2012 ANNUAL REPORT

KiwiRail

KiwiRail Overview

KiwiRail is a State Owned Enterprise and the backbone of New Zealand's integrated transport network. Our vision is to be a world class mover of freight and people by rail and ships, and to be the natural choice for our customers in the markets in which we operate.

We have four business units:

- KiwiRail Freight provides rail freight services and locomotives for passenger services
- KiwiRail Infrastructure and Engineering maintains and improves the rail network, controls the operation of trains on the network, and operates the heavy workshops that refurbish and maintain our rolling stock
- KiwiRail Interislander operates the ferry passenger and freight services
- KiwiRail Passenger provides urban passenger services in Wellington under contract to the Greater Wellington Regional Council through the Tranz Metro team, and the Tranz Scenic team operates the long distance passenger rail services.

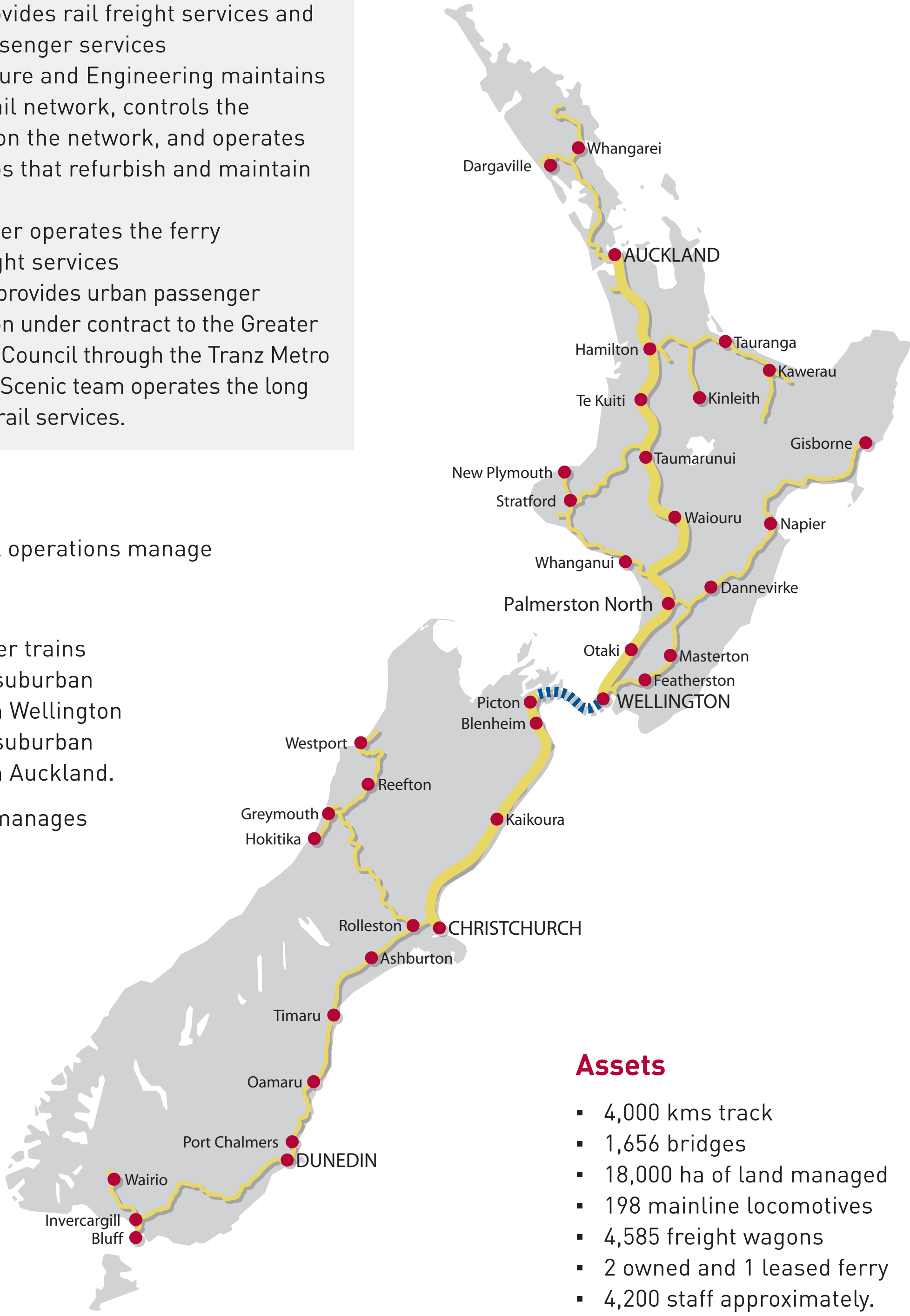
Operations

Each week, train control operations manage the movement of:

- 900 freight trains
- 44 inter-city passenger trains
- Approximately 2,200 suburban passenger services in Wellington
