
| | | Actual \$000 | In 2010 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | | 93,031 | 10,863 | 78,289 | 24,000 |
| Debtors and other receivables | 4 | 227,166 | 15,800 | 233,793 | 241,052 |
| Prepayments | | 39,573 | 35,000 | 37,000 | 37,000 |
| Inventories | 5 | 88,216 | 110,704 | 111,433 | 121,012 |
| Other current assets | | 850 | - | - | - |
| Total Current Assets | | 448,836 | 172,367 | 460,515 | 423,064 |
| Non-current Assets | | | | | |
| Property, plant and equipment | 6 | 5,297,306 | 5,606,120 | 5,232,389 | 5,261,680 |
| Intangible assets | 7 | 11,975 | 15,025 | 9,975 | 6,975 |
| Other non-current assets | 5 | 199,030 | 185,595 | 206,946 | 224,737 |
| Total Non-current Assets | | 5,508,311 | 5,806,740 | 5,449,310 | 5,493,392 |
| Total Assets | | 5,957,147 | 5,979,107 | 5,909,825 | 5,916,456 |
| Liabilities | | | | | |
| Current Liabilities | | | | | |
| Creditors and other payables | | 174,947 | 180,015 | 151,982 | 149,601 |
| Repayment of surplus | | 38,614 | 100 | 25,317 | 100 |
| Employee entitlements | | 34,247 | 26,150 | 35,737 | 35,737 |
| Other current liabilities | | 10,216 | - | 256 | 273 |
| Total Current Liabilities | | 258,024 | 206,265 | 213,292 | 185,711 |
| Non-current Liabilities | | | | | |
| Provisions | | - | - | - | - |
| Employee entitlements | | 43,706 | 51,000 | 43,315 | 42,315 |
| Other non-current liabilities | | 2,691 | - | 2,654 | 2,381 |
| Total Non-current Liabilities | | 46,397 | 51,000 | 45,969 | 44,696 |
| Total Liabilities | | 304,421 | 257,265 | 259,261 | 230,407 |
| Taxpayers' Funds | | | | | |
| General funds | | 3,713,286 | 3,619,899 | 3,716,671 | 3,752,156 |
| Revaluation reserve | | 1,939,440 | 2,101,943 | 1,933,893 | 1,933,893 |
| Other reserves | | - | - | - | - |
| Total Taxpayers' Funds | | 5,652,726 | 5,721,842 | 5,650,564 | 5,686,049 |
| Total Liabilities and Taxpayers' Funds | | 5,957,147 | 5,979,107 | 5,909,825 | 5,916,456 |

Statement of Forecast Cash Flows for the year ending 30 June 2012

| | Note | 2009/10 | 2010/11 | | 2011/12 |
|---|------|-----------------|----------------------------|------------------------------|-------------------|
| | | Actual \$000 | In 2010 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Cash Flows from Operating Activities | | | | | |
| Receipts from: | | | | | |
| Crown | | 2,149,212 | 2,417,376 | 2,224,144 | 2,276,364 |
| Department(s) | | 15,086 | 25,142 | 25,587 | 24,117 |
| Other | | 5,908 | 8,777 | 3,243 | 8,777 |
| Interest | | 14 | 100 | 100 | 100 |
| Payments to: | | | | | |
| Suppliers | | (582,641) | (625,609) | (667,165) | (668,176) |
| Employees | | (834,591) | (863,521) | (857,238) | (849,939) |
| Capital charge | | (428,864) | (435,724) | (423,693) | (453,721) |
| Goods and services tax (net) | | 4,792 | (4,781) | (8,118) | (637) |
| Other operating activities | | (538) | - | - | - |
| Net Cash from Operating Activities | 8 | 328,378 | 521,760 | 296,860 | 336,885 |
| Cash Flow from Investing Activities | | | | | |
| Receipts from: | | | | | |
| Sale of property, plant and equipment | | 16,759 | - | 1,207 | - |
| Sale of intangible assets | | - | - | - | - |
| Sale of other non-current assets | | 241,688 | - | - | - |
| Purchase of: | | | | | |
| Property, plant and equipment | | (323,926) | (542,943) | (276,830) | (404,092) |
| Intangible assets | | (3,307) | (3,000) | (4,000) | - |
| Other non-current assets | | (249,868) | - | - | - |
| Net Cash from Investing Activities | | (318,654) | (545,943) | (279,623) | (404,092) |
| Cash Flow from Financing Activities | | | | | |
| Capital contribution | | 94,384 | - | 6,635 | 38,235 |
| Other financing cash inflows | | - | - | - | - |
| Repayment of surplus | | (24,005) | (18,100) | (38,614) | (25,317) |
| Capital withdrawal | | (171) | - | - | - |
| Other financing cash outflows | | - | - | - | - |
| Net Cash from Financing Activities | | 70,208 | (18,100) | (31,979) | 12,918 |
| Net Increase / (Decrease) in Cash | | 79,932 | (42,283) | (14,742) | (54,289) |
| Cash at the beginning of the year | | 13,099 | 53,146 | 93,031 | 78,289 |
| Cash at the end of the year | | 93,031 | 10,863 | 78,289 | 24,000 |

