ACCIDENT COMPENSATION CORPORATION ANNUAL REPORT 2006

STATEMENT OF SERVICE PERFORMANCE

INTRODUCTION

This report covers ACC's service performance for the year ended 30 June 2006 against the objectives set out in the 2005-06 Statement of Intent, Service Agreement and Business Plan. ACC's performance framework is summarised below.

ACC is a Crown entity existing under the provisions of the Injury Prevention, Rehabilitation, and Compensation Act 2001 ('the Act') to provide comprehensive, 24-hour, no-fault personal injury cover for all New Zealand residents (and visitors to New Zealand). Cover is managed under seven Accounts:

– The Employers' Account for personal injuries in the workplace affecting employees.
– The Residual Claims Account for personal injuries in the workplace before 1 July 1999, or involving earners outside the workplace before 1 July 1992.
– The Self-Employed Work Account for personal injuries in the workplace affecting the self-employed.
– The Motor Vehicle Account for personal injuries involving motor vehicles.
– The Earners' Account for personal injuries outside the workplace for those in paid work.
– The Non-Earners' Account for personal injuries outside the workplace for those not in paid work.
– The Medical Misadventure Account for personal injuries from medical treatment.

The Act specifies ACC's role and functions as including:

– promoting measures to reduce the incidence and severity of personal injury
– determining cover
– providing statutory and other entitlements
– collecting levies
– managing the accounts
– administering a disputes resolution process.

ACC'S VISION DURING 2005-2006:

'Prevention – Care – Recovery'

ACC's reason for being is first to prevent injuries, secondly to ensure that those who are injured are promptly rehabilitated and thirdly to ensure that those who are injured are provided with their correct entitlements.

This statement reflects the principles of the Royal Commission of Inquiry into Compensation for Personal Injuries in New Zealand, 1967 (the 'Woodhouse Report'). These principles have stood the test of time and still apply today.

ACC's vision was re-focused during the second half of the year and became:

'Freedom from injury and its consequences, for everyone in New Zealand.'

The key elements of the vision do not substantially vary from 'Prevention – Care – Recovery' except in so far as the new approach places more emphasis on injury prevention.

To achieve this vision and mission via the operation of a successful Scheme, ACC's 2005-2006 strategic direction for the medium term is set in The 5 Drivers:

– **Injury prevention** – reduce the rate of injuries and consequential claims by at least 10% by 2009
– **Rehabilitation** – provide early, effective rehabilitation as measured by a decrease in the median duration of weekly compensation claims of one day per year for each of the next two years to 2007
– **Stakeholder satisfaction** – maintain overall stakeholder satisfaction at (or above) 80-85% to 2007
– **Staff satisfaction** – increase staff satisfaction to between 80-85% by 2007
– **Fair and equitable levies** – maintain fair and equitable levy rates to 2007 (e.g. maintaining employer levies between 90 cents and $1.10 per $100 of payroll).

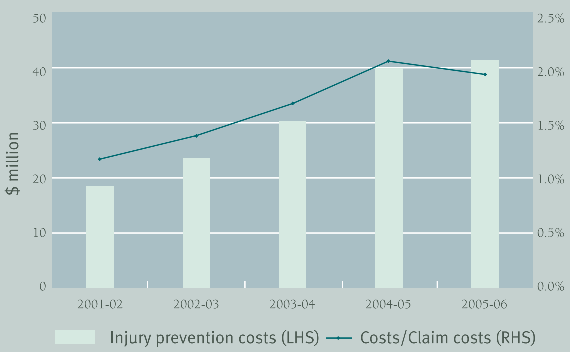
The 5 Drivers and associated objectives formed the basis of ACC's service performance plans for 2005-2006.

INJURY PREVENTION

Injury prevention is about reducing the incidence of injuries, their severity and their costs to all New Zealanders. ACC wants all New Zealanders to ThinkSafe, and the Corporation will work with them to create safer communities and workplaces in which to live and work. ACC also works to ensure injury prevention interventions appropriately address, according to risk and need, the injury causation and access issues of Māori, Pacific and Asian, older and disabled peoples.

INJURY PREVENTION EXPENDITURE Investment in injury prevention has increased from $18 million in 2001-2002 to more than $41 million in 2005-2006. Although expenditure in 2005-2006 was less than budgeted, ACC's commitment to a greater investment in prevention is shown by the more than 50% increase in injury prevention costs relative to claim costs since 2001-02.

INJURY PREVENTION COSTS



NEW CLAIM NUMBERS New claims are monitored in three main categories: new claims registered, new 'weekly compensation' claims, and new 'other entitlement' claims (claims receiving entitlements other than medical fees payments and/or weekly compensation).

Claim rates are monitored relative to appropriate exposure bases (population and road usage). It was forecast that population and kilometres travelled would increase slightly and that the trend of an increased proportion of the population being in employment would continue.

Target claim rates for 2005-06 reflected historic trends, injury prevention programmes, and activities promoting awareness of the Scheme and addressing barriers to Scheme access for at-risk claimant groups.

NEW CLAIMS REGISTERED The following tables show the number of new claims registered in 2005-2006, and claim rates, in total and by Account. The charts show a 12-month moving average of the number of new claims registered by month since 2001, in total and by Account.

Overall, new claim numbers increased by more than 5% from 2004-2005 – significantly more than the increases in population and vehicle usage.

Compared with 2004-2005, claim numbers were steady in the Employers' Account and the claim rate decreased slightly. The decrease in Self-Employed Work Account claim numbers was matched by a decrease in the numbers of self-employed, resulting in an increased claim rate.

The increased claim numbers in the Motor Vehicle, Non-Earners' and Earners' Accounts were reflected in increased claim rates. The increases are consistent with Scheme access improvement initiatives.

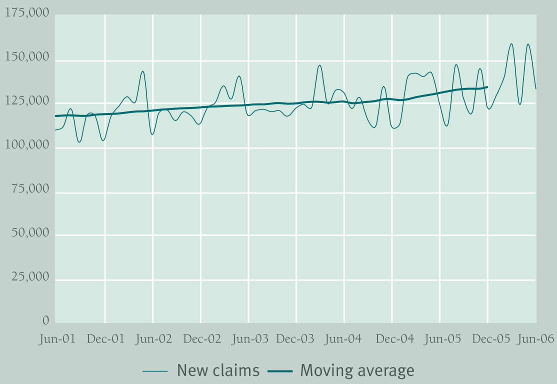
NEW CLAIMS REGISTERED

	2005-06 actual	2004-05 actual
ACC Total	1,604,359	1,523,946
Employers' Account	170,108	170,546
Self-Employed Work Account	42,585	45,007
Residual Claims Account	857	882
Motor Vehicle Account	43,161	41,015
Non-Earners' Account	782,561	735,085
Earners' Account	562,241	529,977
Medical Misadventure Account	2,846	1,434

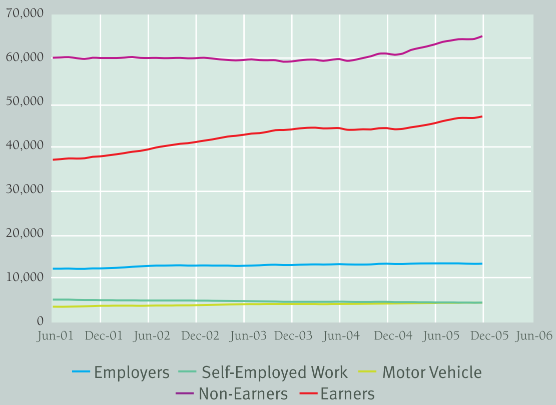
NEW CLAIMS REGISTERED PER 100 POPULATION

	2005-06 actual	2005-06 forecast	2004-05 actual
ACC Total	38.71	36.95	37.10
Employers' Account	9.80	10.02	9.88
Self-Employed Work Account	11.63	11.25	11.33
Non-Earners' Account	38.33	35.48	37.05
Earners' Account	26.74	26.07	24.96
Medical Misadventure Account	0.07	0.02	0.03
Motor Vehicle Account (per 100M km)	115.46	110.84	110.89

NEW CLAIMS REGISTERED PER MONTH ACC TOTAL



NEW CLAIMS REGISTERED PER MONTH
12-MONTH MOVING AVERAGE BY ACCOUNT



NEW WEEKLY COMPENSATION CLAIMS The following tables show new weekly compensation claims in 2005-2006, and claim rates, in total and by Account. The charts show a 12-month moving average of the number of new weekly compensation claims by month since 2001, in total and by Account.

Total new weekly compensation claims in 2005-2006 increased by more than 6% from 2004-2005 – a similar increase to the new claims registered. Claim rates generally increased from 2004-2005 and were higher than forecast.

The increased new claim numbers in the Motor Vehicle and Earners' Accounts reflect increases both in the new claims registered and in the 'escalation rates' (i.e. the proportion of new weekly compensation claims relative to the number of new claims registered). In respect of motor vehicle accidents, more claims resulted in weekly compensation as an increased proportion of the population is in employment.

Although the number of new claims registered in the Employers' Account was steady, the escalation rate to commencement of weekly compensation increased.

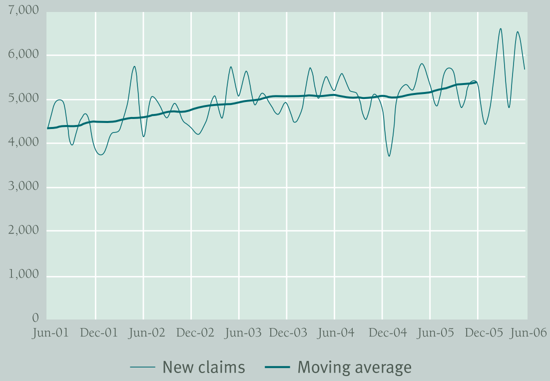
NEW WEEKLY COMPENSATION CLAIMS

	2005-06 actual	2004-05 actual
ACC Total	64,709	60,934
Employers' Account	19,333	18,518
Self-Employed Work Account	3,376	3,871
Residual Claims Account	459	465
Motor Vehicle Account	4,112	3,711
Non-Earners' Account	355	397
Earners' Account	36,681	33,754
Medical Misadventure Account	393	218

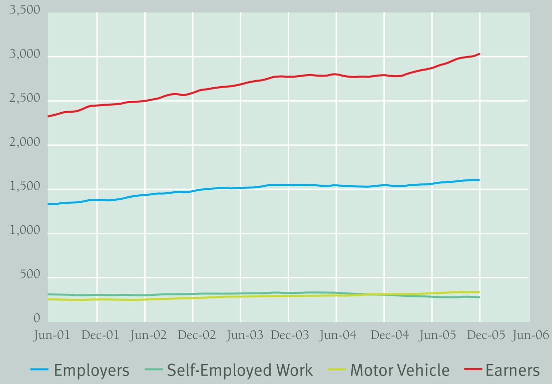
NEW WEEKLY COMPENSATION CLAIMS PER 100 POPULATION

	2005-06 actual	2005-06 forecast	2004-05 actual
ACC Total	1.56	1.52	1.48
Employers' Account	1.11	1.10	1.07
Self-Employed Work Account	0.92	1.02	0.97
Earners' Account	1.74	1.68	1.59
Medical Misadventure Account	0.009	0.006	0.005
Motor Vehicle Account (per 100M km)	11.00	9.85	10.03

NEW WEEKLY COMPENSATION CLAIMS PER MONTH
ACC TOTAL



NEW WEEKLY COMPENSATION CLAIMS PER MONTH
12-MONTH MOVING AVERAGE BY ACCOUNT



NEW OTHER ENTITLEMENT CLAIMS The following tables show the number of new other entitlement claims in 2005-2006, and claim rates, in total and by Account. The charts show a 12-month moving average of the number of new other entitlement claims by month since 2001, in total and by Account.

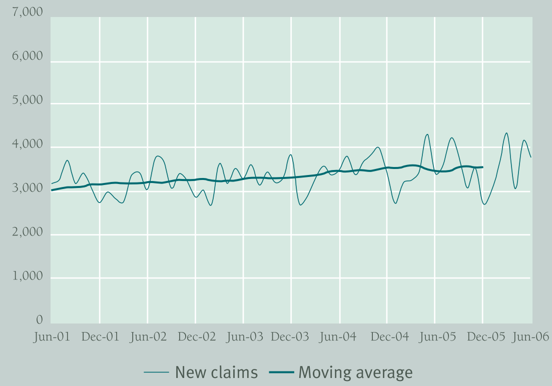
Total new other entitlement claims in 2005-2006 were very similar to 2004-2005, with no significant change in the rate per 100 population.

Claim numbers did not change significantly by Account, and claim rates were generally consistent with forecasts.

NEW OTHER ENTITLEMENT CLAIMS

	2005-06 actual	2004-05 actual
ACC Total	42,373	42,018
Employers' Account	5,350	5,063
Self-Employed Work Account	1,530	1,486
Residual Claims Account	1,555	1,537
Motor Vehicle Account	1,443	1,497
Non-Earners' Account	21,998	22,221
Earners' Account	10,172	9,902
Medical Misadventure Account	325	312

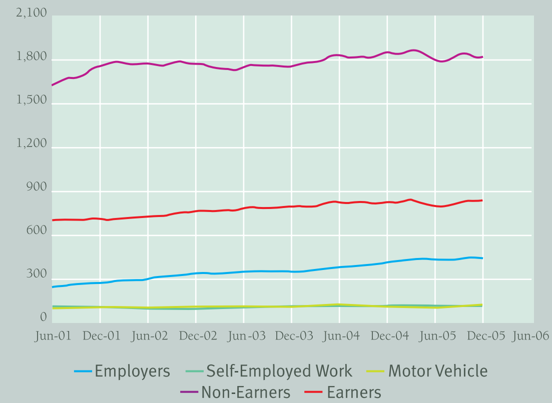
NEW OTHER ENTITLEMENT CLAIMS PER MONTH
ACC TOTAL



NEW OTHER ENTITLEMENT CLAIMS PER 100 POPULATION

	2005-06 actual	2005-06 forecast	2004-05 actual
ACC Total	1.02	1.04	1.02
Employers' Account	0.31	0.30	0.29
Self-Employed Work Account	0.42	0.39	0.37
Non-Earners' Account	1.08	1.10	1.12
Earners' Account	0.48	0.50	0.47
Medical Misadventure Account	0.008	0.008	0.008
Motor Vehicle Account (per 100M km)	3.86	3.83	4.05

NEW OTHER ENTITLEMENT CLAIMS PER MONTH
12-MONTH MOVING AVERAGE ACCOUNT



NEW ENTITLEMENT CLAIMS ATTAINING ONE-MONTH DURATION The success of injury prevention programmes was measured by the number of new entitlement claims (claims receiving entitlements other than medical fees payments) attaining one-month duration. This measure was chosen to exclude any increase in the number of minor claims resulting from other Scheme access initiatives.

Although the number of new claims registered in 2005-2006 increased by more than 5%, the proportion that became entitlement claims was consistent with prior years. The proportion of new entitlement claims attaining one-month duration has, however, increased since early 2005. These two factors contribute to the increased rate of new entitlement claims attaining one-month duration.

	2005-06 actual	2005-06 target	2004-05 actual
New weekly compensation claims per 10,000 workers	184.7	171.2	175.6
New entitlement claims per 10,000 population	128.1	123.1	126.3

INJURY PREVENTION PROGRAMMES Focus was placed on achieving reductions in the number of new entitlement claims in three business areas:

– public safety – prevention of injury on roads, playing sport, during recreration and at home;
– safer workplace – working with major employers to promote injury prevention messages into the community;
– workplace systems – working with high-risk industries to prevent injuries in the workplace.

Area	actual reduction	target reduction
Public safety	792	1,075
Safer workplace	Not yet finalised	200
Workplace systems	311	300

The reduction in new claims (including initial results in respect of workplace programmes) indicates successful outcomes from programmes targeting the areas of focus.

Although the overall public safety programmes target reduction was not met, good injury reduction results were achieved in relation to snow, rugby and schools programmes.

REHABILITATION

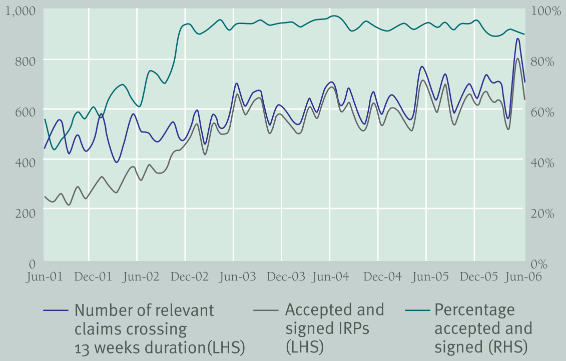
Early and effective rehabilitation has always been core business for ACC. The Corporation's approach to rehabilitation is one of continuous improvement and this is reflected in improvements to staff training, rehabilitation tools and technology. Rehabilitation is focused on designing a rehabilitation experience, implementing service packages and improving access, with a continued drive towards best practice.

Rehabilitation outcomes were hampered by increased work volumes resulting from the rise in new claim volumes, particularly the 6% increase in new weekly compensation claims. These placed pressure on ACC's claims management units.

USE OF TECHNOLOGY Technology is being used to speed up transactions between ACC and providers, reduce paper-based transactions and promote best practice. The percentage of claims lodged electronically increased from 59% in 2004-2005 to 69% in 2005-2006. Similarly, electronic lodgement of treatment fees schedules increased from 54% in 2004-2005 to 59% in 2005-2006.

TIMELY INDIVIDUAL REHABILITATION PLANS An Individual Rehabilitation Plan (IRP) documents the steps that ACC, the claimant and treatment providers will take to achieve effective rehabilitation. ACC is consistently achieving a signed IRP for more than 92% (slightly reduced from 93% in 2004-2005) of the claims at 13 weeks' duration, when an IRP is required.

INDIVIDUAL REHABILITATION PLANS FOR CLAIMS AT 13 WEEKS' DURATION

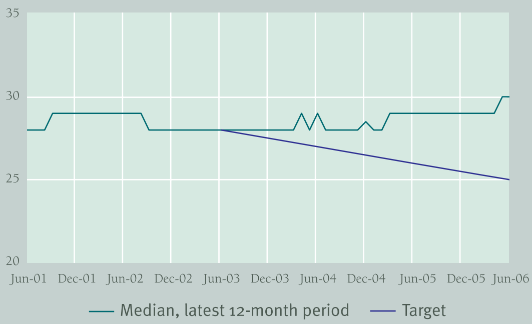


WEEKLY COMPENSATION DAYS PAID Early, effective rehabilitation is measured by how long it takes 50% of claimants to return to work or independence.

The target was to reduce median weekly compensation days paid by one day per year from the 2002-2003 result of 28 days, i.e. the 2005-2006 target was 25 days.

The result for 2005-2006 was 30 days (compared with 29 days in 2004-2005). This result is consistent with the reduction in the three-months rehabilitation rate (see below).

WEEKLY COMPENSATION DAYS PAID

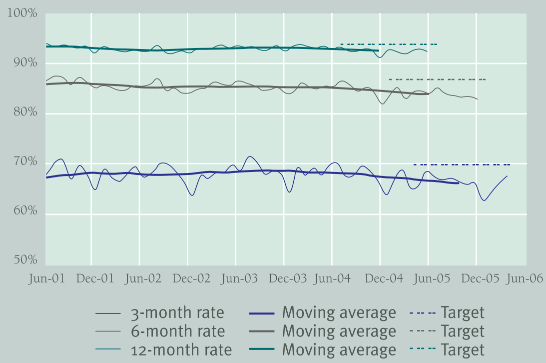


REHABILITATION RATES Rehabilitation rates show the percentages of claimants who return to work or independence within three-month, six-month and 12-month periods from date of injury, for the major weekly compensation accounts. The 12-month rate is particularly important, as it determines the number of claims that become classified as long term.

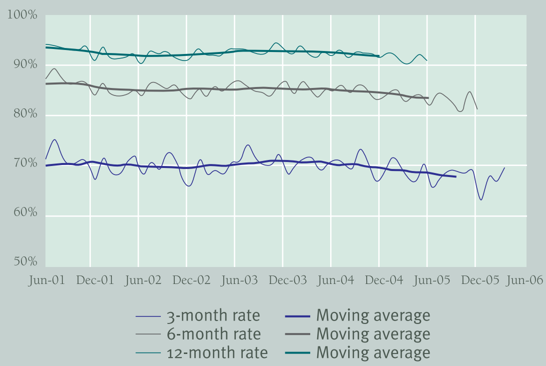
Rehabilitation rates were lower than 2004-2005, particularly at three and six months.