- Approximately 2,000 suburban passenger services in Auckland.

In a year, Interislander manages 4,600 sailings carrying:

- 755,000 passengers
- 53,000 rail wagons
- 73,000 trucks
- 212,000 cars.



Assets

- 4,000 kms track
- 1,656 bridges
- 18,000 ha of land managed
- 198 mainline locomotives
- 4,585 freight wagons
- 2 owned and 1 leased ferry
- 4,200 staff approximately.

Further Information

For assistance, publications or information concerning KiwiRail please visit our website at **www.kiwirail.co.nz** or contact: KiwiRail Communications, PO Box 593, Wellington , 6140
P: 0800 801 070, E: kiwirail@kiwirail.co.nz

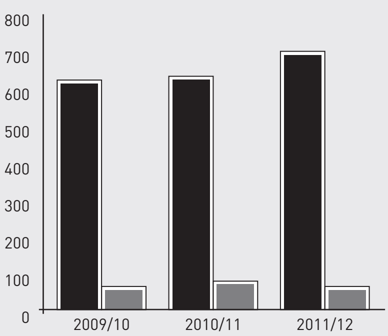
Contents

Our Results at a Glance

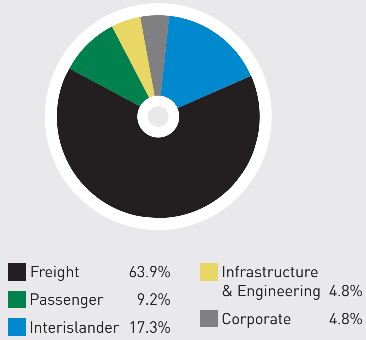
KiwiRail

- Revenue of $715.8m
- EBITDA of $77.6m
- Capital Expenditure of $506.5m
- 4,000 km rail network

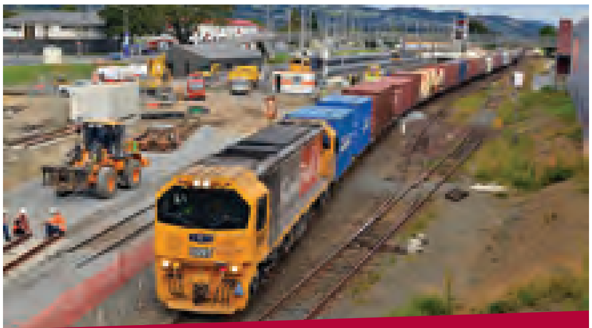
Revenue and EBITDA



Revenues by Business Unit



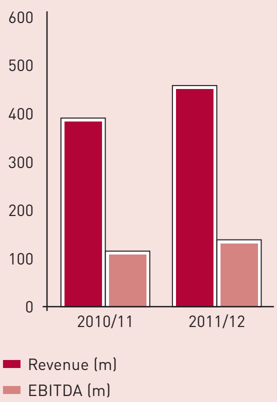
EBITDA = Operating surplus before depreciation, amortisation and grant income



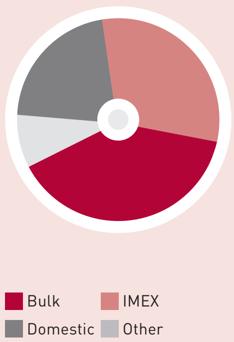
Freight

- Revenue of $457.6m
- EBITDA of $129.1m
- 64% of Group revenue
- Import-Export increased revenue by 16%
- Total assets of $299.3m