Statement of Significant Assumptions

These statements have been compiled on the basis of government policies and the New Zealand Defence Force (NZDF) Output Plan agreements with the Minister for Defence at the time the statements were finalised.

The 2010/11 budgeted figures are based on management's judgments, estimates and assumptions of the final 2010/11 outcome and are used as the opening position for 2011/12 forecasts.

Key assumptions underlying this forecast are:

- There will be no significant change in government policies or the New Zealand Defence Force's Output Plan agreement with the Minister of Defence.
- Ministry of Defence payments reflect the forecast payments for acquisition projects which have been approved by Cabinet. Should additional projects be approved during the year, there may be some payments for these projects during the year.
- There will be no major changes in exchange rates.
- The capital charge rate for the year ending 30 June 2012 is assumed to be 8.0% per annum.

Statement of Entity-Specific Accounting Policies

The New Zealand Defence Force has applied the accounting policies set out in Statement of Accounting Policies Standard included in this document, except as stated below.

Reporting Entity

These are the prospective financial statements of New Zealand Defence Force, prepared in accordance with section 38 of the Public Finance Act 1989.

New Zealand Defence Force is a Government Department as defined by section 2 of the Public Finance Act 1989. For the purposes of financial reporting New Zealand Defence Force is a public benefit entity. In addition the financial statements include information on the activities that NZDF administers on behalf of Vote Veterans' Affairs Defence Force.

In these financial statements the New Zealand Defence Force is also referred to as the NZDF, and Veterans' Affairs New Zealand is also referred to as VANZ.

Authorisation Statement

These forecast financial statements were authorised for issue by the Chief of Defence Force on 21 April 2011. The Chief of Defence Force as the Chief Executive of the New Zealand Defence Force is responsible for the forecast financial statements presented, including the appropriateness of the assumptions underlying the forecast financial statements and all other required disclosure.

Specific Accounting Policies

Property, Plant and Equipment

Capitalisation thresholds applied are set out below.

- IT Equipment / Hardware \$5,000

- All other property, plant and equipment \$5,000

Depreciation

The estimated useful lives of property, plant and equipment are set out below.

- Buildings 5 - 100 years
- Leasehold improvements 2 - 20 years
- IT Equipment / Hardware 2 - 5 years
- Motor vehicles 10 - 15 years
- Furniture and office equipment 5 - 20 years
- Specialist Military Equipment 5 - 55 years
- Other Plant and Equipment 5 - 50 years

Revaluation

Land, Buildings and Specialist Military Equipment asset classes are subject to revaluation. Valuations use a market-based approach where possible. Where reliable market evidence is unavailable optimised depreciated replacement cost (ODRC) is used to calculate fair value. Valuations are determined or reviewed by an independent registered valuer.

Specialist Military Equipment with a net carrying value of \$2 million or more, or groups of like assets with a total carrying value of \$4 million or more are subject to revaluation. All other specialist military equipment is recorded at historical cost.

Intangible Assets

Capitalisation thresholds applied are:

- Purchased software \$5,000
- Internally developed software \$5,000

The estimated useful lives of intangible assets are set out below:

- Purchased software 3 - 20 years
- Internally developed software 3 - 20 years

Inventories

Inventories are held for distribution or consumption in the provision of services and are comprised of munitions, technical spares and consumable items.

Inventory intended to be kept for more than one year has been classified as non-current inventory.

Inventories are recorded at weighted average cost and the cost of inventory reflects any obsolescence or other impairment.

Cost Allocation

The NZDF has determined the cost of outputs using a cost allocation system outlined below.

- Direct costs of a force element (for example, a squadron, a frigate, a battalion) are attributed directly to an appropriate output.
- Support unit costs are charged to outputs using drivers that reflect the use of that activity to produce outputs.
- Overhead costs are charged to outputs using the percentage of that outputs gross operating budget (exclusive of capital charge) to the total gross budget (exclusive of capital charge) for all outputs.