3-MONTH REHABILITATION RATES	2005-06 result	2005-06 target	2004-05 result
ACC Total	66%	70%	68%
Employers' Account	68%	N/A	70%
Self-Employed Work Account	56%	N/A	59%
Motor Vehicle Account	58%	N/A	59%
Earners' Account	68%	N/A	69%
6-MONTH REHABILITATION RATES	**2005-06 result**	**2005-06 target**	**2004-05 result**
ACC Total	84%	87%	85%
Employers' Account	83%	N/A	85%
Self-Employed Work Account	77%	N/A	79%
Motor Vehicle Account	79%	N/A	80%
Earners' Account	86%	N/A	87%
12-MONTH REHABILITATION RATES	**2005-06 result**	**2005-06 target**	**2004-05 result**
ACC Total	93%	94%	93%
Employers' Account	92%	N/A	93%
Self-Employed Work Account	90%	N/A	90%
Motor Vehicle Account	88%	N/A	89%
Earners' Account	94%	N/A	95%

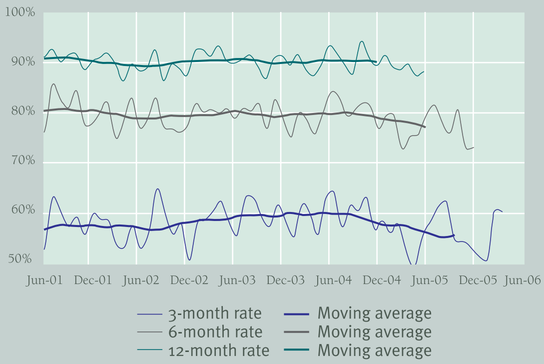
REHABILITATION RATES ACC TOTAL



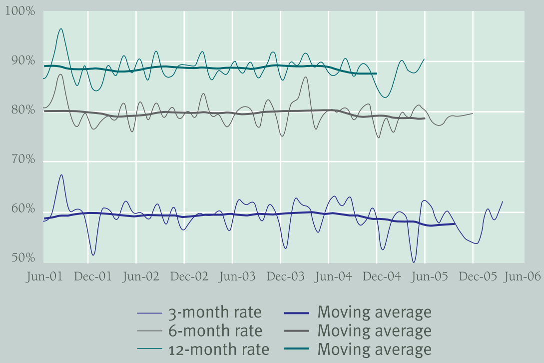
REHABILITATION RATES EMPLOYERS' ACCOUNT



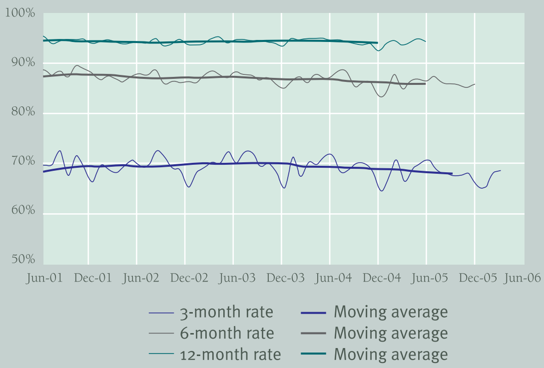
REHABILITATION RATES SELF-EMPLOYED WORK ACCOUNT



REHABILITATION RATES MOTOR VEHICLE ACCOUNT



REHABILITATION RATES EARNERS' ACCOUNT

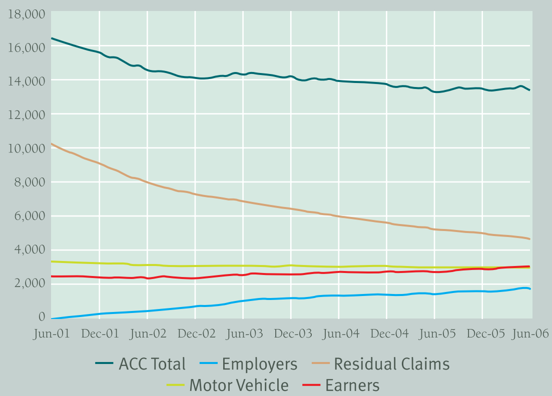


NUMBER OF LONG-TERM CLAIMS ACC forecast that the number of long-term weekly compensation claims would reduce by 400 during 2005-2006. The number of claims increased by 127 during the year to 30 June 2006 (compared with a reduction of 669 for the year to 30 June 2005).

This reflects an increase in the number of weekly compensation claimants reaching 12 months' duration on the Scheme compared with recent years. This result is consistent with the slight fall-off in 12-month rehabilitation rates. The number of long-term claimants who ceased receiving weekly compensation during 2005-2006 was slightly less than in 2004-2005.

ACCOUNT	Number of long-term claims at 30 June 2006	Number of long-term claims at 30 June 2005	Decrease/ (Increase)
ACC Total	13,348	13,221	(127)
Employers' Account	1,741	1,427	(314)
Self-Employed Work Account	384	369	(15)
Residual Claims Account	4,655	5,186	531
Motor Vehicle Account	3,007	2,974	(33)
Non-Earners' Account	313	299	(14)
Earners' Account	2,945	2,695	(250)
Medical Misadventure Account	303	271	(32)

NUMBER OF LONG-TERM WEEKLY COMPENSATION CLAIMS



STAKEHOLDER SATISFACTION

The key to ensuring that services are delivered efficiently and effectively is to partner with key stakeholder groups. Stakeholder satisfaction levels for 2005-2006 were generally strong: higher than 2004-2005 for levy payers, and slightly below for claimants.

CLAIMANT SATISFACTION The level of claimant satisfaction is surveyed monthly. While claimant satisfaction levels have continued at relatively high levels, they were generally reduced from 2004-05. ACC is focusing on improving customer service and quickly resolving issues at the front line when they arise.

The scope of the survey was expanded in 2004-2005 to include claims managed by branches, contact centres and long-term claims units in order to provide an overall measure of claimant satisfaction. The result for 2005-2006 of 77% was lower than the 2004-2005 level of 80% but satisfaction is still the outcome for three out of four claimants.

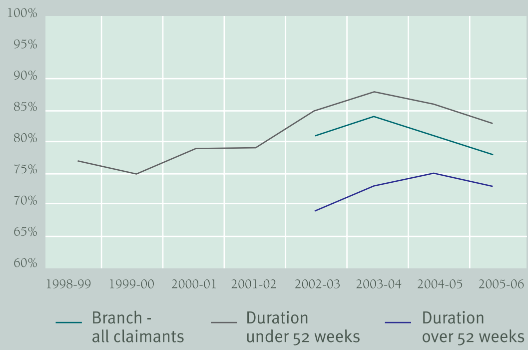
The 2005-2006 result of 78% for overall claimant satisfaction in respect of claims managed by ACC's branch network was similarly lower than the 2004-2005 level of 81%. The surveyed satisfaction level for both 'new' and long-term claimants decreased, and was slightly below target. It should be noted that these results came off high base levels and that the margin for error involved in sampling is such that minor shifts may be of little real substance.

Satisfaction levels for Māori and Pacific and Asian peoples were close to the 80% target or four in five satisfied claimants.

The satisfaction rate for claimants with serious injuries increased again from 2004-2005 and was close to the target level.

CLAIMANT SATISFACTION BY CLAIMANT GROUP	2005-06 result	target	2004-05 result	sample size	margin of error (+/-)
Overall claimant satisfaction	77%	N/A	80%	9,751	1.0%
Overall branch claimant satisfaction	78%	N/A	81%	5,415	1.3%
Branch claimants – duration under 52 weeks	83%	85%	86%	3,388	1.8%
Branch claimants – duration over 52 weeks	73%	75%	75%	2,027	2.3%
Māori	77%	80%	81%	669	3.9%
Pacific peoples	82%	80%	82%	175	7.6%
Asian peoples	78%	80%	88%	113	9.5%
Seriously injured	74%	75%	68%	76	11.3%

ACC CLAIMANT SATISFACTION – BRANCH NETWORK



TIMELY PAYMENT OF ENTITLEMENTS Payment timeliness is measured using the time taken to make the initial payment of weekly compensation. The aim is to make that initial payment in 70% of cases within seven calendar days for employees and 10 days for self-employed people.

Payment timeliness as measured by the 70th percentile reduced during the earlier part of 2005-2006 but improved in later months.

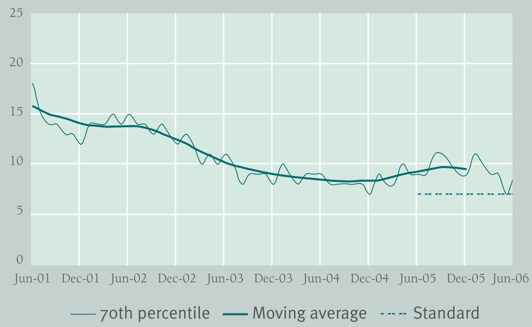
LEVY PAYER SATISFACTION The level of levy payer satisfaction is measured by survey.

Satisfaction levels among both the largest 500 employer levy payers and the next largest 2,000 increased from 2004-2005 and exceeded the targets of 80%.

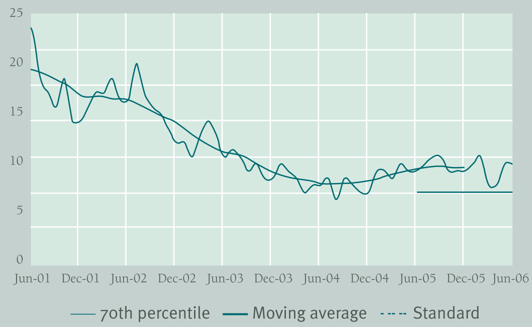
The target increase for small and medium-sized employers was achieved. Customer satisfaction levels for self-employed increased significantly and was well in excess of the target.

2005-2006 satisfaction levels among tax agents and customers of ACC's Business Service Centre were similar to those in 2004-2005 and 2003-2004.

PAYMENT TIMELINESS EMPLOYEE CLAIMANTS (DAYS)



PAYMENT TIMELINESS SELF-EMPLOYED CLAIMANTS (DAYS)



LEVY PAYER GROUP	2005-06 result	target	2004-05 result	sample size	margin of error (+/-)
Top 2,500 employers	86%	80%	82%	578	4.1%
Top 500 employers	84%	80%	78%	219	6.6%
Next 2,000 employers	88%	80%	84%	359	5.2%
Small and medium-sized employers	75%	75%	71%	1,109	2.9%
Self-employed	69%	60%	59%	1,113	2.9%
Tax agents	70%	80%	71%	250	6.1%
Business Service Centre – phone customers	84%	80%	85%	406	5.0%
Business Service Centre – correspondence customers	67%	80%	67%	400	5.0%

PROVIDER SATISFACTION The 2005 'ACC Provider Feedback Survey' showed that the satisfaction level with the service received from ACC for 'all treatment providers' was maintained at the 70% reported in 2004. There were no significant variations for any of the individual provider groups – the general practitioner satisfaction rate was 73% in 2005 compared with 72% in 2004.

The survey of rehabilitation providers indicated an overall satisfaction rate of 64% (67% in 2004).

FAIR AND EQUITABLE LEVIES

ACC's goal is to maintain equitable and cost-effective levy rates. Fairness doesn't always imply lowest cost, rather the provision of quality services freely accessible to all injured parties. Cost pressures will rise as access improves for New Zealanders who do not now use ACC's services and entitlements. New legislation provides for more extensive services and extends access to the Scheme. This, together with the current high cost pressures, will necessarily impact on ACC's ability to absorb cost increases.

LEVY RATES The 2006-2007 levies for employers, self-employed, earners and motor vehicles were announced in December 2005. The average levies are set out below.

ACCOUNT	2006-07	2005-06
Employers'	86c per $100 of liable earnings	88c per $100 of liable earnings
Self-Employed Work	$2.03 per $100 of liable earnings	$1.82 per $100 of liable earnings
Earners'	$1.30 per $100 of liable earnings (including GST)	$1.20 per $100 of liable earnings (including GST)
Motor Vehicle	$111.00 per annual petrol-driven motor car licence; plus 5.78 cents per litre petrol excise	$126.01 per annual petrol-driven motor car licence; plus 5.78 cents per litre petrol excise
Residual Claims	35c per $100 of liable earnings	33c per $100 of liable earnings

Levy increases of the order of 10% in the average Self-Employed Work Account levy and the Earners' Account levy were within target ranges. The increases in levies reflect higher than expected injury claim costs and a forecast decrease in self-employed liable earnings.

The average Motor Vehicle Account levy (inclusive of the petrol levy) reduced by 8%, reversing the 5% increase in 2005-2006.

Effective and efficient collection of levies

LEVY REVENUE Levy revenue for 2005-2006 totalled $3,075 million, $226 million in excess of the budget of $2,849 million. The additional revenue includes increased revenue in respect of prior years to the Employers', Residual Claims and Earners' Accounts, and higher than forecast earnings from employment in 2005-2006.

Levy collection costs for 2005-2006 were $49.8 million and within the $52.2 million budget. Collection costs as a percentage of levy revenue have decreased from 2.5% in 2001-2002 to 1.6% in 2005-2006.

DEBT MANAGEMENT Debt management focuses on revenue optimisation and improvements to the collection of levy and claimant debt. As well as in-house collection activity, the Corporation worked closely with its levy collection agencies (Inland Revenue, Land Transport New Zealand, Customs) and debt collection agency partners.

A debt management strategy involving increased internal ACC management prior to referral to a debt collection agency was implemented. Precise referral strategies are reviewed weekly to take account of invoice volumes. The relatively lower internal debt management costs reduced levy collection costs.

INVESTMENT MANAGEMENT $8.1 billion of investments were under management at 30 June 2005 and ACC aims to achieve investment returns at least equal to market benchmarks plus 1%. Investment returns during 2005-2006 for ACC's total reserves exceeded the benchmarks by 2.7%. Detailed comment on investment performance is included in the Investments section of the Report.

Investment income for 2005-2006 was $1,083 million, $599 million in excess of the $484 million budget.

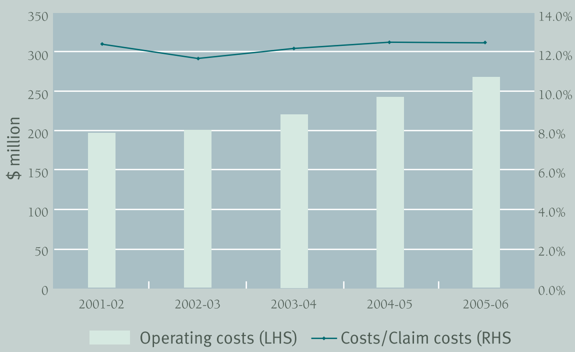
CLAIM COSTS Claim costs (treatment, social and vocational rehabilitation, and compensation entitlements prescribed by the Act for claimants) paid during 2005-2006 totalled $2,138 million compared with budget of $2,129 million. Further details of claim costs are provided within the Statement of Financial Performance.

ADMINISTRATION COSTS Administration costs were less than budget for 2005-2006, primarily as a result of delays in the commencement of injury prevention programmes, operating projects, and various marketing and communications activity.

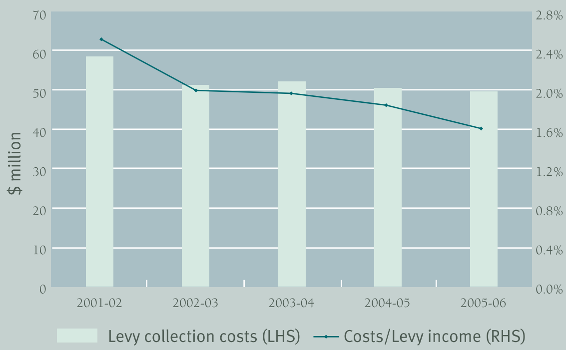
	actual ($m)	budget ($m)	variance
Injury prevention costs	41.4	46.8	11.6%
Investment costs	13.3	14.7	9.0%
Levy collection costs	49.8	52.2	4.7%
Operating costs	266.4	271.1	1.7%
Total administration costs	370.9	384.7	3.6%

Although operating costs (the majority of which relate to the management of claims) have increased in recent years, they have remained relatively constant at approximately 12% of claim costs.

OPERATING COSTS



LEVY COLLECTION COSTS



CLAIMS LIABILITY Claims liability increased by $1,321 million from $11,384 million at 30 June 2005 to $12,715 million at 30 June 2006. This significantly exceeds the forecast liability of $11,981 million.

The increase in the discount rate from 5.75% at 30 June 2005 to 5.83% at 30 June 2006 reduced the liability by $104 million.

Excluding this item, the claims liability at 30 June 2006 was $838 million (7%) higher than forecast – primarily as a consequence of providing for higher future medical, equipment and weekly compensation costs.

STAFF SATISFACTION

ACC recognises that its most important resource is its staff and to this end has continued to develop its recruitment methodologies to ensure that it attracts the best possible candidates to work for the Corporation, and has developed and implemented a wide range of training and development programmes aimed at developing the skills and competency levels of staff. Further, ACC is focused on providing flexible work arrangements and choices to improve staff's ability to balance the demands of work and other commitments.

Staff satisfaction levels for 2005-2006 were consistent with prior years, although the overall staff satisfaction index reduced by two percentage points. However, the Corporation's staff turnover levels continue to present a challenge, particularly in the current tight labour market conditions.

STAFF SATISFACTION Staff satisfaction is measured annually by staff census in June-July.

The 72% overall staff satisfaction rating at June-July 2006 compares with 74% at June 2005 and is slightly below the 76% target. The decrease is thought to reflect, in part, the significant organisational change management programme underway at the time of the survey. Key results from the June 2006 census are:

CENSUS FACTOR	2006 result	2005 result
Satisfaction with job	70%	73%
Satisfaction with manager	75%	77%
Being part of the future of ACC	71%	71%
Satisfaction with ACC	72%	74%
Staff satisfaction index (Target 76%)	72%	74%

ACC STAFF SATISFACTION

STAFF TURNOVER Annualised staff turnover for all staff at June 2006 was 14.8%. This is within the target range of 10-18% and compares favourably with turnover of 15.9% at June 2005.

Throughout 2005-2006, the Corporation sought to reduce its overall attrition rate through targeted recruitment of best possible candidates, providing a range of management and leadership programmes to up-skill business unit managers, and through implementing a remuneration management programme enabling payment of competitive and fair remuneration and rewards.

MĀORI STAFF Māori staff satisfaction was 75% in June 2006, compared with 77% in June 2005 and the target Māori staff satisfaction rate of 75%.

Annualised staff turnover for Māori staff decreased from 16.5% at June 2005 to 14.3% at June 2006 and is within the target range of 10-18%. The rate is consistent with the overall staff rate.

PACIFIC PEOPLES STAFF Pacific peoples staff satisfaction was 81% in June 2006, compared with 79% in June 2005 and the target Pacific peoples staff satisfaction rate of 75%.

Annualised staff turnover for Pacific peoples decreased from 20.1% at June 2005 to 19.3% at June 2006. While this level exceeds the target range of 10-18%, the improvement is consistent with the downward trend in the overall staff rate.

A SAFE WORKPLACE ACC continues to be a leader and an exemplary employer in managing workplace health and safety throughout all of its workplaces. Reflected principally in its commitment to maintaining tertiary-level status of the ACC Partnership Programme in 2005-2006, the Corporation has improved its incident reporting framework, has introduced a range of revised health and safety policies, and has continued to effectively operate its national and regional health and safety committee structures.

ACC's WorkSafe health and safety programme is fully implemented in all workplaces to support the physical, psychological and emotional safety of staff.

The Corporation continues to provide an Employee Assistance Programme, which has enabled support to be provided to all staff members to assist them to balance work and personal lives and to assist with the resolution of any issues which might be impacting on performance at work.

As part of ACC's WorkSafe programme, all staff who work closely with claimants have professional supervision to provide support and ensure that case management and other work practices are safe, effective and ethical.

The Corporation provides an effective staff claims management function, ensuring staff members with injuries are able to return to a productive life as soon as possible using the case management approach.

SUSTAINABILITY ACC continues to develop its sustainability and environmentally friendly policies and procedures. This has been achieved through updating formal contract arrangements with suppliers providing goods and services (requiring evidence of sustainable work practices in relation to the provision of goods and services), continuing the Sustainable Workplace Action Plan, continuing the trial of petrol-electric motor vehicles as part of the vehicle fleet, and being actively involved in the membership of the NZ Business Council for Sustainable Development.

BUSINESS EXCELLENCE Since 2000, ACC has operated a Corporation-wide business excellence programme based on the international Baldrige best practice business framework.

The business excellence programme is one of the Corporation's key approaches to developing organisational capacity and the maturity of its management. It helps gain and maintain the highest levels of organisational efficiency and integrity so it can deliver the best outcomes for claimants, providers, levy payers and other stakeholders.

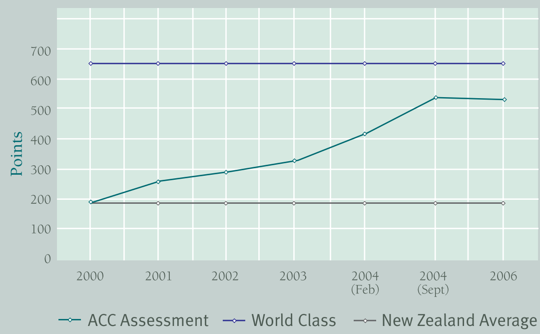
In 2004 ACC was externally evaluated and was awarded an Achievement Award – Silver level, one of only seven Silver awards made by the New Zealand Business Excellence Foundation to a New Zealand organisation.

In February 2006 ACC again undertook a robust internal evaluation against the criteria. The evaluation process consisted of a comprehensive review by a team of internal and external assessors. The evaluation rated the Corporation at 532 points, which confirmed ACC's on-going performance at this level. The specific Baldrige framework description of the Corporation is:

'The Corporation demonstrates effective, systematic approaches to overall requirements, but deployment may vary in some areas or work units. Fact-based evaluation and improvement address the efficiency and effectiveness of key processes. Results address key customer/stakeholder and process requirements, and they demonstrate some areas of strength and/or good performance.'

Improvements in ACC's business processes and performance are reflected in the increases in its assessed business maturity since 2000.