Revenue and EBITDA



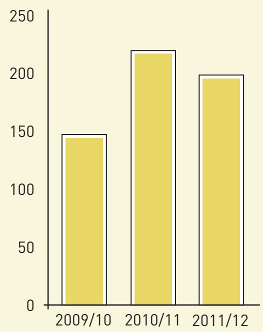
Segment Revenue



Infrastructure & Engineering

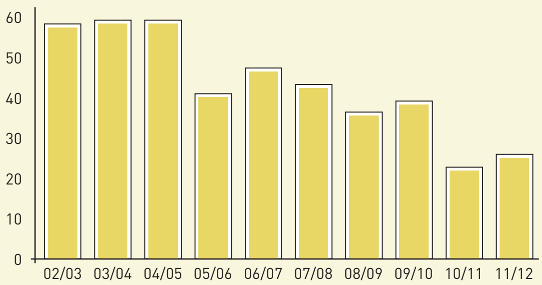
- Network investment of $196.8m
- Derailment rate remains at 10 year low
- Major projects completed on time and on budget
- Total assets of $3,699.2m

Network Investment ($m)*



* Excluded Funding for Auckland and Wellington Metro projects and renewals

Mainline derailments

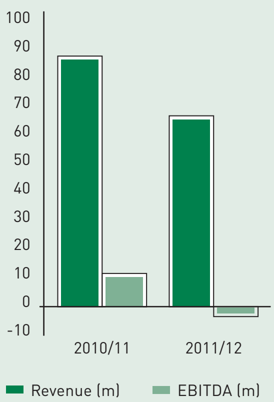


KiwiRail

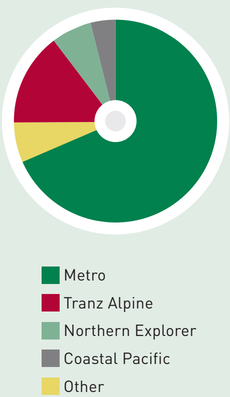
Passenger

- Revenue of $66m
- Increase in on-time performance to 92%
- New carriages for Tranz Scenic
- Total assets of $43.9m

Revenue and EBITDA



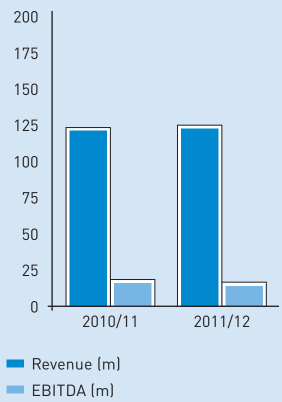
Segment Revenue



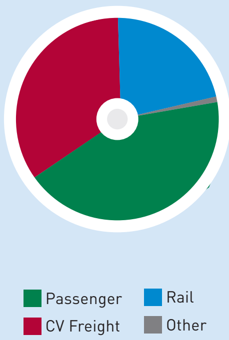
Interislander

- Revenue of $123.9m
- EBITDA of $15.6m
- Assets of $131.6m

Revenue and EBITDA



Segment Revenue



KiwiRail

Our Progress

After decades of under-investment and neglect KiwiRail has been implementing an investment programme to ensure the business can deliver the highest levels of service expected from our customers.

We've made huge strides towards achieving this with $1.8 billion invested in network improvements. We've expanded our freight operations year on year to entice businesses to use rail freight more. New rolling stock, the extension of the Aratere and major upgrades to the network mean our services are more reliable and frequent for our customers.

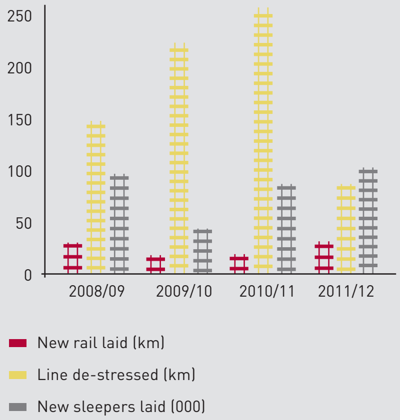
We've also invested significantly in improving passenger services. Major upgrades to the Auckland and Wellington metropolitan networks have been completed on time and on budget and we are in the process of introducing new carriages on all our Tranz Scenic trains.