The allocation rules are reviewed if there is significant organisational change to alter the continued appropriateness of the rules.

Notes to the Financial Statements

Note 1 - Gains

| | 2009/10 | 2010/11 | | 2011/12 |
|-------------------------------------|-----------------|----------------------------|------------------------------|-------------------|
| | Actual \$000 | In 2010 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Clearing accumulated disposal costs | (2,485) | - | (3,250) | (2,750) |
| Realised foreign exchange gains | 9,414 | - | - | - |
| Unrealised foreign exchange gains | - | - | - | - |
| Gains on liability reduction | 6,501 | - | - | - |
| Total Gains | 13,430 | - | (3,250) | (2,750) |

Note 2 - Operating Expenses

| | 2009/10 | 2010/11 | | 2011/12 |
|---------------------------------|-----------------|----------------------------|------------------------------|-------------------|
| | Actual \$000 | In 2010 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Materials | 188,409 | 162,952 | 208,250 | 232,225 |
| Repairs and Maintenance | 97,922 | 88,128 | 88,797 | 92,831 |
| Premises cost | 63,978 | 69,522 | 68,318 | 75,876 |
| Operating lease rentals | 47,061 | 48,045 | 47,791 | 47,967 |
| Domestic travel | 14,827 | 15,390 | 15,274 | 11,894 |
| Overseas travel | 18,878 | 22,101 | 18,596 | 19,674 |
| Consultants' fees | 5,596 | 2,199 | 4,139 | 2,133 |
| Other operating expenses | 136,765 | 198,960 | 155,016 | 147,868 |
| Total Operating Expenses | 573,436 | 607,297 | 606,181 | 630,468 |

Note 3 - Reconciliation of Departmental Expenses and Appropriations

| | 2009/10 | 2010/11 | | 2011/12 |
|---|------------------|----------------------------|------------------------------|-------------------|
| | Actual \$000 | In 2010 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Appropriations for Output expenses | | | | |
| Total for Vote: Defence Force - Annual Expenses | 2,222,367 | 2,279,461 | 2,250,307 | 2,308,387 |
| Total for Vote: Veterans' Affairs - Defence Force | 8,327 | 8,427 | 8,444 | 8,130 |
| Total Appropriations for output expenses | 2,230,694 | 2,287,888 | 2,258,751 | 2,316,517 |
| Appropriations for other expenses | | | | |
| Asset Write-Offs | 3,300 | - | - | - |
| Maintenance of Assets Awaiting Sale | - | - | 2,750 | 2,250 |
| Disposal of Decommissioned Assets | - | - | 500 | 500 |
| Revaluation Losses | 90,000 | - | - | - |
| Total Appropriations for other expenses | 93,300 | - | 3,250 | 2,750 |
| Adjustments | | | | |
| Remeasurements | 23,425 | - | - | - |
| Appropriation amounts unused | (139,058) | - | (25,217) | - |
| Other expense appropriation not treated as departmental expense | (2,485) | - | (3,250) | (2,750) |
| Total departmental expenses [as per Statement of Comprehensive Income] | 2,205,876 | 2,287,888 | 2,233,534 | 2,316,517 |

This note reconciles the expenses reported in the forecast Statement of Comprehensive Income with the corresponding departmental appropriations appearing in the Estimates of Appropriations.

Note 4 - Debtors and Other Receivables

| | 2009/10 | 2010/11 | | 2011/12 |
|--|-----------------|----------------------------|------------------------------|-------------------|
| | Actual \$000 | In 2010 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Debtor Crown | 213,407 | - | 213,407 | 220,666 |
| Debtors and other receivables | 13,759 | 15,800 | 20,386 | 20,386 |
| Total debtors and other receivables | 227,166 | 15,800 | 233,793 | 241,052 |

Note 5 - Inventory

| | 2009/10 | 2010/11 | | 2011/12 |
|--------------------------|-----------------|----------------------------|------------------------------|-------------------|
| | Actual \$000 | In 2010 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Inventory: Current | 88,216 | 110,704 | 111,433 | 121,012 |
| Inventory: Non - current | 199,030 | 185,595 | 206,946 | 224,737 |
| Total Inventory | 287,246 | 296,299 | 318,379 | 345,749 |