ACC BALDRIGE EVALUATIONS



LEVIES, INVESTMENTS AND CLAIMS LIABILITY COVER

LEVIES

LEVY SETTING Levy rates are set annually to meet the funding policies of each Account. The Residual Claims Account and the residual portion of the Motor Vehicle and Earners' Accounts are required by the governing legislation to be fully funded by 30 June 2014. The Employers', Self-Employed Work and fully funded portions of the Motor Vehicle and Earners' Accounts are required to be fully funded with levy rates adjusted over a five-year period to account for any over- or under-funding.

All post-1 July 2001 claims in the Non-Earners' Account are fully funded by appropriation and all pre-1 July 2001 claims are funded on a pay-as-you-go basis by appropriation.

The Medical Misadventure Account is funded from the Earners' and Non-Earners' Accounts according to the mix of earner and non-earner claimants.

Full funding means sufficient reserves are available to meet the life-time costs, including management, of all registered claims as well as the life-time costs of all claims that have been incurred but not yet reported to ACC.

Levies for the Residual, Employers', Self-Employed Work and Earners' Accounts are paid at the applicable rate applied to the liable earnings of the levy payer.

Motor vehicle levies are paid by vehicle owners with their annual licence fee and with a portion of the revenue included in the cost of petrol.

LEVY COLLECTION Levies required to fund the Residual Claims, Employers' and Self-Employed Work Accounts are invoiced directly to the employer or self-employed person based on their respective liable earnings at the applicable levy rate. Earner levies of shareholder employees and self-employed are also invoiced directly. Earner levies of employee earners are collected within the PAYE taxation system and are paid to the Corporation by the Inland Revenue Department.

Motor vehicle levies are included within vehicle licence fees and, for petrol-powered vehicles, a levy component is included within the cost of petrol.

Bad debt collections are managed by the Corporation, with collection of some debts being outsourced to debt collection agencies.

2005-2006 LEVY Levy revenue for the year exceeded budget in the Residual Claims, Employers', Earners' and Self-Employed Work Accounts due to:

- liable earnings exceeding expectation
- the actual weighted average levy rate exceeding budget for all Accounts except the Earners' Account (levy rates for the Residual Claims, Employers' and Self-Employed Work Accounts vary by industry classification; the earners' levy rate is a standard rate per liable earnings for all earners)
- positive adjustments to prior years' revenue as final invoices issued for those years exceeded expectations.

Levy revenue for the Motor Vehicle Account approximated revenue budget from vehicle licence fees but was 8.2% below budget for petrol levy due to a reduction in demand at a time of rising prices.

NON-EARNERS' APPROPRIATION Non-Earners' appropriation exceeded budget by $1.7 million (0.2%). The appropriation allocated to the Medical Misadventure Account exceeded budget by $6.4 million (13.9%) mainly due to:

- claim costs exceeding budget expectations for new entitlements following legislation changes effective from 1 July 2005
- a higher claims liability.

INVESTMENTS

WHY DOES ACC INVEST? There can be a significant time gap between when levies are collected and when ACC pays out all of the costs that those levies are intended to cover. Many injuries require on-going rehabilitation, medical care or earnings replacement for several years or decades after the injury is incurred. Accordingly, the monies set aside to cover the future costs of injuries which have already occurred will be invested for an average of about 10 years before they are needed. In the meantime, ACC invests those funds with an expectation that it will earn a return on its investments which is significantly better than inflation. This reduces the amount of money that ACC needs to put aside to cover future costs.

WHAT ARE THE RISKS? By assuming that it will earn a return on its investments, ACC is left exposed to the risks that long-term returns could be lower than expected or that higher than expected inflation in claim costs could mean that the budgeted return may prove to be insufficient to fund existing claims.

Accordingly, the main scenarios that could endanger ACC's ability to meet its commitments over the next 10 to 20 years (from an investment perspective) are:

- a sustained decline in equity markets, which would affect the value of a large part of ACC's existing investment portfolio
- widespread credit defaults due to a systemic issue such as a plunge in house prices affecting the entire banking system
- significantly lower interest rates, which would reduce the return that ACC could expect to achieve as it invests and re-invests funds into capital markets over the next decade
- significantly higher than expected inflation over the next 10 to 20 years, which should arise only if the Reserve Bank's objectives were changed.

While ACC does not expect any of these scenarios to occur, it seeks to manage the investment portfolios in a way which would ensure that the shortfall would not be too large if any of these scenarios did come about. ACC also needs to balance the objective of reducing its exposure to these risks against the equally important objective of enhancing portfolio returns.

While ACC's conceptual focus is on these long-term risks, it is also important to quantify and measure risk over a shorter time period. In the near term, ACC's long-term risks can be linked to two shorter term measures:

- the risk that ACC might fail to earn the assumed investment return in a given year. This would be most likely to occur in years when equity markets are weak;
- the risk that ACC may need to increase the amount of money that needs to be put aside to meet the future costs of existing claims. This would occur if lower interest rates mean that ACC needs to lower its assumption about future investment returns, or if increases in expected inflation lead to an increase in the expected future costs of ACC's existing claims. These factors are taken into account in ACC's annual revaluation of its claims liability.

Either of these events could create a shortfall which ACC would have to cover by charging higher levies in the future. Conversely, ACC would benefit – and might therefore be able to reduce levy rates in the future – if it earns a higher than expected investment return, if it is able to realistically increase its assumption about future investment returns, or if the inflation outlook improves.

ALLOCATION OF FUNDS Allocation of funds among different investment markets aims to balance the often competing objectives of enhancing returns and reducing ACC's exposure to the various risks discussed in the preceding section.

While it is not possible to fully offset the various long-term risks, funds are allocated among investment markets and investment policy is set with an aim of keeping each of these risks at a manageable level. For example, exposure to the risk of a decline in real New Zealand dollar interest rates is reduced by holding investment portfolios which are skewed towards asset classes which are most likely to show strong returns if and when there is a decline in real New Zealand interest rates.

This approach has a significant influence on the composition of ACC's portfolios, which must be borne in mind when comparing allocations between investment markets to the allocations used by other investment funds.

Compared to other funds, ACC tends to invest a relatively large percentage of its funds in New Zealand investment markets. There are two main reasons for this. Firstly, New Zealand investment markets match ACC's claims liabilities better than offshore markets, as claims liabilities are sensitive to real New Zealand bond yields. Secondly, the internal management costs of New Zealand investments are much lower than the external management costs for offshore investments.

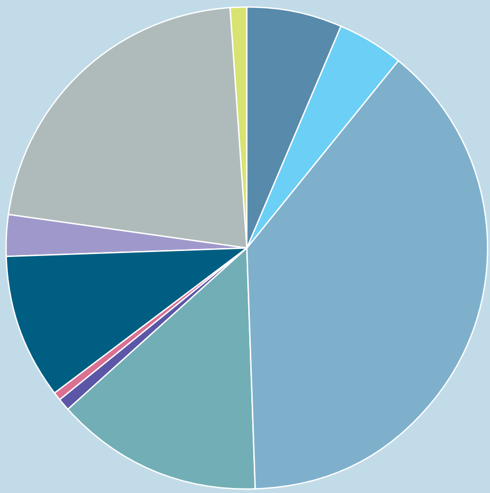
As total investment funds grow over time, it would be impossible to maintain the same percentage allocation to New Zealand investment markets without holding a bigger and bigger slice of those markets. But if ACC ends up owning a more significant percentage of New Zealand investment markets then it would become increasingly difficult to outperform the market as a whole. So while the Corporation will continue to be a major investor in the New Zealand equity market, it is likely that most of the incremental funds invested in equity markets over the next few years may be invested in offshore markets rather than the New Zealand equity market. In fact, during 2005-2006 funds were taken out of the New Zealand sharemarket, although the total value of the Corporation's New Zealand equity portfolios still grew due to the strength of the market.

Each funding account splits its investment funds between an investment in a short-term 'cash portfolio', which is used to meet near-term expenditure requirements, and its own longer-term 'reserves portfolio', which is set aside to meet the future costs of existing claims.

The investment allocations of the reserves portfolios differ by funding account, reflecting different funding positions, different projected growth rates, and different claims liability characteristics of various funding accounts. Generally, rapidly growing funding accounts have higher equity weights than funding accounts which are not expected to record rapid growth in investment assets.

The Board's investment committee sets long-term 'benchmark' investment allocations for each funding account's reserves portfolio, based on the advice of the investment unit. These benchmark allocations take account of the need to limit various risk exposures and long-term expectations for the returns for the various investment markets. ACC's investment staff may make short- or medium-term decisions to vary from these benchmark allocations, within risk control parameters set by the Investment Committee.

RESERVES PORTFOLIO ASSET ALLOCATION



NZ Cash 7%	NZ Index Linked Bonds 4%
NZ Bonds 39%	NZ Equity 14%
NZ Property & Real Assets 1%	NZ Private Equity <1%
Australian Equity 10%	Overseas Bonds 3%
Overseas Equity – Developed 22%	Overseas Equity – Emerging 1%

AN OVERVIEW OF THE PAST YEAR The most notable features of investment markets over the past year have been the strength of most equity markets and the depreciation in the New Zealand dollar. Both of these trends have boosted returns to New Zealand-based investors.

Most equity markets have been very strong over the past year, with the exception of just the United States and New Zealand, which merely produced 'normal' returns. In the case of the New Zealand equity market, aggregate returns were depressed by the largest single company (Telecom) and returns from the rest of the market were very strong.

The New Zealand dollar fell by between 10% and 15% against most foreign currencies over 2005-2006. This had the effect of significantly boosting returns from unhedged foreign investments.

Bond yields rose significantly around the world during 2005-2006, which reduced the return from bond markets. The yield on New Zealand Government bonds rose by much less than yields in most other bond markets. However, yields on New Zealand corporate bonds rose significantly, reducing the return from diversified New Zealand bond portfolios.

FUTURE INVESTMENT RETURNS Long-term New Zealand Government bonds continue to trade at yields (5.8%) which are close to historic lows. ACC uses this yield as its primary basis for projecting future returns and valuing its claims liability. It might be argued that projecting investment returns on the basis of such low bond yields could be overly conservative. However, Australian and New Zealand equity markets are also being priced at historically high multiples to historically high earnings. This suggests that they may also deliver lower-than-average returns in the future. With over two-thirds of ACC's funds invested in markets which are currently significantly more expensive than their historic average (Australasian equities or bonds), it is unlikely that ACC's returns over the next few years will be as strong as those that have been enjoyed over the past decade.

GROWTH IN ACC'S INVESTMENT PORTFOLIOS ACC's reserves portfolios increased in value by 22% from almost $6.5 billion last year to $7.9 billion at the end of June 2006. Most of this growth was due to retained investment income, but extra funds were added from the surplus of levy income over scheme expenditure.

The reason why an operating surplus is run is to grow the investment portfolio until there are sufficient funds to cover claims liabilities, which represent the estimated future costs of injuries which have already been incurred. Once this has been achieved, ACC will be 'fully funded'. Before 1999, there was a 'pay as you go' basis whereby only enough levy income was raised to pay current costs in each year. Funds were not set aside for the future costs of existing claims – this was left to 'future generations' of levy payers.

By continuing to re-invest investment income and maintain a surplus of levy income over Scheme expenditure, long-term investment portfolios will grow until they slightly exceed the size of the claims liability in eight years' time (by 2014). At the same time, the claims liability is projected to grow roughly in line with growth in the size of the New Zealand economy. As a result, there will be about $19 billion of long-term investment funds by 2014.

Once fully funded, it is anticipated that a portion of investment income will typically be taken out of investment portfolios each year to reduce the amount of Scheme expenditure that needs to be funded from levies. Some investment income would continue to be re-invested into the investment portfolios, as these will need to grow in line with growth in costs of providing injury compensation and rehabilitation to New Zealanders.

The increasing size of ACC's reserves portfolios has implications for the way investment portfolios are managed, as allocation to New Zealand investment markets has become quite large relative to the size of those markets. ACC has reached a size from which it is difficult to achieve a better-than-market return on every incremental dollar invested in New Zealand equity markets. As New Zealand portfolios grow, future returns will not exceed market returns to the extent that ACC has achieved in the past.

HOW INVESTMENT PORTFOLIOS ARE MANAGED

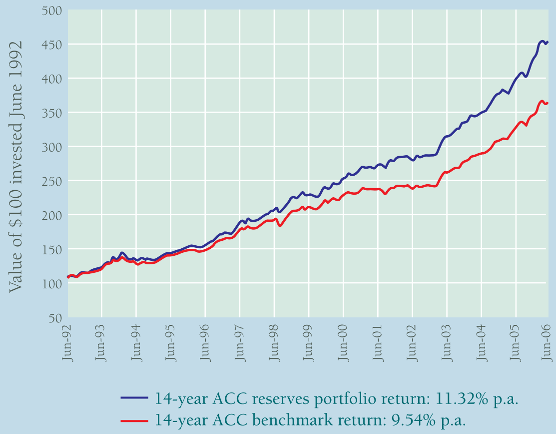
ACC's internal investment unit directly manages almost all of the Corporation's investment in New Zealand markets, and slightly over half of its investments in Australia. There are several reasons for this:

– ACC has sufficient economies of scale to achieve a much lower internal management cost than would be charged by external fund managers;
– internal management ensures that the investment process is closely aligned with investment objectives rather than the business objectives of an external fund manager; and
– ACC's internal investment unit has achieved better returns in New Zealand asset classes, with a higher degree of consistency than many other fund managers.

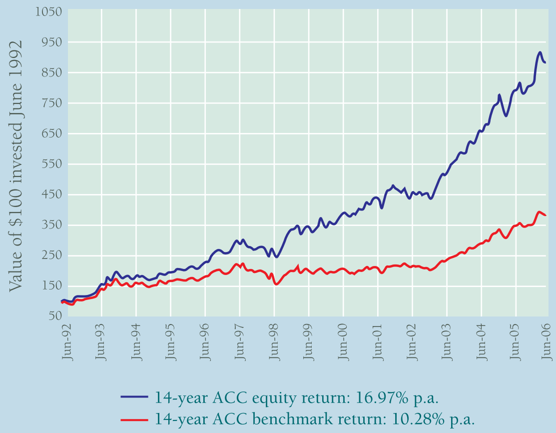
Management of most foreign assets is outsourced to external fund management companies. ACC does not have the resources to successfully monitor the thousands of companies and markets which make up the global investment universe.

The performance of investment portfolios is measured on a market value basis for 14 years, and in 13 of those financial years ACC outperformed its benchmark indices in both New Zealand bonds and New Zealand equities.

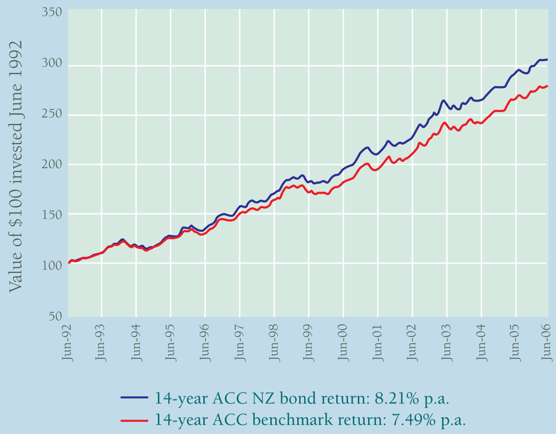
ACC RESERVES PORTFOLIO RETURNS



ACC NZ EQUITY RETURNS



ACC NZ BOND RETURNS



INVESTMENT RETURNS FOR THE 2005-2006 YEAR

ACC's reserves portfolios returned an average of 15.6% over the year.

This return was significantly above budget, which should not be surprising given the strength of equity markets during the year. Furthermore, the return was an average of 2.7% higher than the return from the composite benchmark indices used to measure the performance of each funding account's reserves portfolio.

Due to the way in which investment portfolios are managed against a defined claims liability, ACC typically has a higher allocation to long-term bond markets and a lower allocation to offshore equity markets compared with portfolios that are not being managed with the objective of covering a defined claims liability.

Other fund managers typically hold more than half of their funds invested in equity markets, whereas ACC typically invests less than half of its funds in equity markets. This means that it will struggle to match the returns of other fund managers when equity markets are particularly strong, as has been the case over the past year. However, this conservatism has also meant the Corporation has always achieved positive returns (over the 14 financial years that returns have been measured, whereas other fund managers have recorded negative returns in years when equity markets have been weak). For this reason, ACC's 15.6% return was lower than the average return achieved by other fund managers during 2005-2006.

		Annual Portfolio Returns			
		this year		average last 3 years	
	$ million	portfolio	benchmark	portfolio	benchmark
By Asset Class:					
Cash Portfolio	409	7.6%	7.5%	6.6%	6.6%
Reserves:					
Reserves Cash	517	7.5%	7.6%	6.6%	6.6%
NZ Bonds	3,083	5.4%	5.0%	5.1%	4.8%
NZ Index Linked Bonds	344	6.2%	6.3%	5.7%	5.7%
NZ Equity	1,091	15.1%	15.2%	19.3%	18.2%
NZ Property	73	20.3%	20.3%	19.8%	17.0%
NZ Private Equity	36	-0.6%		-9.3%	
Australian Equity	776	32.6%	27.4%	28.6%	26.2%
Overseas Bonds	216	3.2%	3.0%	8.2%	7.1%
Overseas Equity - Developed	1,716	36.6%	25.7%	21.9%	16.4%
Overseas Equity - Emerging	82	53.4%	55.0%	33.7%	32.9%
Total Reserves	7,934	15.6%	12.9%	13.2%	12.0%
By Funding Account:					
Earners'	2,538	14.0%	11.6%	12.0%	10.8%
Residual Claims	700	14.2%	12.0%	11.7%	10.6%
Motor Vehicle	1,965	16.4%	13.8%	13.9%	12.7%
Employers'	1,368	17.6%	14.1%	15.4%	13.7%
Self-Employed Work	238	19.0%	15.5%	16.4%	14.6%
Non-Earners'	708	15.5%	12.9%	15.0%	13.7%
Medical Misadventure	415	16.0%	13.4%	13.9%	12.8%
Total Reserves	7,934	15.6%	12.9%	13.2%	12.0%

* Note the discussion about ACC's benchmark index for NZ equities. The NZSE-50 benchmark index returned 9.6% (excluding imputation credits) over 2005-2006.

The positive performance of the reserves portfolios compared with ACC's benchmarks was due in large part to two high-level decisions that were taken regarding exposure to particular markets. First, ACC chose to have a much higher proportion of its portfolio exposed to unhedged foreign currency assets than the neutral position built into its benchmarks. Second, external managers of global equity portfolios were encouraged to hold a lower-than-normal proportion of their funds in North American equity markets (this was achieved by modifying the benchmarks set for external managers). Over 2005-2006, these two decisions added over 1.6% to ACC's performance.

Relative performance also benefited from other decisions regarding the allocation of funds among markets, and from the out-performance of most portfolios compared with the benchmark indices that they were measured against. However, the overall performance of ACC's portfolios against their benchmark indices was not as good as has been achieved in previous years.

In particular, it was disappointing that the New Zealand equity investments under-performed benchmark indices by 0.1% in 2005-2006, after out-performing in each of the previous 13 years. This was partly because ACC set a tough hurdle by changing the composition of the New Zealand equity portfolio's benchmark index in what proved to be a timely fashion. During the year, benchmarks were reviewed for the New Zealand equity portfolios and the method was changed by which these benchmarks were calculated, reducing the maximum benchmark weighting for any individual stock and reducing the number of Australian stocks included in the benchmark index. Immediately after this change to the benchmark, a change to Telecom's regulatory environment meant that the new benchmark dramatically out-performed the old benchmark before ACC had realigned its portfolios to take account of the changes. As a result, the New Zealand equity portfolio was measured against a benchmark index which more than doubled the return posted by the NZX-All index over the same period. The 15.1% return achieved by the New Zealand equity portfolios is very creditable in comparison with other benchmarks commonly used for large New Zealand equity portfolios. Note that the returns reported for ACC's New Zealand equity portfolio do not include imputation credits.

The Corporation's $3.1 billion New Zealand bond portfolio recorded a moderate out-performance of its benchmark index. Over the course of the year, the relative performance of this portfolio was adversely affected by a rise in the incremental spread that yields on non-Government bonds carry over and above the yields available on bonds issued by the New Zealand Government. However, this widening yield spread has been used as an opportunity to increase exposure to non-Government bonds, and it should therefore serve to enhance returns over subsequent years.

Other key asset classes are Australian equities and global developed market equities. The table on the previous page shows very strong out-performances in each of these asset classes. However, decisions to increase foreign currency exposure and skew global equity exposure away from North America (discussed above) made a significant contribution to reported returns, and the underlying out-performances within the underlying portfolios are more modest. Nevertheless, it is pleasing to note that the management of the various Australian and global equity portfolios added significantly to overall relative performance. Of particular note was a 16% out-performance that Independent Asset Management (of Sydney) achieved in a portfolio of resource sector equities that it manages for the Corporation.

FOREIGN CURRENCY EXPOSURE

Overall, the investment portfolios have gained significantly from the depreciation of the New Zealand dollar over the past year, as ACC held an investment in foreign currency assets which was significantly larger than the amount of its foreign exchange hedging. The net benefit from the decline in the New Zealand dollar has been approximately $220 million, comprising over $330 million of foreign exchange gains on offshore investments minus losses of $112 million on foreign exchange hedging contracts. ACC had made significant gains from foreign exchange hedging in each of the previous four financial years.

ACC had been very conscious of the risk of a depreciation in the New Zealand dollar, and accordingly took a significantly larger exposure to unhedged foreign currency than its normal benchmark position. Over the second half of the year, a tilt in favour of unhedged foreign currency was maintained at levels which were close to the maximum permitted by internal guidelines.