These initiatives have underpinned our performance as a business. Overall revenue growth of more than 7% for 2011/12 is a commendable effort given the difficult economic conditions. Freight has been particularly successful, achieving revenue growth of 25% over the last two years.

That money gets reinvested straight back into the business. Over the next three years more than $750 million will be invested in the rail network – around four times of that spent during 2005-2008.

INFRASTRUCTURE AND ROLLING STOCK

Rail Line Improvements

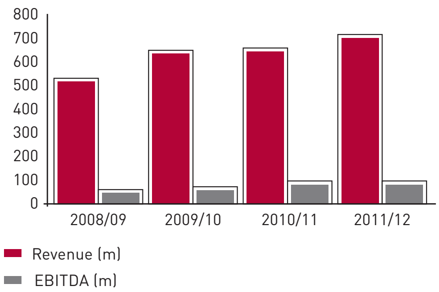


Network Investment ($m)

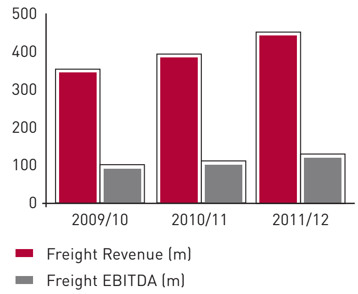
PERFORMANCE

Revenue and EBITDA Growth

KiwiRail Group



KiwiRail Freight

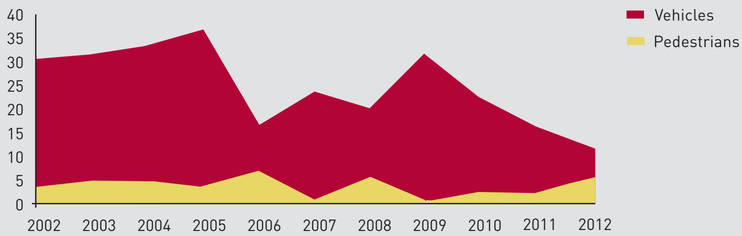


PEOPLE AND SAFETY

LTIFR and MTIFR

	8/9	9/10	10/11	11/12
LTIFR	3.47	6.56	6.10	6.10
MTIFR	43.17	45.00	49.10	46.90

Level Crossing Collisions



New Rolling Stock

New world class scenic carriages

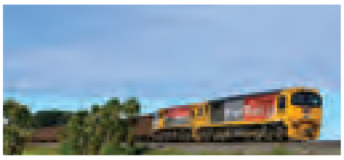
535

new wagons and more to come

260

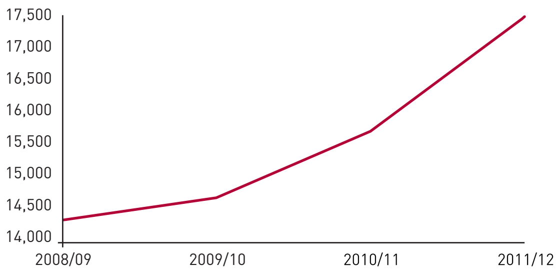
new intermodal containers

20 DL locomotives in operation and 20 on order

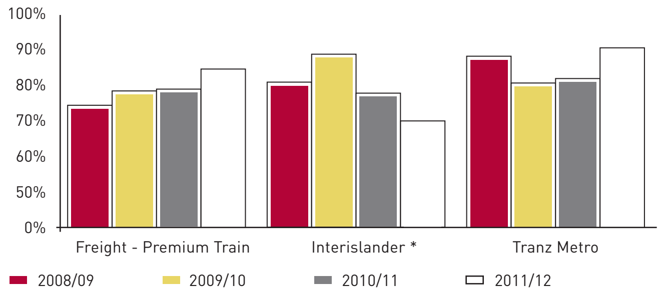


48 new Matangi two car sets in Wellington

Freight Carried

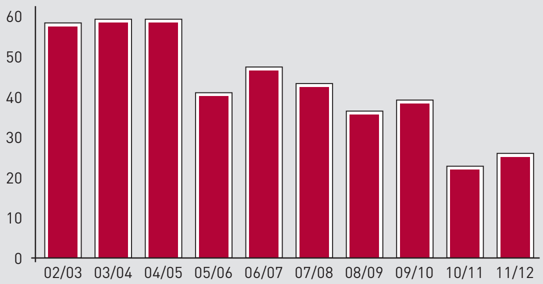


On Time Performance



* Reduction due to Aratere commissioning. Currently at 85%.

Mainline derailments



Mean Distance Between Failures*

* A measure of reliability that expresses the average distance travelled before repair or preventative maintenance is required.

Engagement

	2009	2010	2011	2012
Staff Response Rate	54.6%	58%	72.9%	76.4%
Staff Engagement Index	69.2%	69.3%	70.4%	68.0%

KiwiRail

Chair and Chief Executive's Report

JOHN SPENCER CHAIRMAN

JIM QUINN CHIEF EXECUTIVE

"Our Freight customers have committed volume to the business as their confidence in our capability and serviceability has grown."

FINANCIAL PERFORMANCE BY BUSINESS UNIT ($M)

Measure	Freight	Interislander	Passenger	Infrastructure & Engineering	Corporate	Group
External revenue	457.6	123.9	66.0	34.2	34.1	715.8
EBITDA[1]	129.1	15.6	(0.6)	(82.4)	15.9	77.6
Grants	-	-	0.1	161.5	10.7	172.3
EBIT[2]	66.3	7.1	(2.6)	(146.3)	(2.2)	(77.7)
Total assets	299.3	131.6	43.9	3,669.2	118.4	4,262.4

[1] EBITDA is earnings before interest, tax, depreciation and amortisation. In our financial statements this is described as operating surplus.

[2] Excludes impairment losses and net loss on revaluation of property, plant and equipment.

KiwiRail

As we reflect on the past year there are three key thoughts that come to mind. First the need to thank all those who have shown their support for the business, second the satisfaction and pride in the achievements throughout the year, and third the frustration and disappointment of not meeting our targets.