Note 6 - Property, Plant and Equipment

| | Land \$000 | Buildings \$000 | Specialist Military Equipment \$000 | Plant & Equipment \$000 | Office & Computer Equipment \$000 | Total \$000 |
|---------------------------------|----------------|--------------------|---|----------------------------|---|------------------|
| Cost or Revaluation | | | | | | |
| Balance as at 1 July 2011 | 707,291 | 1,189,769 | 4,006,986 | 258,814 | 72,993 | 6,235,853 |
| Additions by purchase | - | 54,530 | 308,687 | 10,493 | 27,350 | 401,060 |
| Balance at 30 June 2012 | 707,291 | 1,244,299 | 4,315,673 | 269,307 | 100,343 | 6,636,913 |
| Accumulated depreciation | | | | | | |
| Balance as at 1 July 2011 | - | 49,395 | 747,219 | 168,968 | 37,882 | 1,003,464 |
| Depreciation expense | - | 50,096 | 296,613 | 17,073 | 7,987 | 371,769 |
| Balance at 30 June 2012 | - | 99,491 | 1,043,832 | 186,041 | 45,869 | 1,375,233 |
| Net PPE at 30 June 2012 | 707,291 | 1,144,808 | 3,271,841 | 83,266 | 54,474 | 5,261,680 |

The Forecast Financial Statements include the revaluation decrease of \$154.782 million as at 30 June 2010 for the Land, Buildings and Specialist Military Equipment asset classes that are subject to revaluation. This revaluation decrease is included in opening asset class values as at 1 July 2010. It is Government policy not to budget for revaluations in asset values.

Note 7 - Intangible Assets

| | Acquired software \$000 | Internally generated software \$000 | Other \$000 | Total \$000 |
|---|----------------------------|---|----------------|----------------|
| Cost | | | | |
| Balance as at 1 July 2011 | 36,094 | - | - | 36,094 |
| Additions by purchase | - | - | - | - |
| Additions internally developed | - | - | - | - |
| Disposals | - | - | - | - |
| Balance as at 30 June 2012 | 36,094 | - | - | 36,094 |
| Accumulated amortisation and impairment losses | | | | |
| Balance as at 1 July 2011 | 26,119 | - | - | 26,119 |
| Amortisation expense | 3,000 | - | - | 3,000 |
| Disposals | - | - | - | - |
| Impairment losses | - | - | - | - |
| Balance as at 30 June 2012 | 29,119 | - | - | 29,119 |
| Carrying amount as at 30 June 2012 | 6,975 | - | - | 6,975 |

Note 8 - Reconciliation of Net Surplus to Net Cash Flows from Operating Activities

| | 2009/10 | 2010/11 | | 2011/12 |
|---|-----------------|----------------------------|------------------------------|-------------------|
| | Actual \$000 | In 2010 Budget \$000 | Estimated Actual \$000 | Budgeted \$000 |
| Net surplus / (deficit) | 30,980 | 100 | 22,067 | -2,650 |
| Add / (less) non cash items | | | | |
| Depreciation and amortisation expense | 342,306 | 382,695 | 336,647 | 374,769 |
| Increase / (decrease) in the provision for stock obsolescence | (815) | - | - | - |
| Increase / (decrease) in provision for doubtful debt | (519) | - | - | - |
| Increase / (decrease) in non-current employee entitlements | (5,373) | - | - | (1,000) |
| Asset write offs | 2,485 | - | 3,250 | 2,750 |
| Realised foreign exchange gain / (loss) | (13,605) | - | - | - |
| Other non cash items | (2,485) | - | (3,250) | (2,750) |
| Total non cash items | 321,994 | 382,695 | 336,647 | 373,769 |
| Add / (less) items classified as investing or financing activities | | | | |
| (Gains) / losses on disposal of Property, Plant and Equipment | 889 | - | - | - |
| Total items classified as investing or financing activities | 889 | - | - | - |
| Add / (less) movements in working capital items | | | | |
| (Increase) / decrease in debtors and receivables | (7,883) | 163,407 | 786 | (4,483) |
| (Increase) / decrease in interest | 35 | - | - | - |
| (Increase) / decrease in inventories | (14,679) | (12,661) | (31,133) | (27,370) |
| (Increase) / decrease in prepayments | (1,423) | - | 2,573 | 0 |
| Increase / (decrease) in creditors and other payables | (10,792) | - | (24,863) | (1,744) |
| Increase / (decrease) in GST payables | 4,792 | (4,781) | (8,118) | (637) |
| Increase / (decrease) in provisions | 343 | - | - | - |
| Increase / (decrease) in current employee entitlements | 4,122 | (7,000) | (1,099) | - |
| Net movements in working capital | (25,485) | 138,965 | (61,854) | (34,234) |
| Net cash from operating activities | 328,378 | 521,760 | 296,860 | 336,885 |