However, even with this deliberate skew towards unhedged foreign currency assets, a significant amount of foreign exchange hedging is still undertaken. From a longer-term-perspective, the lowest risk position would be to hedge most foreign exchange exposure, and it is likely that ACC will return to this longer-term neutral position when it is less concerned about the downside risks to the New Zealand dollar.

PRIVATE EQUITY A small investment is held in private (unlisted) equity, including both direct investments and investment in several private equity funds, particularly the venture capital funds participating in the scheme operated by the New Zealand Venture Investment Fund. These represent a very small proportion of total investments, partly because private equity investing is relatively new to ACC and exposure should be limited until greater familiarity is achieved with private equity investing. As there is generally no market price for unlisted equity investments, it is difficult to value and calculate short-term returns for investments in this asset class.

To date, there have been very few realisations from private equity portfolios; they have incurred management costs; and the value of some investments has been written down. Accordingly, the returns achieved from the small investment in private equity have been disappointing compared with the relatively high-return hurdles that are required to invest in a fairly risky and time-consuming asset class.

INVESTMENT BENCHMARKS Like most other fund managers, market-based benchmark indices are used to serve as a point of comparison when considering the make-up and the performance of ACC's investment portfolios. These benchmarks indicate how funds might be invested in the absence of views on the likely relative performance of different securities within a market. Accordingly, it is important that the benchmarks represent sensible starting points for the construction of portfolios which meet ACC's needs. In many cases, a recognised market benchmark is appropriate but in other cases portfolios are managed against a different benchmark which better reflects ACC's objectives or market focus. For example, the high interest sensitivity of claims liabilities means a need for a high interest rate-sensitive bond portfolio, so the New Zealand bond portfolio is managed against a customised benchmark index which is heavily skewed towards bonds with more than five years remaining to maturity.

As well as indicating a neutral starting point for the management of portfolios, benchmark indices are useful for assessing portfolio performance, as they allow differentiation of the element of a portfolio's returns which are due to generalised market conditions from the relative value that has been added or subtracted in the management of that portfolio.

PROBABILITY OF NEGATIVE RETURNS Although ACC has consistently managed to achieve positive returns in each financial year despite a wide range of market conditions, it is important that stakeholders understand that there is always a risk negative returns could be reported over a single financial year. There is about a one-in-five chance that ACC will record negative reserves portfolio returns in any single financial year.

Statistical analysis would suggest that in any given year there is about a 1% probability that ACC will record returns of -10% or worse. However, as this analysis relies upon the critical assumption that inferences can be made about the probability of extreme future events based on a statistical analysis of recent history, it is wise to assume that the probability of negative returns of this magnitude could be higher than suggested by this analysis.

There are two primary factors that contribute to the risk of negative returns:

– a rise in bond yields of about 1 percentage point could result in negative investment returns. However, ACC's overall funding position would improve as a result of a rise in bond yields, as our claims liability would decrease by an even greater amount than the decline in investment income;

– based on current policy, funding accounts will typically have an average of 47% of their reserves funds invested in equity markets. This means that a generalised decline in foreign and domestic equity markets of around 10% or more would tend to result in ACC recording negative overall investment returns.

Generally, ACC's investments in individual companies or securities are too small to significantly endanger total investment returns in a single financial year. ACC holds only one equity investment of more than $100 million (see table). The only credit exposures of more than $100 million are to the New Zealand Government, Transpower (which is government-owned) and some major New Zealand banks.

50 LARGEST EQUITY INVESTMENTS AS AT 30 JUNE 2006

Top 50 equity investments as at 30 June 2006	$million
Telecom NZ	142.7
Fletcher Building	92.3
Fisher & Paykel Healthcare	71.1
Contact Energy	62.3
ANZ Banking Group	61.0
Guinness Peat Group	59.0
Sky Network TV	46.8
BHP Billiton	45.9
National Australia Bank	44.9
Sky City Entertainment	43.0
Commonwealth Bank of Australia	41.6
Mainfreight	37.0
Kiwi Income Property Trust	34.4
Westpac Banking Corporation	33.8
Fisher & Paykel Appliances	33.2
Templeton Emerging Markets Investment Trust	32.0
AMP NZ Office Trust	30.7
Air New Zealand	30.0
Infratil	26.8
Woolworths (Australia)	25.2
BP	24.2
Nuplex	23.9
Beach Petroleum	22.8
Freightways	22.0
Auckland International Airport	20.8
QBE Insurance	20.6
Royal Dutch Shell	19.1
Westfield Group	18.7
HSBC Holdings	18.2
Roche Holdings	17.4
Toyota Motor Corp	16.1
Australian Worldwide Exploration	15.7
AMP	15.6
CSL	15.5
Rinker Group	15.3
Novartis	15.2
ING Property Trust (NZ)	14.9
Macquarie Goodman Property (NZ)	13.6
Macquarie Bank	13.5
Tower	13.4
Hallenstein Glasson	13.3
E.ON	13.2
Unicredito Italiano	12.8
GlaxoSmithKline	12.4
Sumitomo Mitsui Financial Group	12.3
Mizuho Financial Group	11.9
Gullivers Travel	11.1
Millennium and Copthorne Hotels NZ	10.8
New Zealand Oil and Gas	10.7
Sanford	10.6

CLAIMS LIABILITY

WHAT IS THE ACC CLAIMS LIABILITY? The Corporation has a responsibility to provide for the rehabilitation and compensation of people in New Zealand who have injuries. In order to do this assets have to be held which are at least equal to the expected future cost of providing these benefits.

Each year an estimate is made of the expected total discounted amount of the future claims payments in respect of injuries occurring prior to the end of the financial year. This is the ACC claims liability. The claims payments are discounted to reflect expected investment earnings.

The claims liability is subject to uncertainty both in the amounts of future claim payments and their timing. This makes the claims liability different from the liabilities found in other (non-insurance) company balance sheets. Despite the uncertainty, the claims liability estimate shown in these accounts does not contain margins and it is not based on conservative or optimistic assumptions.

WHY IS THE CLAIMS LIABILITY AN ESTIMATE? The claims liability is based on future events whose outcomes cannot be known with certainty. The key sources of this uncertainty are as follows:

- The total number of injuries that have arisen prior to the end of the financial year. It may take months or even years for an injury to manifest. If the injured party is not aware that they can receive support then there may be further delays in claims being reported to ACC. Therefore the number of claims that are likely to be reported in the future in respect of injuries that occurred in the past needs to be estimated.
- The outstanding costs of claims that have already been reported. For claims that are still open the expected future costs of rehabilitating and compensating the individuals involved needs to be estimated. As no one recovers from an injury the same way these estimates are subject to variability. Closed claims may reopen and the costs of these eventualities need to be estimated.
- The types and costs of treatments may change in the future. Advances in medicine and treatment processes may result in increased costs in the short term. However, this may also lead to shorter rehabilitation times thus reducing costs.
- Economic conditions affect future claim payments. Inflation impacts the estimated costs of future claim payments. Economic growth and unemployment levels can influence the propensity to lodge claims with ACC and the attitudes of injured persons towards rehabilitation.
- ACC legislation is always under review and court cases can result in entitlements which were not anticipated being paid. A recent example of this is the court cases with regards to the payment of lump-sum compensation to people with asbestos-related injuries.

HOW IS THE CLAIMS LIABILITY CALCULATED? The claims liability is calculated based on standard actuarial techniques. These techniques involve looking at trends in historic claims data and projecting these trends into the future.

Where possible both the numbers of claims receiving payments and the average amounts of these payments are analysed separately. When claim numbers are too unstable for this method to be reliable, an analysis of aggregate payments is undertaken.

The claims liability consists of:

- outstanding payments in respect of reported but unsettled claims;
- claims that have been incurred but not yet reported to ACC (IBNR);
- future payments for claims that are currently closed but may re-open in the future; and
- the costs of managing reported but unsettled, re-opened and IBNR claims.

Some elements of the claims liability are subject to more uncertainty than others. For past injury years a higher proportion of the ultimate number of claims for that year will have been reported. These reported claims will have a longer history of payments and a smaller outstanding amount, all other things being equal, than claims reported in more recent injury years. IBNR claims have no payment history and must be estimated in their entirety. Hence the claims liability estimate for more recent injury years will be subject to more uncertainty.

Claim payments are analysed separately for each class of benefit. These include weekly compensation, medical treatments (split into four subgroups), rehabilitation benefits (split by the type of rehabilitation), independence allowance, lump sums and death benefits. This is done so that the unique characteristics of each benefit type can be reflected in the analysis. Conducting the analysis in this way should reduce the uncertainty in the results.

Estimated future claim payments are adjusted in line with expectations of future inflation. These inflated cash flows are then discounted into present-day dollar amounts. The discount rate used is based on Government bond yields. This is in accordance with accounting standards and makes an approximate allowance for the investment returns expected to be received in the future. The longer the expected outstanding duration of a claim is the greater the impact of discounting will be on the present value of the cash flows associated with that claim.

The liability can be thought of as the lump sum that would need to be invested now in order to meet the expected future payments for injuries that occurred before the liability valuation date as they fall due. The estimated claims liability is on a 'best estimate' basis. This means there is no deliberate over- or under-statement of any component of the liability. Specifically there are no margins built into any of the assumptions used to set the claims liability. Due to the uncertainty in the claims liability estimate and the number of assumptions required in its determination, it is highly likely that actual experience will differ from the stated estimate.

The assumptions and methodology used to estimate the claims liability are set with reference to relevant accounting and actuarial professional standards and guidance for New Zealand-based general insurers.

Estimating the present-day value of all future costs for injuries occurring prior to the liability valuation date gives an idea of the true cost of providing injury cover. This differs from considering just the claim payments expected in the next financial year. Current legislation requires ACC to 'fully fund' the cost of injuries in most accounts. To fully fund injury costs ACC must hold assets which are expected to be at least as large as the expected claims liability. This therefore necessitates the estimation of present values of all future costs.

DOES ACC TAKE EXTERNAL ADVICE ON THE LIABILITY VALUATION?

PricewaterhouseCoopers (PwC) Sydney provides independent actuarial advice to ACC. This service includes production of the annual claims liability valuation. This is the third year that PwC has been involved in the valuation of claims liability. PwC provides a number of other consulting services to ACC and as such they have a good understanding of the ACC Scheme.

The claims liability valuation is produced and reported in accordance with Financial Reporting Standards (FRS-35).

WHY DOES THE ACC CLAIMS LIABILITY CHANGE?

When the claims liability is estimated each year it uses as much claims payment history as is available. This means that each year more data is used. Doing this allows recent Scheme experience to be incorporated into the claims liability valuation. Where recent experience differs from the experience observed in the past the inclusion of this new data may result in changes to the assumptions used to estimate the claims liability.

In addition to changes in Scheme experience changes in economic conditions and societal attitudes will also affect the claims liability estimate. For example, increases in assumed future inflation will increase expected future claims costs. However, if interest rates increase the expectation is that future investment returns will also increase which will mean that ACC can hold lower levels of assets to meet future claims payments.

Changes in the methodology used to estimate the claims liability will also affect the estimated amount. Where a more stable or more appropriate method for estimating a component of the liability is identified the result of applying this method can be a change in the liability. This should only occur when the original estimate is considered to be inappropriate in light of new information or better estimation techniques.

There were four main non-economic drivers of the change in claims liability between 30 June 2005 and 30 June 2006. These were as follows:

– The valuation assumptions for weekly compensation paid to claimants who have not died as a result of their injuries have been adjusted in light of recent experience. The impact of these adjustments varied by account but decreases in the liability for this benefit type in most accounts was more than offset by an increase in the liability for this benefit type in the Motor Vehicle Account.
– Changes to the way medical benefit costs have been modelled have led to a better understanding of the drivers of the longer-term medical costs. Payment experience since the 2005 valuation has been higher than expected for this benefit type. These two factors have led to a significant increase in the liability for this benefit type. An allowance has also been made for recent increases in the regulated rate paid to some classes of treatment provider.
– Recent growth in costs associated with the social rehabilitation benefits paid to non-seriously injured claimants is being driven by the capital costs associated with hearing aids. These make up the majority of the capital costs paid to non-seriously injured claimants in the Work Accounts. Payments for hearing aids have increased significantly over the last few years and all indications are that this growth is expected to continue. This increase in payments is compounded by a revised allowance for the expected future duration associated with these claims.
– Changes in experience for independence allowance benefits resulted in lower numbers of claims being assumed to exit from this benefit type in the future. A correction in the GST treatment for independence allowance payments to Non-Earners also contributed to the increase in the liability for this benefit type.

Changes in the claims liability will affect the levy rates ACC sets annually. The expected fully funded costs of each levy year come from the claims liability valuation and form the basis of the levy rates for the year. The levy rates are also affected by:

– the expected earnings or number of motor vehicles over which the claim costs must be spread;
– the levels of the reserves (funds held to cover the costs of claims which have already occurred) in each of the Accounts; and
– the method used to fund the expected claims cost in the levy year (for example, if the cost is funded over the next three years then a portion of the reserves and levy income can earn three years' worth of interest which should reduce the total levy required).

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

CONTENTS

Statement of accounting policies – for the year ended 30 June 2006

A) REPORTING ENTITY The financial statements are those of the Accident Compensation Corporation (ACC), which is designated as a Crown Agent under the Crown Entities Act 2004.

ACC and its subsidiaries comprise the ACC Group.

The financial statements have been prepared in accordance with:

a) the Crown Entities Act 2004;
b) the Public Finance Act 1989;
c) the Financial Reporting Act 1993; and
d) the Injury Prevention, Rehabilitation, and Compensation Act 2001 (referred to hereafter as the Act).

B) MEASUREMENT BASE The financial statements are prepared on the basis of historical cost except where modified by the revaluation of investments and certain property, plant and equipment and the actuarial quantification of claim liabilities.

C) LEVY AND RESIDUAL LEVY During 1998 and 1999 the basis of setting levies and residual levies moved from a 'pay as you go' basis to a fully funded basis for all levy and residual levy payers other than the Government in respect of the Non-Earners' Account.

Levies are now set on a full funding basis for the Earners', Employers', Self-Employed Work and Motor Vehicle Accounts. The Non-Earners' and Medical Misadventure Accounts have been fully funded by the Government from 1 July 2001 in respect of claims incurred from that date. Claims before that date continue to be funded on a 'pay as you go' basis.

In addition to the above, residual levies are set to fund the claims liability at 30 June 1999 in respect of the Residual Claims, Earners' and Motor Vehicle Accounts. It is expected that these residual levies will be charged until these Accounts are fully funded, anticipated to be until 2014.

D) SOURCE AND APPLICATION OF LEVY AND RESIDUAL LEVY INCOME The Act requires ACC to record levy and residual levy income by individual Accounts. The source and application of levy and residual levy income for each Account are as follows:

i) Residual Claims Account

The Residual Claims Account derives its funds from:

a) residual levies from employers on the earnings of their employees; and
b) residual levies from earners who are self-employed.

These funds are applied in accordance with the Act in respect of accidents prior to 30 June 1999 that are:

a) non-work injury (other than motor vehicle injury) suffered by an earner on or after 1 April 1974 and before 1 July 1992; or
b) work injury other than motor vehicle suffered on or after 1 April 1974.

Note: The Residual Claims Account was named the Employers' Account prior to 1 July 1999.

ii) Motor Vehicle Account

The Motor Vehicle Account derives its funds from:

a) levies and residual levies on motor vehicle ownership; and
b) the levies portion of the excise duty on petrol.

These funds are applied in accordance with the Act in respect of motor vehicle injury suffered on or after 1 April 1974.

iii) Non-Earners' Account

The Non-Earners' Account derives its funds from appropriations by Parliament.

These funds are applied in accordance with the Act in respect of personal injury (other than motor vehicle injury) to non-earners suffered on or after 1 April 1974.

Statement of accounting policies – for the year ended 30 June 2006

iv) Earners' Account

The Earners' Account derives its funds from levies and residual levies payable by earners on their earnings.

These funds are applied in accordance with the Act in respect of personal injury to earners (other than work injury or motor vehicle injury) suffered on or after 1 July 1992.

v) Self-Employed Work Account

The Self-Employed Work Account derives its funds from earners who are self-employed.

These funds are applied in accordance with the Act in respect of work injury suffered on or after 1 July 1999 by self-employed who are insured by ACC, and for all self-employed work injuries incurred on or after 1 July 2000.

vi) Employers' Account

The Employers' Account was created on 1 April 2000. This Account derives its funds from employers.

These funds are applied in accordance with the Act in respect of work injury suffered on or after 1 April 2000 by employees of employers who are insured by ACC, and for all employees' work injuries incurred on or after 1 July 2000.

vii) Medical Misadventure Account

The Medical Misadventure Account derives its funds from allocations from the Earners' Account (in the case of an earner) or the Non-Earners' Account (in the case of a non-earner).

These funds are applied in accordance with the Act in respect of personal injury arising from medical misadventure suffered on or after 1 July 1992 or arising from treatment on or after 1 July 2005.

E) ALLOCATION OF INDIRECT INCOME AND EXPENDITURE Indirect income and expenditure are allocated to each Account as follows:

i) **Investment income**

Allocated based on the investment balances of the respective Accounts.

ii) **Indirect operating cost**

Allocated based on the operating activities undertaken for each Account.

F) LEVY AND RESIDUAL LEVY INCOME All levy and residual levy income is recognised in the period to which it relates.

G) CLAIMS LIABILITY The claims liability was first recognised in the financial statements in the 1999 financial year. In accordance with financial reporting standards this is revalued annually based on the latest actuarial information.

Adjustments to the liability are reflected in the Statement of Financial Performance with the overall liability being reflected in the Statement of Financial Position.

Future expenditure commitments exist in respect of:

i) claims notified and accepted in the current and previous years, but which will not be met until future years; and

ii) claims incurred but not notified to, or accepted by, ACC at balance date.

H) CONSOLIDATION OF SUBSIDIARIES The Group financial statements incorporate the financial statements of ACC and its subsidiaries, which have been consolidated using the purchase method. All intercompany transactions, balances and unrealised surpluses are eliminated on consolidation.

The trading subsidiary companies are detailed in Note 11.

I) ASSOCIATE COMPANIES Associates are investees (but not subsidiaries or joint ventures) in which the ACC Group has the capacity to affect substantially, but not unilaterally determine, the operating and/or financial policy decisions. Associates have been reflected in the consolidated financial statements on an equity accounting basis which recognises the ACC Group's share of retained surpluses in the Group Statement of Financial Performance and its share of post-acquisition increases or decreases in net assets in the Group Statement of Financial Position.

Statement of accounting policies – for the year ended 30 June 2006

J) INVESTMENTS Investments are recorded at market value. Where ACC owns more than 5% of the issued capital of a company, the market value of the equity investments is discounted to reflect the impact of selling large holdings. Market value for publicly listed investments has been determined by reference to market values at balance date. For non-listed investments, market rates have been determined based on the cost and adjusted for performance of the business since that date. Changes in market value are credited or charged to the Statement of Financial Performance by Account in accordance with the basis used for allocating investment income.

Interest income is recognised in the Statement of Financial Performance as it accrues. Dividend income is recognised in the Statement of Financial Performance on the date that the dividend is declared or, where more appropriate, on the last date to register for the dividend.

K) FINANCIAL INSTRUMENTS ACC has various financial instruments which are used to reduce ACC's exposure to fluctuations in foreign currency exchange rates, interest rates and equity markets. Derivatives may also be used temporarily in lieu of purchasing bonds, equities or currency. The use of financial instruments is covered by investment policies which control the risks associated with such instruments.

All financial instruments are recorded on the Statement of Financial Position at market value, and the gains or losses from these financial instruments are recognised in the Statement of Financial Performance as revenue or expense items as they arise.

L) FOREIGN CURRENCIES Transactions in foreign currencies are converted to New Zealand dollars at the rate of exchange ruling at the date of the transaction. Short-term transactions covered by foreign currency forward contracts are measured and reported at the forward rate of exchange specified in those contracts. At balance date foreign currency monetary assets and foreign currency forward contracts, designated as economic hedges, are converted at the rate ruling at balance date with exchange variations arising from the translation process being credited or charged to the Statement of Financial Performance by Account based on the investment balances of the respective Accounts.

M) INVESTMENT PROPERTIES Investment properties have been valued at net current value. Depreciation is not charged on investment properties. Revaluation gains on such properties have been recognised in the Statement of Financial Performance.

N) INTANGIBLE ASSETS Intangible assets are stated at cost less accumulated amortisation.

Goodwill represents the excess of the purchase consideration over the fair value of the net tangible and identifiable intangible assets, acquired at the time of the purchase of a business, or an equity interest in a subsidiary or associate.

Intangible assets are amortised using the straight line method over the period during which benefits are expected to be received. This is a maximum of 10 years.

O) PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment are stated at cost less accumulated depreciation except for freehold land, which is shown at valuation, and buildings, which are shown at valuation less accumulated depreciation.

Revaluations are transferred to the asset revaluation reserve for that class of assets. If any revaluation reserve has a deficit, that deficit is recognised in the Statement of Financial Performance in the period it arises. In subsequent periods any revaluation surplus that reverses previous revaluation deficits is recognised as revenue in the Statement of Financial Performance.

Costs of development projects are accumulated as work in progress until the project is completed. At that stage the costs are transferred to the appropriate fixed asset category and are depreciated accordingly. Capitalised project costs comprise direct project costs only.