Thanks go to a wide group, but first must be to our customers. Our Freight customers have committed volume to the business as their confidence in our capability and serviceability has grown. Some of those customers have committed their own capital to building and connecting their sites directly to our network.

Despite our long distance passenger services being affected by the Christchurch earthquakes our passenger customers are experiencing the benefits of new world-class carriages and service capability being rolled out on our services.

Our Wellington Tranz Metro customers have also experienced service improvements after a few years of delays and other issues as the network and rollingstock was upgraded and commissioned. We thank them for their patience.

Our Interislander customers have seen the newly extended Aratere create more capacity and on-board services which is vital to ensuring our future capability.

Our team are also due recognition and thanks for all they have done to deliver the huge array of projects this year, lift our service levels, challenge the business and commit to our plan.

Finally, thank you to our shareholder who has committed to our plan and the capital that is required to drive improvement through some of New Zealand's most challenging economic times.

Our satisfaction and pride in our achievements reflects the scale of what is being done day by day across the business as we drive to commercial self-sustainability. In the past year we and the Government have invested approximately $506 million in capital expenditure across a wide array of projects, including Metro upgrades. We have lifted the standard of our network, maintained the record low level of mainline derailments, reduced speed restrictions, commissioned the first 20 new locomotives in 30 years, commissioned 535 new wagons, stretched the Aratere to create more capacity and the list goes on. Implementing this much change, while operating normally, and delivering $60 million growth to our $400 million Freight business, is a credit to our own team and the businesses that help us every day.

In this context we are frustrated and disappointed we have not met all our targets, and, most importantly, our EBITDA target which is vital to creating the cash we need for financial sustainability.

While our Freight business is performing to expectations, the remainder of our business, particularly passenger, is not. As a result, we are three percent below the revenue target set for the business in our Statement of Corporate Intent.