P) DEPRECIATION Depreciation of property, plant and equipment, other than freehold land, is charged on a straight line basis so as to allocate the cost of assets, less any estimated residual value, over their expected lives.

Statement of accounting policies – for the year ended 30 June 2006

Leasehold improvements are depreciated over the lower of the remaining life of the lease or 10 years.
The estimated useful lives are as follows:

Buildings	50 years
Freehold improvements	10 years
Leasehold improvements	Up to 10 years
Furniture, fittings and equipment	4 years
Mainframe computer and network equipment including software	5 years
Personal computer equipment	3 years
Motor vehicles	5 years

Q) IMPAIRMENT If the recoverable amount of an asset is less than its carrying amount, the item is written down to its recoverable amount less any selling costs to be incurred. The write-down of an asset recorded at historical cost is recognised as an expense in the Statement of Financial Performance. When a revalued asset is written down to recoverable amount the write-down is recognised as a downward revaluation to the extent that the revaluation reserve of the class of asset concerned is in credit.

The carrying amount of an asset that has previously been written down to recoverable amount is increased to its current recoverable amount if there has been a reversal of the impairment loss. The increased carrying amount of the item will not exceed the carrying amount that would have been determined if the write-down to recoverable amount had not occurred. For assets that are not revalued, the reversal is recognised in the Statement of Financial Performance. For revalued assets, the reversal is recognised as revenue to the extent that the impairment was recognised as an expense, and the balance is treated as an upward revaluation.

R) STATEMENT OF CASH FLOWS The following are the definitions of the terms used in the Statement of Cash Flows:

i) Cash is considered to be cash on hand and current accounts with banks, net of bank overdrafts. Cash does not include short-term deposits which are included in investments.

ii) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and investments, excluding securities falling within the definition of cash. Realised gains and losses on the disposal of investments are classified as investing activites. Interest income and dividend income received from investing activities are classified as operating activities.

iii) Financing activities are those activities that result in changes in the size and composition of the capital structure of ACC.

iv) Operating activities include all transactions and other events that are not investing or financing activities.

S) INCOME TAX ACC is exempt from payment of income tax under section 259(5) of the Act. The subsidiary companies are, however, liable for income tax.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is a virtual certainty of realisation.

The income tax expense charged to the Statement of Financial Performance includes both the current year's provision and the income tax effect of timing differences calculated using the liability method.

T) EMPLOYEE ENTITLEMENTS A liability for annual leave, long service leave and retirement leave is accrued and recognised in the Statement of Financial Position. The liability is equal to the present value of the estimated future cash outflows as a result of employee services provided at balance date.

U) LEASES Where most of the risks and rewards of ownership are retained by the lessor, leases are classified as operating leases and costs are expensed in the period in which they are incurred.

Commitments under lease agreements are disclosed in the Statement of Commitments.

Statement of accounting policies – for the year ended 30 June 2006

V) RECEIVABLES Receivables are stated at their estimated realisable value.

W) BUDGET FIGURES The budget figures for the Statement of Financial Performance are those approved by the Board at the beginning of the financial year. The Statement of Financial Position and Statement of Cash Flows have been restated from the budget using actual 2005 figures as the opening position.

The budget figures have been prepared in accordance with generally accepted accounting practice in New Zealand and are consistent with the accounting policies adopted in preparing the financial statements. The budget figures are unaudited.

X) CHANGES TO ACCOUNTING POLICIES There have been no changes in accounting policies. All policies have been applied on a basis consistent with the previous year.

Y) COMPARATIVES To ensure consistency with the current period, comparative figures have been restated where appropriate.

Group statement of financial performance – for the year ended 30 June 2006

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Net levy income				
Residual Claims Account		291,407	225,933	200,905
Motor Vehicle Account		591,826	605,275	582,997
Non-Earners' Account		659,774	664,361	535,348
Earners' Account		790,691	693,198	759,263
Self-Employed Work Account		115,273	102,406	93,834
Employers' Account		510,995	456,275	475,128
Medical Misadventure Account		115,532	101,420	87,423
Total net levy income	1&4	3,075,498	2,848,868	2,734,898

Net levy income has increased by 12.5% over last year. This is partly due to New Zealanders earning more and higher average levy rates.

Expenditure

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Rehabilitation expenditure				
Vocational rehabilitation		38,638	43,572	40,291
Social rehabilitation		314,408	318,426	276,405
Medical treatment		402,441	402,288	345,225
Hospital treatment		154,564	147,448	128,552
Public health acute services		303,138	303,011	288,537
Dental treatment		24,277	30,048	16,474
Conveyance for treatment		50,864	48,489	46,290
Backdated attendant care	8	5,334	–	2,292
Miscellaneous claim costs		11,267	6,316	9,078
		1,304,931	1,299,598	1,153,144
Compensation expenditure				
Income maintenance		701,198	677,905	655,072
Independence allowances		37,154	28,935	37,684
Lump sums		18,147	42,331	16,438
Death benefits		76,205	80,582	74,418
		832,704	829,753	783,612
Total claim costs		2,137,635	2,129,351	1,936,756

Total claim costs have increased by 10.4% over the previous year's costs due to growth in the cost per claim, increased demand for treatment and rehabilitation services, an increase in the number of claimants receiving compensation benefits and cost of living adjustments.

The above statement is to be read in conjunction with the accounting policies on pages 82 to 86 and the Notes on pages 103 to 121

Group statement of financial performance – for the year ended 30 June 2006 (continued)

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Operating costs	5	270,321	274,939	246,688
Injury prevention costs		41,365	46,766	39,818
Collection costs		49,775	52,235	50,778
Total expenditure		2,499,096	2,503,291	2,274,040
Operating surplus before adjustment to claims liability		576,402	345,577	460,858
Adjustment to claims liability	23	1,321,069	596,826	2,036,887

The increase in claims liability is due to changing economic factors including increased inflation rates resulting in an increase in the average cost per claim partly offset by an increase in the discount rate, a significant increase in costs associated with hearing aids and an increase in claim numbers.

Surplus/(deficit) from underwriting activities after adjustment to claims liability		(744,667)	(251,249)	(1,576,029)
Net investment income	2&4	1,070,087	469,141	776,760

The funds invested achieved a 15.6% return for the Reserves Portfolio and 7.6% for the Cash Portfolio.
These returns are ahead of the budgeted return of 6.9%.

Other income	3&4	4,744	5,046	4,915
Surplus/(deficit) before tax		330,164	222,938	(794,354)
Income tax (credit)/expense	6	(52)	138	(470)
Net surplus/(deficit) after tax		330,216	222,800	(793,884)

The above statement is to be read in conjunction with the accounting policies on pages 82 to 86 and the Notes on pages 103 to 121

Parent statement of financial performance – for the year ended 30 June 2006

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Net levy income				
Residual Claims Account		291,407	225,933	200,905
Motor Vehicle Account		591,826	605,275	582,997
Non-Earners' Account		659,774	664,361	535,348
Earners' Account		790,691	693,198	759,263
Self-Employed Work Account		115,273	102,406	93,834
Employers' Account		510,995	456,275	475,128
Medical Misadventure Account		115,532	101,420	87,423
Total net levy income	1&4	3,075,498	2,848,868	2,734,898
Expenditure				
Rehabilitation expenditure				
Vocational rehabilitation		38,638	43,572	40,291
Social rehabilitation		314,408	318,426	276,405
Medical treatment		402,441	402,288	345,225
Hospital treatment		154,564	147,448	128,552
Public health acute services		303,138	303,011	288,537
Dental treatment		24,277	30,048	16,474
Conveyance for treatment		50,864	48,489	46,290
Backdated attendant care	8	5,334	–	2,292
Miscellaneous claim costs		11,267	6,316	9,078
		1,304,931	1,299,598	1,153,144
Compensation expenditure				
Income maintenance		701,198	677,905	655,072
Independence allowances		37,154	28,935	37,684
Lump sums		18,147	42,331	16,438
Death benefits		76,205	80,582	74,418
		832,704	829,753	783,612
Operating costs	5	266,377	271,062	241,140
Injury prevention costs		41,365	46,766	39,818
Collection costs		49,775	52,235	50,778
Total expenditure		2,495,152	2,499,414	2,268,492
Operating surplus before adjustment to claims liability		580,346	349,454	466,406
Adjustment to claims liability	23	1,321,069	596,826	2,036,887
Surplus/(deficit) from underwriting activities after adjustment to claims liability		(740,723)	(247,372)	(1,570,481)
Net investment income	2&4	1,070,087	469,141	776,760
Other income	3&4	875	869	883
Net surplus/(deficit)		330,239	222,638	(792,838)

The above statement is to be read in conjunction with the accounting policies on pages 82 to 86 and the Notes on pages 103 to 121

Group statement of movements in account reserves (equity) – for the year ended 30 June 2006

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Account reserves – opening balance (deficit)		(4,167,252)	(4,167,252)	(3,375,041)
Recognised revenues and expenses for the year				
Net surplus/(deficit) after tax		330,216	222,800	(793,884)
Increase in asset revaluation reserves	21	1,908	–	1,673
Total recognised revenues and expenses for the year		332,124	222,800	(792,211)
Account reserves – closing balance (deficit)		(3,835,128)	(3,944,452)	(4,167,252)

Parent statement of movements in account reserves (equity) – for the year ended 30 June 2006

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Account reserves – opening balance (deficit)		(4,165,732)	(4,165,732)	(3,374,567)
Recognised revenues and expenses for the year				
Net surplus /(deficit)		330,239	222,638	(792,838)
Increase in asset revaluation reserves	21	1,908	–	1,673
Total recognised revenues and expenses for the year		332,147	222,638	(791,165)
Account reserves – closing balance (deficit)		(3,833,585)	(3,943,094)	(4,165,732)

The above statement is to be read in conjunction with the accounting policies on pages 82 to 86 and the Notes on pages 103 to 121

Statement of financial performance and movements in account reserves (equity) – for the year ended 30 June 2006

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Residual Claims Account				
Net levy income				
Residual levy		291,407	225,933	200,905
Total net levy income		291,407	225,933	200,905
Expenditure				
Rehabilitation expenditure				
Vocational rehabilitation		3,257	4,460	4,263
Social rehabilitation *		132,651	50,664	39,215
Medical treatment		15,169	16,629	14,938
Hospital treatment		9,008	8,697	7,973
Public health care costs		–	69	–
Dental treatment		2,256	2,831	1,653
Conveyance for treatment		649	541	682
Backdated attendant care	8	760	–	(212)
Miscellaneous claim costs		3,648	1,754	1,448
		167,398	85,645	69,960
Compensation expenditure				
Income maintenance		157,465	157,438	170,797
Independence allowances		6,544	3,924	5,235
Lump sums		1,952	–	294
Death benefits		14,752	15,468	15,630
		180,713	176,830	191,956
Operating costs	5	25,572	28,733	26,043
Collection costs		5,191	5,955	5,187
Total expenditure		378,874	297,163	293,146
Operating (deficit) before adjustment to claims liability		(87,467)	(71,230)	(92,241)
Adjustment to claims liability	23	303,867	(126,554)	172,705
Surplus/(deficit) from underwriting activities after adjustment to claims liability		(391,334)	55,324	(264,946)
Net investment income		98,182	45,512	89,611
Other income		96	81	90
Net surplus/(deficit)		(293,056)	100,917	(175,245)
Account reserve – opening balance (deficit)		(1,588,495)	(1,588,495)	(1,413,250)
Net surplus/(deficit)		(293,056)	100,917	(175,245)
Account reserve – closing balance (deficit)		(1,881,551)	(1,487,578)	(1,588,495)

* An amendment to the Act has been effected that requires gradual process claims to be assigned to the relevant Account on the basis of exposure period and not the date of the claim lodgement. As a result claim costs of $86.2 million in relation to this have been transferred into this Account from the Employers' Account and Self-Employed Work Account.

The above statement is to be read in conjunction with the accounting policies on pages 82 to 86 and the Notes on pages 103 to 121

Statement of financial performance and movements in account reserves (equity) – for the year ended 30 June 2006

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Motor Vehicle Account				
Net levy income				
Levy income from motor licensing		128,135	154,256	153,584
Levy income from petrol levy		177,160	192,904	169,936
Residual levy		286,531	258,115	259,477
Total net levy income		591,826	605,275	582,997
Expenditure				
Rehabilitation expenditure				
Vocational rehabilitation		4,687	5,349	4,969
Social rehabilitation		87,325	90,270	80,067
Medical treatment		19,207	18,774	16,682
Hospital treatment		10,256	9,283	8,015
Public health acute services		44,856	43,300	37,164
Dental treatment		1,460	1,563	982
Conveyance for treatment		10,278	9,886	9,509
Backdated attendant care	8	1,214	–	(140)
Miscellaneous claim costs		1,131	574	2,868
		180,414	178,999	160,116
Compensation expenditure				
Income maintenance		111,370	106,300	106,233
Independence allowances		5,118	4,573	5,867
Lump sums		5,187	7,703	3,994
Death benefits		35,971	35,878	34,080
		157,646	154,454	150,174
Operating costs	5	30,900	33,070	28,696
Injury prevention costs		8,161	9,260	8,873
Collection costs		11,293	11,387	11,348
Total expenditure		388,414	387,170	359,207
Operating surplus before adjustment to claims liability		203,412	218,105	223,790
Adjustment to claims liability	23	316,119	122,113	649,239
Surplus/(deficit) from underwriting activities after adjustment to claims liability		(112,707)	95,992	(425,449)
Net investment income		262,176	110,742	172,407
Other income		188	126	197
Net surplus/(deficit)		149,657	206,860	(252,845)
Account reserve – opening balance (deficit)		(1,809,779)	(1,809,779)	(1,556,934)
Net surplus/(deficit)		149,657	206,860	(252,845)
Account reserve – closing balance (deficit)		(1,660,122)	(1,602,919)	(1,809,779)

The above statement is to be read in conjunction with the accounting policies on pages 82 to 86 and the Notes on pages 103 to 121

Statement of financial performance and movements in account reserves (equity) – for the year ended 30 June 2006

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Non-Earners' Account				
Net levy income				
Levy income appropriated by Parliament		711,763	710,000	574,688
Less funding of Medical Misadventure Account		(51,989)	(45,639)	(39,340)
Total net levy income		659,774	664,361	535,348
Expenditure				
Rehabilitation expenditure				
Vocational rehabilitation		893	584	760
Social rehabilitation		97,879	98,860	92,773
Medical treatment		150,393	142,862	127,264
Hospital treatment		37,168	35,690	32,040
Public health acute services		176,817	180,534	172,355
Dental treatment		12,110	15,752	8,580
Conveyance for treatment		24,015	22,049	21,505
Backdated attendant care	8	2,980	–	925
Miscellaneous claim costs		3,175	1,040	1,523
		505,430	497,371	457,725
Compensation expenditure				
Income maintenance		9,648	8,776	13,570
Independence allowances		17,757	12,934	17,320
Lump sums		3,612	7,730	3,028
Death benefits		3,738	3,193	2,844
		34,755	32,633	36,762
Operating costs	5	37,826	37,406	32,795
Injury prevention costs		9,376	10,288	8,217
Total expenditure		587,387	577,698	535,499
Operating surplus/(deficit) before adjustment to claims liability		72,387	86,663	(151)
Adjustment to claims liability	23	207,265	91,425	402,650
Surplus/(deficit) from underwriting activities after adjustment to claims liability		(134,878)	(4,762)	(402,801)
Net investment income		103,239	46,020	83,384
Other income		1	112	2
Net surplus/(deficit)		(31,638)	41,370	(319,415)
Account reserve – opening balance (deficit)		(1,277,618)	(1,277,618)	(958,203)
Net surplus/(deficit)		(31,638)	41,370	(319,415)
Account reserve – closing balance (deficit)		(1,309,256)	(1,236,248)	(1,277,618)

The above statement is to be read in conjunction with the accounting policies on pages 82 to 86 and the Notes on pages 103 to 121

Statement of financial performance and movements in account reserves (equity) – for the year ended 30 June 2006

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Earners' Account				
Net levy income				
Levy income		854,234	748,979	807,036
Residual levy		–	–	310
Less funding of Medical Misadventure Account		(63,543)	(55,781)	(48,083)
Total net levy income		790,691	693,198	759,263
Expenditure				
Rehabilitation expenditure				
Vocational rehabilitation		16,093	17,195	15,994
Social rehabilitation		34,944	31,929	26,532
Medical treatment		150,474	148,552	125,484
Hospital treatment		68,788	65,857	56,947
Public health acute services		57,644	51,327	52,245
Dental treatment		6,983	7,923	4,330
Conveyance for treatment		11,075	10,782	9,933
Backdated attendant care	8	–	–	(833)
Miscellaneous claim costs		1,112	737	1,071
		347,113	334,302	291,703
Compensation expenditure				
Income maintenance		236,979	223,261	204,883
Independence allowances		5,974	4,938	5,415
Lump sums		3,224	5,202	3,079
Death benefits		17,273	17,118	14,055
		263,450	250,519	227,432
Operating costs	5	97,494	91,890	84,881
Injury prevention costs		6,337	8,044	6,700
Collection costs		18,003	18,021	17,970
Total expenditure		732,397	702,776	628,686
Operating surplus/(deficit) before adjustment to claims liability		58,294	(9,578)	130,577
Adjustment to claims liability	23	267,411	223,450	391,627
Surplus/(deficit) from underwriting activities after adjustment to claims liability		(209,117)	(233,028)	(261,050)
Net investment income		308,894	150,767	243,401
Other income		306	277	312
Net surplus/(deficit)		100,083	(81,984)	(17,337)
Account reserve – opening balance		432,386	432,386	449,723
Net surplus/(deficit)		100,083	(81,984)	(17,337)
Account reserve – closing balance		532,469	350,402	432,386

The above statement is to be read in conjunction with the accounting policies on pages 82 to 86 and the Notes on pages 103 to 121

Statement of financial performance and movements in account reserves (equity) – for the year ended 30 June 2006

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Self-Employed Work Account				
Net levy income				
Levy income		115,273	102,406	93,834
Total net levy income		115,273	102,406	93,834
Expenditure				
Rehabilitation expenditure				
Vocational rehabilitation		2,023	2,914	2,382
Social rehabilitation *		(12,472)	7,517	5,239
Medical treatment		13,555	15,556	12,891
Hospital treatment		7,034	7,896	6,317
Public health acute services		3,737	6,190	5,369
Dental treatment		461	654	342
Conveyance for treatment		963	1,051	1,028
Miscellaneous claim costs		109	84	93
		15,410	41,862	33,661
Compensation expenditure				
Income maintenance **		27,440	33,728	30,149
Independence allowances		70	182	347
Lump sums		1	3,572	743
Death benefits		460	2,086	1,186
		27,971	39,568	32,425
Operating costs	5	12,520	14,637	12,539
Injury prevention costs		2,448	2,946	2,400
Collection costs		6,111	6,268	5,886
Total expenditure		64,460	105,281	86,911
Operating surplus/(deficit) before adjustment to claims liability		50,813	(2,875)	6,923
Adjustment to claims liability	23	10,661	45,908	45,693
Surplus/(deficit) from underwriting activities after adjustment to claims liability		40,152	(48,783)	(38,770)
Net investment income		35,433	13,163	23,920
Other income		114	56	102
Net surplus/(deficit)		75,699	(35,564)	(14,748)
Account reserve – opening balance		122	122	14,870
Net surplus/(deficit)		75,699	(35,564)	(14,748)
Account reserve – closing balance (deficit)		75,821	(35,442)	122

* An amendment to the Act has been effected that requires gradual process claims to be assigned to the relevant Account on the basis of exposure period and not the date of the claim lodgement. As a result claim costs of $18.8 million in relation to this have been transferred from this Account into the Residual Claims Account.

** Includes payments of $2.1 million (2005 – $1.7 million), relating to work-related injuries, to persons who have purchased weekly compensation under CoverPlus Extra policies. Non-work injuries payment of $1.9 million (2005 – $0.9 million) was paid from the Earners' and Motor Vehicle Accounts. 30,799 (2005 – 31,598) CoverPlus Extra policies were purchased during the year.

The above statement is to be read in conjunction with the accounting policies on pages 82 to 86 and the Notes on pages 103 to 121

Statement of financial performance and movements in account reserves (equity) – for the year ended 30 June 2006

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Employers' Account				
Net levy income				
Levy income		510,995	456,275	475,128
Total net levy income		510,995	456,275	475,128
Expenditure				
Rehabilitation expenditure				
Vocational rehabilitation		11,310	12,637	11,580
Social rehabilitation *		(43,714)	23,400	18,984
Medical treatment		51,260	57,099	45,420
Hospital treatment		20,262	18,650	16,129
Public health acute services		18,062	20,557	19,580
Dental treatment		938	1,229	529
Conveyance for treatment		3,552	3,947	3,388
Miscellaneous claim costs		448	292	448
		62,118	137,811	116,058
Compensation expenditure				
Income maintenance		142,059	134,312	116,920
Independence allowances		(62)	742	1,696
Lump sums		1,379	14,813	2,745
Death benefits		2,582	5,316	4,876
		145,958	155,183	126,237
Operating costs	5	55,406	58,278	50,157
Injury prevention costs		14,429	16,134	13,571
Collection costs		9,177	10,604	10,387
Total expenditure		287,088	378,010	316,410
Operating surplus before adjustment to claims liability		223,907	78,265	158,718
Adjustment to claims liability	23	86,174	188,576	196,413
Surplus/(deficit) from underwriting activities after adjustment to claims liability		137,733	(110,311)	(37,695)
Net investment income		211,217	79,955	127,847
Other income		170	200	180
Net surplus/(deficit)		349,120	(30,156)	90,332
Account reserve – opening balance		407,550	407,550	317,218
Net surplus/(deficit)		349,120	(30,156)	90,332
Account reserve – closing balance		756,670	377,394	407,550

* An amendment to the Act has been effected that requires gradual process claims to be assigned to the relevant Account on the basis of exposure period and not the date of the claim lodgement. As a result claim costs of $67.4 million in relation to this have been transferred from this Account into the Residual Claims Account.

The above statement is to be read in conjunction with the accounting policies on pages 82 to 86 and the Notes on pages 103 to 121

Statement of financial performance and movements in account reserves (equity) – for the year ended 30 June 2006

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Medical Misadventure Account				
Net levy income				
Levy income funded by:				
Non-Earners' Account		51,989	45,639	39,340
Earners' Account		63,543	55,781	48,083
Total net levy income		115,532	101,420	87,423
Expenditure				
Rehabilitation expenditure				
Vocational rehabilitation		375	433	343
Social rehabilitation		17,795	15,786	13,595
Medical treatment		2,383	2,816	2,546
Hospital treatment		2,048	1,375	1,131
Public health acute services		2,022	1,034	1,824
Dental treatment		69	96	58
Conveyance for treatment		332	233	245
Backdated attendant care	8	380	–	2,552
Miscellaneous claim costs		1,644	1,835	1,627
		27,048	23,608	23,921
Compensation expenditure				
Income maintenance		16,237	14,090	12,520
Independence allowances		1,753	1,642	1,804
Lump sums		2,792	3,311	2,555
Death benefits		1,429	1,523	1,747
		22,211	20,566	18,626
Operating costs	5	6,659	7,048	6,029
Injury prevention costs		614	94	57
Total expenditure		56,532	51,316	48,633
Operating surplus before adjustment to claims liability		59,000	50,104	38,790
Adjustment to claims liability	23	129,572	51,908	178,560
Surplus/(deficit) from underwriting activities after adjustment to claims liability		(70,572)	(1,804)	(139,770)
Net investment income		50,946	22,982	36,190
Other income		–	17	–
Net surplus/(deficit)		(19,626)	21,195	(103,580)
Account reserve – opening balance (deficit)		(332,519)	(332,519)	(228,939)
Net surplus/(deficit)		(19,626)	21,195	(103,580)
Account reserve – closing balance (deficit)		(352,145)	(311,324)	(332,519)

The above statement is to be read in conjunction with the accounting policies on pages 82 to 86 and the Notes on pages 103 to 121

Group statement of financial position – as at 30 June 2006

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Account reserves				
Residual Claims Account		(1,881,551)	(1,487,578)	(1,588,495)
Motor Vehicle Account		(1,660,122)	(1,602,919)	(1,809,779)
Non-Earners' Account		(1,309,256)	(1,236,248)	(1,277,618)
Earners' Account		532,469	350,402	432,386
Self-Employed Work Account		75,821	(35,442)	122
Employers' Account		756,670	377,394	407,550
Medical Misadventure Account		(352,145)	(311,324)	(332,519)
Total Account reserves		(3,838,114)	(3,945,715)	(4,168,353)
Subsidiaries reserves		(1,543)	(1,358)	(1,520)
Revaluation reserve	15&21	4,529	2,621	2,621
Total reserves (deficit)		(3,835,128)	(3,944,452)	(4,167,252)
Represented by:				
Assets				
Bank balances		17,649	16,320	13,889
Receivables	16	802,461	425,102	904,549
Accrued levy income	9	326,023	264,397	242,062
Deferred tax	7	423	409	409
Investments	10	9,079,946	7,630,580	8,123,010
Investment in associate	12	86	38	38
Intangible assets	14	20	22	22
Property, plant and equipment	15	182,896	215,785	150,609
Total assets		10,409,504	8,552,653	9,434,588
Less liabilities				
Levy received in advance	13	382,706	222,453	366,767
Payables and accrued liabilities	8&17	1,147,015	293,469	1,850,716
Claims liability	23	12,714,911	11,981,183	11,384,357
Total liabilities		14,244,632	12,497,105	13,601,840
Net liabilities		(3,835,128)	(3,944,452)	(4,167,252)

For and on behalf of the Board, which authorised the issue of these financial statements on 21 September 2006:

Brenda Tahi
Acting Chair
Date: 21 September 2006

Dr Jan White
Chief Executive
Date: 21 September 2006

The above statement is to be read in conjunction with the accounting policies on pages 82 to 86 and the Notes on pages 103 to 121

Parent statement of financial position – as at 30 June 2006

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Account reserves				
Residual Claims Account		(1,881,551)	(1,487,578)	(1,588,495)
Motor Vehicle Account		(1,660,122)	(1,602,919)	(1,809,779)
Non-Earners' Account		(1,309,256)	(1,236,248)	(1,277,618)
Earners' Account		532,469	350,402	432,386
Self-Employed Work Account		75,821	(35,442)	122
Employers' Account		756,670	377,394	407,550
Medical Misadventure Account		(352,145)	(311,324)	(332,519)
Total Account reserves		(3,838,114)	(3,945,715)	(4,168,353)
Revaluation reserve	15&21	4,529	2,621	2,621
Total reserves (deficit)		(3,833,585)	(3,943,094)	(4,165,732)
Represented by:				
Assets				
Bank balances		16,960	15,530	13,169
Receivables	16	802,563	424,558	904,782
Accrued levy income	9	326,023	264,397	242,062
Investments	10	9,079,946	7,630,580	8,123,010
Investment in subsidiaries	11	3,450	3,450	3,450
Property, plant and equipment	15	181,498	214,302	148,868
Total assets		10,410,440	8,552,817	9,435,341
Less liabilities				
Levy received in advance	13	382,706	222,453	366,767
Payables and accrued liabilities	8&17	1,146,408	292,275	1,849,949
Claims liability	23	12,714,911	11,981,183	11,384,357
Total liabilities		14,244,025	12,495,911	13,601,073
Net liabilities		(3,833,585)	(3,943,094)	(4,165,732)

For and on behalf of the Board, which authorised the issue of these financial statements on 21 September 2006:

Brenda Tahi
Acting Chair
Date: 21 September 2006

Dr Jan White
Chief Executive
Date: 21 September 2006

The above statement is to be read in conjunction with the accounting policies on pages 82 to 86 and the Notes on pages 103 to 121

Group statement of cash flows – for the year ended 30 June 2006

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Cash flows from operating activities				
Cash was provided from:				
Levy income		3,023,317	2,913,265	2,672,764
Interest		287,327	234,231	262,920
Dividends		111,987	100,000	60,249
Taxation received		–	250	–
Goods and services tax (net)		18,949	–	–
Other income		4,696	5,046	4,877
		3,446,276	3,252,792	3,000,810
Cash was applied to:				
Payments to injured persons, suppliers and employees		2,542,396	2,461,628	2,095,205
Goods and services tax (net)		–	28,940	13,531
Taxation paid		–	–	3
		2,542,396	2,490,568	2,108,739
Net cash movement from operating activities	24	903,880	762,224	892,071
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale of investments		9,039,965	8,880,881	6,269,124
Proceeds from sale of property, plant and equipment		1,904	–	1,653
		9,041,869	8,880,881	6,270,777
Cash was applied to:				
Purchase of investments		9,875,279	9,544,113	7,086,325
Purchase of property, plant and equipment		66,710	96,561	78,913
		9,941,989	9,640,674	7,165,238
Net cash movement from investing activities		(900,120)	(759,793)	(894,461)
Cash flows from financing activities				
Net cash movement from financing activities		–	–	–
Net increase/(decrease) in cash held		3,760	2,431	(2,390)
Bank balance – opening balance		13,889	13,889	16,279
Bank balance – closing balance		17,649	16,320	13,889

The above statement is to be read in conjunction with the accounting policies on pages 82 to 86 and the Notes on pages 103 to 121

Parent statement of cash flows – for the year ended 30 June 2006

	NOTES	ACTUAL 2006 $000	BUDGET 2006 $000	ACTUAL 2005 $000
Cash flows from operating activities				
Cash was provided from:				
Levy income		3,023,317	2,913,265	2,672,764
Interest		287,327	234,231	262,920
Dividends		111,987	100,000	60,249
Goods and services tax (net)		12,727	–	–
Other income		875	869	883
		3,436,233	3,248,365	2,996,816
Cash was applied to:				
Payments to injured persons, suppliers and employees		2,532,517	2,451,405	2,099,092
Goods and services tax (net)		–	35,118	7,309
		2,532,517	2,486,523	2,106,401
Net cash movement from operating activities	24	903,716	761,842	890,415
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale of investments		9,039,965	8,880,881	6,269,124
Proceeds from sale of property, plant and equipment		1,860	–	1,628
		9,041,825	8,880,881	6,270,752
Cash was applied to:				
Purchase of investments		9,875,279	9,544,113	7,086,325
Increase in share capital of subsidiary		–	–	2,000
Purchase of property, plant and equipment		66,471	96,249	75,724
		9,941,750	9,640,362	7,164,049
Net cash movement from investing activities		(899,925)	(759,481)	(893,297)
Cash flows from financing activities				
Net cash movement from financing activities		–	–	–
Net increase/(decrease) in cash held		3,791	2,361	(2,882)
Bank balance – opening balance		13,169	13,169	16,051
Bank balance – closing balance		16,960	15,530	13,169

The above statement is to be read in conjunction with the accounting policies on pages 82 to 86 and the Notes on pages 103 to 121

Statement of commitments – as at 30 June 2006

	GROUP ACTUAL 2006 $000	GROUP ACTUAL 2005 $000	PARENT ACTUAL 2006 $000	PARENT ACTUAL 2005 $000
Capital commitments approved and contracted	33,010	28,606	32,975	28,606
Non-cancellable operating lease commitments payable:				
Not later than one year	10,116	9,744	9,666	9,223
Later than one year but not greater than two years	9,982	9,590	9,554	9,132
Later than two years but not greater than five years	23,896	25,956	22,795	25,087
Later than five years	27,072	27,365	25,670	27,250
Total non-cancellable operating lease commitments payable	71,066	72,655	67,685	70,692
Total commitments	104,076	101,261	100,660	99,298

ACC Group leases premises for its branch network and some of its corporate offices. The annual lease payments are subject to varying terms of review. The amounts disclosed above as future commitments are based on current rental rates.

At balance date, ACC had a number of conditional agreements in place to invest $23.9 million (2005 – $25.2 million) in private equity arrangements. The timing of these future investment cash flows was not known at balance date, but will not extend beyond 2014, and is dependent upon the requirements of the counterparties and other factors.

Statement of contingent liabilities and assets – as at 30 June 2006

There are several legal actions against ACC in existence, arising in the main from challenges to operational decisions made by ACC. No accrual has been made for these contingent liabilities as ACC will be vigorously defending these claims.

The estimated contingent liabilities of these actions are as follows:

	GROUP ACTUAL 2006 $000	GROUP ACTUAL 2005 $000	PARENT ACTUAL 2006 $000	PARENT ACTUAL 2005 $000
Legal proceedings	330	3,688	330	3,688
Other contingent liabilities	7,000	–	7,000	–
Total contingent liabilities	7,330	3,688	7,330	3,688

In addition to the above litigation and claims, there may be additional litigation in progress of which ACC has not yet been advised, mainly as a consequence of ACC claimants appealing a review officer's decision to the District Court. While an estimate of the financial effect of outstanding appeals cannot be made, management believes the resolution of outstanding appeals will not have a materially adverse effect on the financial statements of ACC.

Prior to 30 June 2006, ACC had entered into an agreement to sub-underwrite the National Property Trust offer of convertible preference units, at a maximum exposure of $7.0 million. This offer subsequently closed out on 21 July 2006 and ACC was required to underwrite $1.1 million of convertible preference units.

The estimated contingent assets are as follows:

	GROUP ACTUAL 2006 $000	GROUP ACTUAL 2005 $000	PARENT ACTUAL 2006 $000	PARENT ACTUAL 2005 $000
Legal proceedings	387	–	387	–
Total contingent assets	387	–	387	–

This is a statutory demand related to a claim for the reimbursement of overpayments made by ACC.

The above statement is to be read in conjunction with the accounting policies on pages 82 to 86 and the Notes on pages 103 to 121

Notes to the financial statements – for the year ended 30 June 2006

1) NET LEVY INCOME

Net levy income consists of the following:

	GROUP AND PARENT	
	2006 $000	2005 $000
Levy income	3,089,412	2,736,062
Add/(less):		
Levy debts written off	(4,913)	(8,403)
(Increase)/Decrease in the provision for doubtful debts for levy debtors	(9,001)	7,239
Net levy income	3,075,498	2,734,898

2) NET INVESTMENT INCOME

Net investment income consists of the following:

	GROUP AND PARENT	
	2006 $000	2005 $000
Dividends received	113,606	84,358
Interest received	288,499	270,293
Net realised and unrealised gains	681,315	431,463
Total investment income	1,083,420	786,114
Less:		
Investment expense	(13,333)	(9,354)
Net investment income	1,070,087	776,760

Included in net realised and unrealised gains are net foreign exchange losses of $112 million (2005 – net gains of $58.8 million).

3) OTHER INCOME

	GROUP 2006 $000	GROUP 2005 $000	PARENT 2006 $000	PARENT 2005 $000
Sales from rendering of services by subsidiaries	3,775	3,956	–	–
Equity accounted earnings from associate	94	76	–	–
Other income	875	883	875	883
	4,744	4,915	875	883

4) TOTAL OPERATING REVENUE

	GROUP 2006 $000	GROUP 2005 $000	PARENT 2006 $000	PARENT 2005 $000
Levy income	3,089,412	2,736,062	3,089,412	2,736,062
Investment income	1,083,420	786,114	1,083,420	786,114
Other income	4,744	4,915	875	883
Total operating revenue	4,177,576	3,527,091	4,173,707	3,523,059

Notes to the financial statements – for the year ended 30 June 2006

5) OPERATING COSTS

	GROUP 2006 $000	GROUP 2005 $000	PARENT 2006 $000	PARENT 2005 $000
Operating costs include:				
External audit fees	277	275	265	265
Fees paid to external auditor for other services	133	73	133	73
Directors' fees	362	374	274	284
Rental of office premises	10,366	9,898	10,280	9,833
Depreciation:				
– Buildings	202	186	202	186
– Freehold improvements	371	561	371	561
– Leasehold improvements	2,521	2,173	2,508	2,163
– Furniture, fittings and equipment	2,353	2,381	2,294	2,294
– Computer equipment	23,965	18,335	23,560	17,709
– Motor vehicles	520	576	520	576
Property, plant and equipment write-offs/ (reversal):				
– Leasehold improvements	–	338	–	338
– Computer equipment	(204)	1,029	(204)	1,025
– Furniture, fittings and equipment	–	12	–	–
Impairment loss:				
– Computer equipment	–	1,000	–	–
Amortisation of intangible assets	2	132	–	–
Operating lease equipment rentals	37	47	9	5
Bad debts written off	2	1	2	–
Change in provision for doubtful debts	13	–	13	–
Personnel expenditure	140,291	123,297	134,917	118,081
Supplies and services	88,316	86,000	90,439	87,747
	269,527	246,688	265,583	241,140
Restructuring costs	794	–	794	–
Operating costs	270,321	246,688	266,377	241,140

Operating costs are allocated to: *

	PARENT 2006 $000	PARENT 2005 $000
Residual Claims Account	25,572	26,043
Motor Vehicle Account	30,900	28,696
Non-Earners' Account	37,826	32,795
Earners' Account	97,494	84,881
Self-Employed Work Account	12,520	12,539
Employers' Account	55,406	50,157
Medical Misadventure Account	6,659	6,029
Operating costs	266,377	241,140

External audit fees of the parent include audit work undertaken for Dispute Resolution Services Limited for this year.

Personnel expenditure includes salaries, superannuation, ACC levies paid and holiday pay accrued.

* Costs were allocated to Accounts for 2006 using a similar activity-based costing methodology as used for 2005.

Notes to the financial statements – for the year ended 30 June 2006

6) INCOME TAX (CREDIT)/EXPENSE

	GROUP 2006 $000	GROUP 2005 $000
Surplus/(deficit) before tax	330,164	(794,354)
Add/(less) permanent differences:		
Parent net (surplus)/deficit	(330,239)	792,838
Equity accounted earnings from associate	(94)	(38)
Amortisation of intangible assets	2	132
Non-deductible expenses	4	–
Accounting surplus/(deficit) subject to tax	(163)	(1,422)
Income tax at 33%	(54)	(469)
(Over-)/under-provision prior years	2	(1)
Income tax (credit)/expense	(52)	(470)
The income tax (credit)/expense is represented by:		
Current tax	(38)	(227)
Deferred tax liability	(14)	(243)
	(52)	(470)

7) DEFERRED TAXATION (ASSET)/LIABILITY

	GROUP 2006 $000	GROUP 2005 $000
Balance at beginning of the year	(409)	(166)
Transfer to Statement of Financial Performance	(14)	(243)
Balance at end of the year	(423)	(409)

8) PROVISIONS

a) Backdated attendant care

	GROUP AND PARENT	
	2006 $000	2005 $000
Opening balance	11,015	10,743
Paid out during the year	(8,398)	(2,020)
Additional provision made during the year	5,334	2,292
Closing balance	7,951	11,015

A liability for backdated attendant care arose from a decision of the High Court relating to entitlements for periods prior to 1992. The Court found that ACC claimants requiring constant personal attention under the 1972 and 1982 legislation were entitled to 24-hour attendant care from the date of their discharge from hospital as opposed to a lesser level of benefits actually paid by ACC.

Included in this is also a liability for attendant care arrears. Most of this liability is expected to be incurred over the next 12 months.

Notes to the financial statements – for the year ended 30 June 2006

b) Restructuring

	GROUP AND PARENT	
	2006 $000	2005 $000
Opening balance	–	–
Provision made during the year	794	–
Paid out during the year	(374)	–
Closing balance	420	–

A review of ACC's senior management structure has resulted in the development of one that is more closely aligned with the core functions of ACC and the Board's strategic goals. The new structure would position the senior leadership team of ACC to more effectively and efficiently manage the business and its challenges as ACC moves forward. The restructuring should be completed by late 2006 and will result in redundancies which are provided for accordingly.

9) ACCRUED LEVY INCOME

As stated in the Statement of Accounting Policies, all levy income is recognised in the period to which it relates. Levy income was therefore accrued to 30 June 2006 in the following Accounts:

	GROUP AND PARENT	
	2006 $000	2005 $000
Residual Claims Account	212,097	159,784
Earners' Account	73,640	61,489
Employers' Account	14,913	–
Self-Employed Work Account	25,373	20,789
	326,023	242,062

10) INVESTMENTS

ACC holds investments to meet the liquidity and reserve requirements of each Account as follows:

	GROUP AND PARENT	
	2006 $000	2005 $000
New Zealand deposits at call	1,329,052	1,695,198
New Zealand government securities	1,198,350	2,136,199
New Zealand equities	1,056,212	1,002,084
Australian equities	886,965	637,066
Australian deposits at call	15,146	38,455
New Zealand discounted securities	994,942	344,339
Other New Zealand fixed interest securities	1,560,288	982,839
Overseas fixed interest securities	213,553	140,934
Other overseas equities	1,820,803	1,141,456
Direct property	4,635	4,440
	9,079,946	8,123,010

Included within the above investment asset classes are $12.5 million (2005 – $7.1 million) of New Zealand equities and $710 million (2005 – $1,364 million) of New Zealand government securities investments which are subject to fully collateralised security lending transactions. Cash collateral received in these transactions is invested and the liability to repurchase the investments is accrued in unsettled investment transactions.

Notes to the financial statements – for the year ended 30 June 2006

Included in direct property is an investment property valued at $4.5 million (2005 – $4.4 million).
The investment property was valued at $4.5 million on 30 June 2006 by Michael Nimot, independent registered valuer of the firm Barker & Morse Ltd. Michael Nimot is a member of the New Zealand Institute of Valuers (Inc). The property was valued at market value less the estimated costs of disposal.

11) INVESTMENT IN SUBSIDIARIES

	PARENT 2006 $000	PARENT 2005 $000	BALANCE DATE
Catalyst Risk Management Limited	2,600	2,600	30 June
Dispute Resolution Services Limited	850	850	30 June
	3,450	3,450	

Catalyst Risk Management Limited is an injury management company providing recovery and rehabilitation management services.
Dispute Resolution Services Limited is a company providing accident insurance review and mediation services.
These companies are wholly owned subsidiaries of ACC.

12) INVESTMENT IN ASSOCIATE

	GROUP 2006 $000	GROUP 2005 $000
Share of surplus before tax	141	114
Income tax	47	38
Share of surplus	94	76
Share of dividend paid	(46)	(38)
Share of retained surplus	48	38
Carrying amount at beginning of year	38	–
Cost of investment acquired during the year	–	–
Carrying amount at end of year	86	38

	ACQUIRED	PERCENTAGE HELD 2006	PERCENTAGE HELD 2005	BALANCE DATE	GROUP CARRYING AMOUNT 2006 $000	GROUP CARRYING AMOUNT 2005 $000
Associate:						
Impac Services Limited	1 July 2004	20%	20%	31 March	86	38

13) LEVY RECEIVED IN ADVANCE

	GROUP AND PARENT 2006 $000	GROUP AND PARENT 2005 $000
Motor Vehicle Account	158,776	153,712
Earners' Account	10,012	9,151
Employers' Account	191,493	184,241
Self-Employed Work Account	22,425	19,663
	382,706	366,767

Motor Vehicle Account levy and residual levy from motor vehicle relicensing are for a period of one month to one year in advance.

Notes to the financial statements – for the year ended 30 June 2006

14) INTANGIBLE ASSETS

	GROUP 2006 $000	GROUP 2005 $000
Goodwill		
Cost	–	129
Accumulated amortisation	–	(129)
	–	–
Intellectual property		
Cost	25	25
Accumulated amortisation	(5)	(3)
	20	22

15) PROPERTY, PLANT AND EQUIPMENT

	GROUP 2006 $000	GROUP 2005 $000	PARENT 2006 $000	PARENT 2005 $000
Freehold land at valuation	3,846	3,053	3,846	3,053
Buildings at valuation	8,144	7,163	8,144	7,163
Accumulated depreciation	(1,552)	(1,162)	(1,552)	(1,162)
	6,592	6,001	6,592	6,001
Freehold improvements at valuation	5,216	3,910	5,216	3,910
Accumulated depreciation	(3,265)	(2,311)	(3,265)	(2,311)
	1,951	1,599	1,951	1,599
Leasehold improvements at cost	24,687	24,257	24,359	23,944
Accumulated depreciation	(12,011)	(10,830)	(11,747)	(10,576)
	12,676	13,427	12,612	13,368
Furniture, fittings and equipment at cost	25,852	24,417	25,339	23,952
Accumulated depreciation	(21,799)	(19,623)	(21,398)	(19,273)
	4,053	4,794	3,941	4,679
Computer equipment at cost	191,773	146,612	188,063	143,981
Accumulated depreciation	(125,915)	(99,464)	(124,385)	(99,400)
Accumulated impairment	(1,000)	(1,000)	–	–
	64,858	46,148	63,678	44,581
Motor vehicles at cost	4,668	4,427	4,668	4,427
Accumulated depreciation	(2,474)	(2,186)	(2,474)	(2,186)
	2,194	2,241	2,194	2,241
Work in progress at cost				
Computer equipment	86,726	73,346	86,684	73,346
	182,896	150,609	181,498	148,868

NOTE:
The principal freehold land and building, including freehold improvements, are recorded at their 30 June 2006 valuation. ACC holds the premises as a capital asset for long-term ownership, not as an investment property. The market valuation completed in June 2006 is $12.1 million ($10.4 million in June 2005). The valuations were completed by CB Richard Ellis Limited, an independent registered public valuer. The investment value approach was used as the basis of the valuation.

Notes to the financial statements – for the year ended 30 June 2006

IMPAIRMENT

The carrying amounts of all property, plant and equipment are reviewed on an ongoing basis. Any impairments in value are recognised immediately. An impairment loss of $nil (2005 – $1.0 million) was recognised as an expense in the Statement of Financial Performance.

No impairment losses were reversed during this or in the previous year.

16) RECEIVABLES

	GROUP 2006 $000	GROUP 2005 $000	PARENT 2006 $000	PARENT 2005 $000
Residual claims debtors (note i)	386	1,046	386	1,046
Less provision for doubtful debts	(386)	(1,046)	(386)	(1,046)
	–	–	–	–
Self-Employed debtors (note i)	96,736	66,949	96,736	66,949
Less provision for doubtful debts	(27,811)	(25,812)	(27,811)	(25,812)
	68,925	41,137	68,925	41,137
Employers' debtors (note i)	556,122	524,071	556,122	524,071
Less provision for doubtful debts	(30,020)	(22,359)	(30,020)	(22,359)
	526,102	501,712	526,102	501,712
Claimant debtors (note ii)	12,075	13,591	12,075	13,591
Less provision for doubtful debts	(12,074)	(13,270)	(12,074)	(13,270)
	1	321	1	321
PAYE receivable (note iii)	3,129	2,580	3,129	2,580
Less provision for doubtful debts	(1,096)	(430)	(1,096)	(430)
	2,033	2,150	2,033	2,150
Motor vehicle levy receivable (note iv)	34,011	51,762	34,011	51,762
Non-Earners' appropriation	13,200	16,444	13,200	16,444
Levies underpaid by Inland Revenue	12,066	43,500	12,066	43,500
Unsettled investment transactions	119,460	234,875	119,460	234,875
Dividend receivable	4,475	4,016	4,475	4,016
Interest receivable	5,368	167	5,368	167
Prepayments	6,616	2,832	6,606	2,830
Tax refund due	431	403	–	–
Intercompany receivables	–	–	223	351
Advances to subsidiaries	–	–	1,050	950
Sundry debtors	9,773	5,230	9,043	4,567
	802,461	904,549	802,563	904,782

NOTE:

i) The changes in the provisions for doubtful debts for the levy debtors have been charged against levy income. Because of the amount involved, charging against operating costs may result in distortion of this cost. Levy debtors have been invoiced based on liable earnings data provided from Inland Revenue sources.

ii) Claimant debt results when an overpayment has been recognised and is unable to be immediately repaid.

iii) PAYE receivable represents PAYE on claimant payments subsequently reversed. In most cases this amount is collectable from Inland Revenue.

iv) Motor vehicle levy receivable consists of the amount collected by Land Transport NZ from motor licensing and the balance that is due to ACC after month end, and the amount collected by NZ Customs for the ACC levy portion of the excise duty on petrol and the balance that is due to ACC in the first week of the following month.

In addition to the above there are levies outstanding from motor vehicle owners. Land Transport NZ, in its capacity as collecting agent for ACC from motor vehicle owners, estimates this to be approximately $31.7 million (2005 – $38.0 million). As ACC is not able to determine the collectability of these levies no accrual has been made.

Notes to the financial statements – for the year ended 30 June 2006

17) PAYABLES AND ACCRUED LIABILITIES

	GROUP 2006 $000	GROUP 2005 $000	PARENT 2006 $000	PARENT 2005 $000
Unsettled investment transactions	866,870	1,544,113	866,870	1,544,113
PAYE and earnings related deductions	8,730	7,902	8,729	7,873
Claims expenditure accrued and payable	111,986	190,249	111,986	190,249
Occupational safety and health	14,917	15,878	14,917	15,878
Sundry creditors	619	1,638	604	1,571
Levies overpaid by Inland Revenue	22,984	–	22,984	–
Intercompany payables	–	–	632	483
Goods and services tax	47,889	28,941	47,844	28,899
Accrued employee entitlements	11,001	8,281	10,531	7,917
Other accrued expenditure	53,648	42,690	52,940	41,780
Advances from subsidiaries	–	–	–	171
Provision for backdated attendant care (refer to note 8a)	7,951	11,015	7,951	11,015
Provision for restructuring (refer to note 8b)	420	–	420	–
Provision for income tax	–	9	–	–
	1,147,015	1,850,716	1,146,408	1,849,949

18) FINANCIAL INSTRUMENTS

a) Interest rate management

ACC invests its funds through 12 investment portfolios which at 30 June 2006 comprise a cash portfolio of $409.4 million (2005 – $322.9 million) and 7 reserves portfolios totalling $7,933.5 million (2005 – $6,495.1 million). The cash portfolio is used to meet liquidity requirements. The reserves portfolios' principal assets are bonds and equities. The interest rate exposures of the reserves and cash portfolios are managed primarily through asset allocation between asset class sub-portfolios and through selection of physical securities within asset class sub-portfolios. Derivative financial instruments may also be used to manage the interest rate exposures of the reserves and cash portfolios.

The Board has delegated the responsibility for the management of interest rate risk to the Investment Committee, which has considered this risk relative to the interest rate exposures inherent in the claims liability of each funding Account. The Investment Committee has set out investment guidelines for each of the fixed interest portfolios including the use of derivatives. The exposure of each of the fixed interest portfolios is measured by comparing the duration of each portfolio against the selected benchmark index duration.

The weighted average effective interest rates for all classes of investments are as follows:

	2006 %	2005 %
New Zealand deposits at call	7.30	6.80
New Zealand government securities	5.30	5.69
New Zealand discounted securities	7.42	6.98
Other New Zealand fixed interest securities	7.28	6.80
Overseas fixed interest securities	9.05	5.99

Notes to the financial statements – for the year ended 30 June 2006

At balance date the principal or contract amounts of interest rate swaps outstanding were:

	GROUP AND PARENT	
	2006 $000	2005 $000
Interest rate swaps	1,266,850	200,400

The estimated cash settlement (outflow)/inflow required for these instruments, based on market valuations at 30 June, is:

	GROUP AND PARENT	
	2006 $000	2005 $000
Interest rate swaps	(2,628)	2,929

b) Currency risk management

Part of the reserves portfolios are invested in overseas fixed interest and equity markets, which total $2,936.5 million as at 30 June 2006 (2005 – $1,957.9 million). Forward currency agreements are used to create partial economic hedges for the foreign currency exposure.

The Investment Committee has delegated the responsibility for the currency management to the Investment Unit which measures foreign currency exposure of each reserves portfolio. The Investment Committee has set out investment guidelines on the treatment of currency risk. During the year an average of 38% of the overseas currency exposure in ACC's foreign investment portfolio was hedged to New Zealand dollars.

The notional principal or contract amounts outstanding at 30 June are as follows:

	GROUP AND PARENT	
	2006 $000	2005 $000
Forward exchange contracts	1,119,135	644,075

The estimated cash settlement (outflow)/inflow required for these instruments, based on market valuations at 30 June, is:

	GROUP AND PARENT	
	2006 $000	2005 $000
Forward exchange contracts	(16,680)	(5,822)

Notes to the financial statements – for the year ended 30 June 2006

c) Repricing analysis

The following table identifies the products in which financial instruments that are subject to interest rate risk re-price. The effective interest rate incorporates the effect of the relevant derivative contracts.

	EFFECTIVE INTEREST RATE	TOTAL $000	LESS THAN 1 YEAR $000	BETWEEN 1–2 YEARS $000	BETWEEN 2–5 YEARS $000	GREATER THAN 5 YEARS $000
2006 Group and Parent						
Assets						
Investments						
New Zealand government securities	5.30%	1,198,350	–	–	2,636	1,195,714
New Zealand deposits at call	7.30%	1,329,052	1,329,052	–	–	–
New Zealand discounted securities	7.42%	994,942	994,942	–	–	–
Other New Zealand fixed interest securities	7.28%	1,560,288	577,415	30,796	224,914	727,163
Overseas fixed interest securities	9.05%	213,553	7,703	492	3,691	201,667
		5,296,185	2,909,112	31,288	231,241	2,124,544
2005 Group and Parent						
Assets						
Investments						
New Zealand government securities	5.69%	2,136,199	–	–	2,683	2,133,516
New Zealand deposits at call	6.80%	1,695,198	1,695,198	–	–	–
New Zealand discounted securities	6.98%	344,339	344,339	–	–	–
Other New Zealand fixed interest securities	6.80%	979,910	251,623	12,228	214,229	501,830
Overseas fixed interest securities	5.99%	140,934	135,158	–	2,956	2,820
		5,296,580	2,426,318	12,228	219,868	2,638,166

d) Credit risk

To the extent ACC has a receivable from another party there is a credit risk in the event of non-performance by that party. Financial instruments which potentially subject ACC to credit risk principally consist of bank balances, receivables, investments in government securities, foreign currency forward exchange contracts, swaps, options and forward rate agreements.

The Investment Committee has approved specific credit limits for major banks and assigned credit limits for other entities based on credit ratings assigned to issuers by Standard & Poors. Credit risk exposure is monitored on a continuous basis.

Notes to the financial statements – for the year ended 30 June 2006

Significant concentrations of credit risk are held in the following:

	GROUP 2006 $000	GROUP 2005 $000	PARENT 2006 $000	PARENT 2005 $000
1. Bank balances	17,649	13,889	16,960	13,169
2. Receivables	821,743	890,703	822,426	891,387
3. New Zealand government securities	1,198,350	2,136,199	1,198,350	2,136,199
4. Major New Zealand financial institutions in call deposits, negotiable certificates of deposits and bonds maturing:				
– in less than three months	1,474,655	1,748,479	1,474,655	1,748,479
– in more than three months	160,553	102,315	160,553	102,315

The highest amount with one institution is $244.9 million (2005 – $336.2 million).
All investments are marked to market; carrying value is equal to fair value.

e) Equity market derivatives

Part of the Australian equity portfolio is invested in Australian equity put options. Australian equity options are used to partially hedge potential declines in the Australian equity markets. The value as at 30 June 2006 was $3.8 million (2005 – $1.7 million).

f) Fair values

The following methods and assumptions were used to estimate the fair value of each class of financial instrument.

Bank Balances, Receivables, Payables

The carrying value of these items is equivalent to their fair value.

Investments

The carrying value of the investments is equivalent to their fair value.

Derivatives

The carrying value of the derivatives is equivalent to their fair value.

19) SEGMENTAL REPORTING

ACC operates in New Zealand and predominantly in one industry, that of insurance-based accident rehabilitation and compensation.

20) RELATED PARTY TRANSACTIONS

ACC as a Crown entity enters into a number of transactions with other government departments, Crown agencies and state-owned enterprises on an arm's-length basis where those parties are acting in the course of their normal dealing with ACC. Because these transactions are entered into on an arm's-length basis they are not considered to be related party transactions.

All transactions between ACC and the companies within the Group are conducted on an arm's-length basis.

During the year ACC purchased services from the Group companies totalling $5.3 million (2005 – $5.0 million). The amount outstanding at balance date was $0.6 million (2005 – $0.5 million). Sales to the Group companies by ACC for its services totalled $0.9 million (2005 – $1.0 million). The amount outstanding at balance date was $0.2 million (2005 – $0.4 million).

ACC provided additional advances to its Group companies during the year. The amount outstanding at balance date was $1.1 million (2005 – $0.8 million).

Trade amounts owing between related parties are payable under normal commercial terms. No related party debts have been written off or forgiven during the year.

Notes to the financial statements – for the year ended 30 June 2006

21) ASSET REVALUATION RESERVES

	GROUP AND PARENT	
	2006 $000	2005 $000
Land revaluation reserve		
Balance at the beginning of the year	2,085	948
Revaluation increase	793	1,137
Balance at the end of the year	2,878	2,085
Building revaluation reserve		
Balance at the beginning of the year	536	–
Revaluation increase	1,115	536
Balance at the end of the year	1,651	536
	4,529	2,621

22) REINSURANCE

ACC has no catastrophe or any other reinsurance as the cost to fully place the cover is assessed as not in line with the risk. Reinsurance will be reconsidered if and when this can be achieved at a reasonable cost.

23) CLAIMS LIABILITY

Future expenditure commitments exist in respect of:

1) claims notified and accepted in the current and previous years, but which will not be fully met until future years; and
2) claims incurred but not notified to, or accepted by, ACC at balance date.

An independent actuarial estimate by PricewaterhouseCoopers Actuarial Pty Ltd, consulting actuaries of Sydney, led by Noeline Woof, has been made of the future expenditure relating to accidents which occurred prior to balance date, whether or not the claims have been reported to or accepted by ACC. Noeline Woof is a Fellow of the Institute of Actuaries of Australia and Fellow of the New Zealand Society of Actuaries.

The actuarial estimate has been made based on actual experience to 30 June 2006 for non-fatal income maintenance and actual experience to 31 March 2006 for all other payment types. The calculation of the outstanding claims liability has been made in accordance with the standards of the New Zealand Society of Actuaries and Financial Reporting Standard No. 35.

In determining the actuarial estimate, the independent actuaries have relied upon information supplied by ACC. As there is overall satisfaction as to the nature, sufficiency and accuracy of the information provided, no independent verification was required. However, a review of reasonableness and consistency of the data was undertaken where possible. This review did not identify any material inconsistencies or deficiencies in the data.

The following table shows the actuarial estimate of the present value of the claims liability that will be payable in future years.

The actual outcome is likely to range about this estimate and, like any such forecast, is subject to uncertainty.

Notes to the financial statements – for the year ended 30 June 2006

The main long-term assumptions used in the above estimates for discounting to present values are:

	2006 %PA		2005 % PA
	YEAR 1	YEARS 2+	
1) Interest rate for discounting (weighted average rate of government stock)	5.83%	5.83%	5.75%
2) Inflation rates:			
– weekly compensation	3.3%	3.4%	2.5%
– impairment benefits	2.8%	2.3%	2.8%
– rehabilitation and other benefits[a]	2.5%	2.6%	2.5%
– medical costs[b]	2.5%	2.6%	2.5%
3) Allowance for claims handling expenses (as a proportion of liabilities)[c]	n/a	n/a	n/a

[a] Social rehabilitation for serious injury claims (which represents around 50% of rehabilitation liability) has an allowance for superimposed inflation of 5.0% pa over the next four years. Non-serious injury social rehabilitation also includes an allowance for superimposed inflation which is 15.0% initially and reduces to 5.0% over three years. Hospital rehabilitation costs include an allowance for superimposed inflation of 5.0% for three years and then 1.0% pa long term.

[b] Medical cost inflation (2006) includes an explicit allowance for superimposed inflation of approximately 12.0% pa for three years which then reduces to 2.5% pa long term.

[c] The claims handling expense allowance is now calculated as an explicit amount rather than as a proportion of the claims liability.

Superimposed inflation is the increase in the cost of claims that is above general inflation. This is due to other influencing factors such as new medical treatment being available.

Notes to the financial statements – for the year ended 30 June 2006

CLAIMS LIABILITY – AS AT 30 JUNE 2006 (DISCOUNTED)

	30 JUNE 2006 TOTAL $MILLION	RESIDUAL CLAIMS ACCOUNT $MILLION	MOTOR VEHICLE ACCOUNT $MILLION	NON-EARNERS' ACCOUNT $MILLION	EARNERS' ACCOUNT $MILLION	EMPLOYERS' ACCOUNT $MILLION	MEDICAL MIS-ADVENTURE ACCOUNT $MILLION	SELF-EMPLOYED WORK ACCOUNT $MILLION	30 JUNE 2005 TOTAL $MILLION
Rehabilitation									
Medical treatment	962	206	124	214	222	123	35	38	705
Miscellaneous	5,550	980	1,860	1,310	692	191	461	56	4,997
	6,512	1,186	1,984	1,524	914	314	496	94	5,702
Compensation									
Income maintenance	4,608	1,329	1,244	143	1,027	541	200	124	4,268
Impairment benefits	723	73	117	327	113	40	45	8	633
	5,331	1,402	1,361	470	1,140	581	245	132	4,901
Present value of the claims liability	11,843	2,588	3,345	1,994	2,054	895	741	226	10,603
Present value of the operating costs of meeting these claims	854	260	205	68	164	94	33	30	763
Bulk billed costs	18	–	3	11	3	1	–	–	18
Total present value of the claims liability	12,715	2,848	3,553	2,073	2,221	990	774	256	11,384
As at beginning of year	11,384	2,544	3,237	1,866	1,954	894	644	245	9,347
Transfer from other insurers	10	–	–	–	–	10	–	–	–
Movement during the year	1,321	304	316	207	267	86	130	11	2,037

Notes to the financial statements – for the year ended 30 June 2006

MATURITY PROFILE – AS AT 30 JUNE 2006[1]

	30 JUNE 2006 TOTAL $MILLION	RESIDUAL CLAIMS ACCOUNT $MILLION	MOTOR VEHICLE ACCOUNT $MILLION	NON-EARNERS' ACCOUNT $MILLION	EARNERS' ACCOUNT $MILLION	EMPLOYERS' ACCOUNT $MILLION	MEDICAL MIS-ADVENTURE ACCOUNT $MILLION	SELF-EMPLOYED WORK ACCOUNT $MILLION	30 JUNE 2005 TOTAL $MILLION
Within one year	1,505	290	283	217	400	209	54	52	1,341
Later than one year but not later than two years	1,048	254	241	134	225	117	47	30	947
Later than two years but not later than five years	2,419	627	608	326	453	227	121	57	2,192
Later than five years but not later than ten years	2,687	704	744	392	445	203	146	53	2,457
Later than ten years	5,056	973	1,677	1,004	698	234	406	64	4,447
Total present value of the claims liability	12,715	2,848	3,553	2,073	2,221	990	774	256	11,384

[1] Includes claims handling expenses.

ANALYSIS OF CHANGES

	30 JUNE 2006 TOTAL $MILLION	RESIDUAL CLAIMS ACCOUNT $MILLION	MOTOR VEHICLE ACCOUNT $MILLION	NON-EARNERS' ACCOUNT $MILLION	EARNERS' ACCOUNT $MILLION	EMPLOYERS' ACCOUNT $MILLION	MEDICAL MIS-ADVENTURE ACCOUNT $MILLION	SELF-EMPLOYED WORK ACCOUNT $MILLION	30 JUNE 2005 TOTAL $MILLION
Opening gross liability	26,436	4,702	8,231	5,565	3,880	1,396	2,253	409	23,251
Payments in respect of prior years	(1,389)	(286)	(284)	(215)	(344)	(166)	(52)	(42)	(1,253)
Change in prior year estimates *	2,655	946	782	541	140	(88)	376	(42)	2,041
Current year claims **	2,826	77	599	421	846	473	280	130	2,397
Closing gross liability	30,528	5,439	9,328	6,312	4,522	1,615	2,857	455	26,436
Discounted at 2005 interest rate ***	12,819	2,867	3,587	2,094	2,236	995	783	257	10,585
Effect of change in interest rates	(104)	(19)	(34)	(21)	(15)	(5)	(9)	(1)	799
Closing discounted liability	12,715	2,848	3,553	2,073	2,221	990	774	256	11,384

* Changes to the estimated value of future payments to reflect the experience of the scheme in 2005-2006 for accidents incurred prior to July 2005. These estimates have changed due to experience being worse than expected. The change is not as great as it was last year as the valuation methodology has not changed substantially.

** Estimated value of future payments for accidents incurred between July 2005 and June 2006.

*** The actuarial estimate is calculated by discounting the expected future payments to their present value. A 'fully funded' scheme would hold assets equal to the discounted liability value.

Notes to the financial statements – for the year ended 30 June 2006

24) CASH FLOWS

Reconciliation of net cash inflow from operating activities with the reported net surplus/(deficit)

	GROUP ACTUAL 2006 $000	GROUP BUDGET 2006 $000	GROUP ACTUAL 2005 $000	PARENT ACTUAL 2006 $000	PARENT BUDGET 2006 $000	PARENT ACTUAL 2005 $000
Net surplus/(deficit) after taxation	330,216	222,800	(793,884)	330,239	222,638	(792,838)
Add/(less) items classified as investing activities						
(Gain)/loss on sale of fixed assets	(165)	–	894	(164)	–	857
Realised (gains)/loss on sale of investments	(104,699)	(70,000)	(196,506)	(104,699)	(70,000)	(196,506)
Add/(less) non-cash items						
Depreciation	29,932	31,385	24,212	29,455	30,815	23,489
Offshore income re-invested	49,583	15,000	28,917	49,583	15,000	28,917
Provision for restructuring costs	420	–	–	420	–	–
Increase/(decrease) in backdated attendant care provision	5,334	–	2,292	5,334	–	2,292
Levy debts written off	4,913	–	8,403	4,913	–	8,403
(Decrease)/increase in doubtful debts for levy debtors	9,001	–	(7,239)	9,001	–	(7,239)
Property, plant and equipment writeoffs (reversal)	(204)	–	1,379	(204)	–	1,363
Impairment loss	–	–	1,000	–	–	–
Amortisation of intangible assets	2	–	132	–	–	–
Movement in deferred tax	(14)	–	(243)	–	–	–
Adjustment to claims liability	1,321,069	596,826	2,036,887	1,321,069	596,826	2,036,887
Add/(less) movements in working capital items						
In accounts receivable	(113,385)	252,450	(110,500)	(113,206)	253,228	(110,547)
In accounts payable and accrued liabilities	(17,863)	(13,132)	139,610	(17,765)	(13,560)	138,620
In levies received in advance	15,939	(144,314)	20,591	15,939	(144,314)	20,591
Add/(less) net adjustments to investments for market values and accrued income	(626,199)	(128,791)	(263,874)	(626,199)	(128,791)	(263,874)
Net cash inflow/(outflow) from operating activities	903,880	762,224	892,071	903,716	761,842	890,415

Notes to the financial statements – for the year ended 30 June 2006

25) IMPACT OF ADOPTING NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Adoption of International Financial Reporting Standards

In December 2002 the New Zealand Accounting Standards Review Board announced that International Financial Reporting Standards ('IFRS') will apply to all New Zealand entities from 1 January 2007. Early adoption of IFRS from 1 January 2005 is permitted. Certain adaptations have been made to reflect New Zealand circumstances for issue as New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'); including exemptions for public benefit entities.

ACC considers itself a public benefit entity. ACC has elected not to apply the public benefit entity exemptions in NZ IFRS to assert compliance with IFRS. ACC intends to prepare its first financial statements in accordance with NZ IFRS for the year ending 30 June 2008. This is in line with the New Zealand Crown reporting requirements.

Transition management

A conversion project involving finance staff, who engage with professional advisors, is led by a project manager and monitored by an internal NZ IFRS steering committee, has been established. The project team is:

– continually assessing the impact of changes in financial reporting standards on ACC's financial reporting and other related activities;
– designing models and implementing processes designed to deliver financial reporting under NZ IFRS; and
– dealing with any related business impacts.

In most areas project tasks identified at the early stages of the project are largely complete. ACC expects to be in a position to comply with all NZ IFRS requirements for the year ending 30 June 2008.

Changes in accounting policies on transition to NZ IFRS

Some key accounting policy decisions have yet to be finalised, where a standard measurement base has not been agreed upon or interpretation issues have arisen. ACC is therefore currently not in a position to reliably quantify the impacts of adopting NZ IFRS in the financial statements.

ACC intends to provide further information, including quantifying the impacts of transitioning to NZ IFRS, in its next financial report for the year ending 30 June 2007.

Below are the key differences identified by ACC that may have an impact on the financial reports of ACC. This is only a summary of the significant potential impacts resulting from transition to NZ IFRS and should not be regarded as an exhaustive list of all differences between existing New Zealand Generally Accepted Accounting Principles (NZ GAAP) and NZ IFRS. The impact analyses were carried out using NZ IFRS, interpretations and application guidance to NZ IFRS, effective at 30 June 2006. It is possible therefore that the actual impact of adopting NZ IFRS may vary from the information presented, and the variation may be material.

Also included are the optional exemptions to be applied under NZ IFRS 1.

Claims liability

The IFRS on the recognition and measurement of insurance contracts is currently being developed by the International Accounting Standards Board as part of Phase II of its insurance project. A final standard is only expected in the next few years. Until such time NZ IFRS 4: *Insurance Contracts* is applicable.

NZ IFRS 4 requires an additional risk margin to be factored into the claims liability. The inclusion of a risk margin will increase the claims liability.

Financial instruments

All investment assets, including derivative financial instruments entered into for risk management purposes, will be classed as fair value through profit or loss in accordance with NZ IFRS. The new classification requirements under

Notes to the financial statements – for the year ended 30 June 2006

NZ IFRS determine the accounting treatment for financial assets. Accounting treatment for assets classed in the *fair value through profit or loss* class is largely consistent with current practice in that the assets are held at fair value on the Statement of Financial Position, with any changes in fair value reflected in the Statement of Financial Performance in the period in which the change occurs. Differences arise in determining the fair value, application of a liquidity discount and treatment of transaction costs.

Fair value

The major impact for ACC is the basis for determining the fair value for these investment assets under NZ IFRS. ACC has considered the fair value under NZ IFRS for all major investment categories to be determined as follows:

- Shares and units in trusts listed on stock exchanges will be valued at the quoted bid price of the instrument at balance sheet date.
- Unquoted equity investments (private equities and venture capital) will be carried at initial cost of investment and adjusted for performance of the business since that date. This is consistent with the 'International Private Equity and Venture Capital Valuation Guidelines'.
- Overseas bonds will be valued at bid yield.
- The fair valuation basis for New Zealand bonds is yet to be determined.

Application of a liquidity discount

Under NZ IFRS, no liquidity discounts are permitted when fair valuing financial assets. ACC will no longer be able to apply a liquidity discount to listed shares in which ACC holds more than 5% of the issued capital of that company.

Treatment of transaction costs

All transaction costs and management fees for ACC's investment assets must be expensed through the Statement of Financial Performance on initial recognition. These costs are currently capitalised by ACC. The current treatment of including the transaction costs within the purchase price and subsequently taking any changes in fair value to the Statement of Financial Performance means that this will have minimal impact on the surplus or deficit reported.

Intangible assets

ACC has a significant amount of computer software currently reported as property, plant and equipment that will be reported as intangible assets under NZ IFRS.

Property, plant and equipment

Revaluations for land, buildings and freehold improvements will be accounted for on an asset-by-asset basis. This means the financial effects of a revaluation cannot be offset against other assets within that class; rather they are accounted for on an individual basis. ACC has elected not to adopt the public benefit entity exemption in NZ IAS 16: ***Property, Plant and Equipment***. All systems have been implemented to deal with the change.

Impairment testing

All assets, including revalued assets, must be assessed for impairment by determining whether there are any indicators suggesting the asset is impaired.

Where assets do not have largely independent cash flows, the entity must determine what is termed a 'cash generating unit' ('CGU'), for which that asset must be allocated for the purposes of the impairment test. A CGU is the smallest identifiable group of assets that generates cash flows that are largely independent of the cash flows from other assets or groups of assets.

Impairment testing will be required for certain assets such as ACC's claims management system.

Notes to the financial statements – for the year ended 30 June 2006

Employee benefits

Under current NZ GAAP, ACC recognises a liability for long service leave and retirement benefits only once certain criteria are met and leave entitlements have actually vested with the employee. NZ IFRS requires all long-term employee benefits to be accrued as they are earned by employees, using an actuarial technique to determine the liability.

Where an entity allows an employee to accumulate sick leave, the issue of considering a provision arises in the case of employees taking more than the 'average/normal' sick leave entitlement. If the number of employees that fall under this category is material, a provision should be recognised to account for this anticipated leave in the future. This is a new requirement under NZ IFRS. ACC and Disputes Resolution Services Ltd do not have accumulating sick leave – a provision for sick leave is not required. Sick leave entitlements for Catalyst Risk Management Ltd (CRM) will need to be assessed to determine if a provision is necessary.

ACC has developed its own actuarial model to estimate the liability for long service and retirement leave. A model has been developed to account for the CRM sick leave provision and will be used to estimate the liability.

Deferred tax

The income statement approach has traditionally been used to calculate deferred tax. On transition to NZ IFRS deferred tax is required to be calculated using the balance sheet approach, taking into account all temporary differences between the carrying amount of assets and liabilities. Under current NZ GAAP only timing differences are accounted for, not all temporary differences.

Deferred tax will be recognised in the income statement except to the extent that it relates to items recognised in equity or as part of a business combination.

There is expected to be no impact on the overall deferred tax amount recognised. However, the timing of recognition may vary.

NZ IFRS 1 exemptions

NZ IFRS 1: *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* allows a number of exemptions to retrospective application when adopting NZ IFRS for the first time. ACC has elected to apply the following:

Business combinations

ACC has elected not to restate business combinations prior to the transition date (1 July 2006) on an NZ IFRS basis.

Property, plant and equipment

ACC's property, plant and equipment, intangible assets and investment property will be valued at original cost (or revalued cost) rather than using fair value as 'deemed cost' at its opening NZ IFRS balance sheet.

Assets and liabilities of subsidiaries, associates and joint ventures

ACC and its subsidiaries will be adopting NZ IFRS at the same time, for the year ended 30 June 2008, with a transition date of 1 July 2006.

Statement of responsibility

(Pursuant to section 42 of the Public Finance Act 1989)

We acknowledge responsibility for the preparation of these financial statements and for the judgements used therein.

We have been responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of ACC's financial and non-financial reporting.

In our opinion, these financial statements fairly reflect the financial position and operations of ACC for the year ended 30 June 2006.

Brenda Tahi
Acting Chair
Date: 21 September 2006

Dr Jan White
Chief Executive
Date: 21 September 2006

Report of the Office of the Auditor-General

To the readers of Accident Compensation Corporation and Group's financial statements for the year ended 30 June 2006

The Auditor-General is the auditor of the Accident Compensation Corporation and Group (the 'Corporation'). The Auditor-General has appointed me, B R Penrose, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Corporation, on his behalf, for the year ended 30 June 2006.

Unqualified Opinion

In our opinion the financial statements of the Corporation on pages 55 to 67 and 82 to 121:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  the Corporation's financial position as at 30 June 2006;
  the results of its operations and cash flows for the year ended on that date; and
  its service performance achievements measured against the performance targets adopted for the year ended on that date.

The audit was completed on 21 September 2006, and is the date at which our opinion is expressed.

The basis of the opinion is explained below. In addition, we outline the responsibilities of the Board and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in the opinion.

Our audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support the opinion above.

Responsibilities of the Board and the Auditor

The Board is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Corporation as at 30 June 2006. They must also fairly reflect the results of its operations and cash flows and service performance achievements for the year ended on that date. The Board's responsibilities arise from the Public Finance Act 1989 and the Injury Prevention, Rehabilitation and Compensation Act 2001.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and Section 43(1) of the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit we have carried out assignments in the area of compliance with tax legislation, which is compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Corporation.

BRPenrose

B R Penrose
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

Remuneration of employees

The number of employees whose income was within specified bands is as follows:

	GROUP	
	2006	2005
$100,000 – $110,000	36	37
$110,000 – $120,000	30	18
$120,000 – $130,000	23	22
$130,000 – $140,000	18	10
$140,000 – $150,000	11	4
$150,000 – $160,000	4	3
$160,000 – $170,000	3	7
$170,000 – $180,000	7	4
$180,000 – $190,000	3	5
$190,000 – $200,000	5	3
$200,000 – $210,000	1	2
$210,000 – $220,000	4	2
$220,000 – $230,000	1	1
$230,000 – $240,000	–	–
$240,000 – $250,000	1	1
$250,000 – $260,000	–	–
$260,000 – $270,000	–	–
$270,000 – $280,000	2	2
$280,000 – $290,000	–	1
$290,000 – $300,000	–	–
$300,000 – $310,000	–	2
$310,000 – $320,000	1	3
$320,000 – $330,000	–	–
$350,000 – $360,000*	2	1
$360,000 – $370,000	1	–
$370,000 – $380,000*	1	–
$380,000 – $390,000	1	–
$420,000 – $430,000	1	–
$430,000 – $440,000	–	–
$450,000 – $460,000	–	–
$460,000 – $470,000	1	–
$470,000 – $480,000*	1	–
$480,000 – $490,000	–	–
$490,000 – $500,000	–	–
$500,000 – $510,000*	1	–
$590,000 – $600,000	–	1
	159	129
Average income of above employees	$151,507	$147,914

* The band includes redundancy payments made during the year.

Comparative Statement of Financial Performance (Parent) – for the five years ended 30 June 2006

	2006 $000	2005 $000	2004 $000	2003 $000	2002 $000
Combined					
Total income	4,146,460	3,512,541	3,144,882	3,012,360	2,455,020
Total expenditure	2,495,152	2,268,492	2,098,904	1,977,120	1,852,391
Adjustment to claims liability	1,321,069	2,036,887	169,903	1,650,519	359,474
Surplus/(deficit)	330,239	(792,838)	876,075	(615,279)	243,155
Opening Account reserves (deficit)	(4,165,732)	(3,374,567)	(4,251,546)	(3,636,300)	(3,879,455)
Amalgamation of the Non-Compliers' Fund	–	–	–	33	–
Increase/(decrease) in revaluation reserve	1,908	1,673	904	–	–
Closing Account reserves (deficit)	(3,833,585)	(4,165,732)	(3,374,567)	(4,251,546)	(3,636,300)
Residual Claims Account					
Total income	389,685	290,606	284,703	298,912	356,760
Total expenditure	378,874	293,146	333,381	350,675	394,025
Adjustment to claims liability	303,867	172,705	(78,535)	112,432	(201,364)
Surplus/(deficit)	(293,056)	(175,245)	29,857	(164,195)	164,099
Opening Account reserve (deficit)	(1,588,495)	(1,413,250)	(1,443,107)	(1,278,912)	(1,443,011)
Closing Account reserve (deficit)	(1,881,551)	(1,588,495)	(1,413,250)	(1,443,107)	(1,278,912)
Motor Vehicle Account					
Total income	854,190	755,601	662,950	494,636	387,421
Total expenditure	388,414	359,207	342,694	334,242	312,591
Adjustment to claims liability	316,119	649,239	100,641	500,274	241,291
Surplus/(deficit)	149,657	(252,845)	219,615	(339,880)	(166,461)
Opening Account reserve (deficit)	(1,809,779)	(1,556,934)	(1,776,549)	(1,436,669)	(1,270,208)
Closing Account reserve (deficit)	(1,660,122)	(1,809,779)	(1,556,934)	(1,776,549)	(1,436,669)
Non-Earners' Account					
Total income	763,014	618,734	620,636	637,456	577,141
Total expenditure	587,387	535,499	470,254	459,975	418,045
Adjustment to claims liability	207,265	402,650	(13,622)	344,692	14,891
Surplus/(deficit)	(31,638)	(319,415)	164,004	(167,211)	144,205
Opening Account reserve (deficit)	(1,277,618)	(958,203)	(1,122,207)	(954,996)	(1,099,201)
Closing Account reserve (deficit)	(1,309,256)	(1,277,618)	(958,203)	(1,122,207)	(954,996)

This Account was established, with effect from 1 April 1992, by the Accident Rehabilitation and Compensation Insurance Act 1992.

Comparative Statement of Financial Performance (Parent) – for the five years ended 30 June 2006 (continued)

	2006 $000	2005 $000	2004 $000	2003 $000	2002 $000
Earners' Account					
Total income	1,099,891	1,002,976	830,580	870,579	617,486
Total expenditure	732,397	628,686	559,555	501,125	460,809
Adjustment to claims liability	267,411	391,627	2,068	316,824	96,068
Surplus/(deficit)	100,083	(17,337)	268,957	52,630	60,609
Opening Account reserve	432,386	449,723	180,766	128,136	67,527
Closing Account reserve	532,469	432,386	449,723	180,766	128,136

This Account was established, with effect from 1 April 1992, by the Accident Rehabilitation and Compensation Insurance Act 1992.

	2006 $000	2005 $000	2004 $000	2003 $000	2002 $000
Self-Employed Work Account					
Total income	150,820	117,856	114,524	131,070	91,625
Total expenditure	64,460	86,911	82,218	75,183	63,679
Adjustment to claims liability	10,661	45,693	16,299	51,229	43,653
Surplus/(deficit)	75,699	(14,748)	16,007	4,658	(15,707)
Opening Account reserve (deficit)	122	14,870	(1,137)	(5,795)	9,912
Closing Account reserve (deficit)	75,821	122	14,870	(1,137)	(5,795)

This Account was established, with effect from 1 July 1999, by the Accident Insurance Act 1998.

	2006 $000	2005 $000	2004 $000	2003 $000	2002 $000
Employers' Account					
Total income	722,382	603,155	540,782	461,302	387,583
Total expenditure	287,088	316,410	271,600	224,575	173,755
Adjustment to claims liability	86,174	196,413	60,343	243,452	171,980
Surplus/(deficit)	349,120	90,332	208,839	(6,725)	41,848
Opening Account reserve	407,550	317,218	108,379	115,071	73,223
Amalgamation of the Non-Compliers' Fund	–	–	–	33	–
Closing Account reserve	756,670	407,550	317,218	108,379	115,071

This Account was established, with effect from 1 April 2000, by the Accident Insurance Amendment Act 2000.

	2006 $000	2005 $000	2004 $000	2003 $000	2002 $000
Medical Misadventure Account					
Total income	166,478	123,613	90,707	118,405	37,004
Total expenditure	56,532	48,633	39,202	31,345	29,487
Adjustment to claims liability	129,572	178,560	82,709	81,616	(7,045)
Surplus/(deficit)	(19,626)	(103,580)	(31,204)	5,444	14,562
Opening Account reserve (deficit)	(332,519)	(228,939)	(197,735)	(203,179)	(217,741)
Closing Account reserve (deficit)	(352,145)	(332,519)	(228,939)	(197,735)	(203,179)

This Account was established, with effect from 1 April 1992, by the Accident Rehabilitation and Compensation Insurance Act 1992. No expenditure was attributed to the Account until the year ended 30 June 1994.

Comparative Statement of Financial Position (Parent) – as at 30 June

	2006 $000	2005 $000	2004 $000	2003 $000	2002 $000
Account reserves					
Residual Claims Account	(1,881,551)	(1,588,495)	(1,413,250)	(1,443,107)	(1,278,912)
Motor Vehicle Account	(1,660,122)	(1,809,779)	(1,556,934)	(1,776,549)	(1,436,669)
Non-Earners' Account	(1,309,256)	(1,277,618)	(958,203)	(1,122,207)	(954,996)
Earners' Account	532,469	432,386	449,723	180,766	128,136
Self-Employed Work Account	75,821	122	14,870	(1,137)	(5,795)
Employers' Account	756,670	407,550	317,218	108,379	115,071
Medical Misadventure Account	(352,145)	(332,519)	(228,939)	(197,735)	(203,179)
Total Account reserves	(3,838,114)	(4,168,353)	(3,375,515)	(4,251,590)	(3,636,344)
Revaluation reserve	4,529	2,621	948	44	44
Total reserves (deficit)	(3,833,585)	(4,165,732)	(3,374,567)	(4,251,546)	(3,636,300)
Represented by:					
Assets					
Bank balances	16,960	13,169	16,051	24,444	14,873
Receivables	802,563	904,782	667,516	627,145	107,626
Accrued levy income	326,023	242,062	266,926	283,525	439,027
Investments	9,079,946	8,123,010	6,175,958	4,922,780	3,628,035
Investment in subsidiaries	3,450	3,450	1,450	1,100	1,100
Property, plant and equipment	181,498	148,868	100,797	87,327	91,330
Total assets	10,410,440	9,435,341	7,228,698	5,946,321	4,281,991
Less liabilities					
Levy received in advance	382,706	366,767	346,176	313,478	121,929
Payables and accrued liabilities	1,146,408	1,849,949	909,897	729,582	295,746
Claims liability	12,714,911	11,384,357	9,347,192	9,154,807	7,500,616
Total liabilities	14,244,025	13,601,073	10,603,265	10,197,867	7,918,291
Net assets/(liabilities)	(3,833,585)	(4,165,732)	(3,374,567)	(4,251,546)	(3,636,300)

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