Freight revenue has grown by 15 percent overall, with the best result coming from the Import-Export division growing revenue by 16 percent to $136 million. The strong dairy season contributed to both the Bulk and Import-Export business, but we have also grown volume from forestry, meat and port movements. Domestic growth increased by

9.9 percent and we are confident this will continue to improve over time as the Christchurch rebuild gains momentum and freight forwarders continue to build intermodal depots on rail-served land.

While the overall outlook for our freight business continues to be positive, we expect reduced volumes in export coal for the next year may reduce overall tonnages for the bulk business.

The Infrastructure & Engineering business has continued the momentum of increased works and maintenance that has exceeded any similar scale of work over the last fifteen years. This year the teams have laid more than 36 kilometres of new rail, 104,500 new sleepers and 523 metres of new bridging. This investment of over $196 million has contributed to maintaining a decade-long low in the number of derailments.

While the Interislander business did produce an increase in revenue of $5.1 million, there was a reduction in EBITDA of $3.7 million due to a drop in passenger numbers, strong competition, and the costs associated with the Aratere extension. The flat domestic economy has meant less people, tourists and freight travelling across the Cook Strait.

Now the Aratere is back in service and performing well, along with improvements to on time performance and cost savings across the whole fleet, we expect that the Interislander's financial performance will improve.

"This year the teams have laid more than 36 kilometres of new rail, 106,000 new sleepers and 523 metres of new bridging."

The Passenger business has recorded a 24 percent reduction in revenue, down from $87 million to almost $66 million this year. This is primarily due to the ongoing impact of the Christchurch earthquakes and the reduction in domestic and international travel on the long distance passenger business. Both the Coastal Pacific and TranzAlpine services are dependent on a healthy Christchurch tourism market and until the rebuild provides further accommodation and facilities these services will continue to experience reductions in passenger numbers.

It is expected that the long distance passenger business will continue to struggle over the next year, and while we are still seeking a partner to help improve this situation, these market challenges make this transaction difficult. We will finalise our position soon. In the meantime, we will focus on better targeted marketing using the new carriages, rebranding and packaging to further appeal to the tourism market. The Capital Connection service from Wellington to Palmerston North is specifically challenged and we expect to resolve its future shortly. We will continue to closely monitor the performance of our long distance passenger services.

The TranzMetro Wellington business continues to improve the quality of its service with better on-time performance at over 92%, while progressively introducing the new Matangi trains into service. But passenger growth has been flat.

Over the past year we created a new position of General Manager Safety and People to facilitate a renewed focus for this critical part of the company. Work has already begun to further improve our health and safety management.

Reduced revenue inevitably means re-prioritising work on the network over the next three years. While the investment of $750 million over this period is less than planned it is still approximately four times of that spent during 2005-2008. Less investment in turn has led to the hard decision to reduce the Infrastructure & Engineering workforce. We are currently in consultation on the decision to reduce numbers by 158 staff.

The advent of new rolling stock has changed the nature of the work we do at our workshops, in particular Hillside. We reduced staffing levels at Hillside and have been seeking a buyer for the business. Once we have completed that process we will either divest Hillside or review its sustainability in our portfolio based on the workload forecasts.

As part of building a financially sustainable business, we have been reviewing the future of minor lines that carry low levels of traffic. The two lines that have attracted most attention have been North Auckland and Napier-Gisborne. Consultation is still progressing on North Auckland, but we have made the decision to mothball Napier-Gisborne. The line had been losing at least $2.5 million a year but, more importantly, needed significant investment beyond the restoration of storm damage that closed the line in March.

We have openly acknowledged any issues and have managed, or are managing, the solutions. The Aratere is performing well, despite initial commissioning delays, and achieving the objectives of the 30-metre extension. The locomotive commissioning is complete. This has taken longer than we would have liked, but future orders will be able to be commissioned quickly now that improvements have been made.

Decay in some imported wooden sleepers has attracted considerable attention over recent months. We have been let down by a supplier and are managing the issue with both the sleeper replacement programme and the process of investigating our legal position with the supplier.

These sleepers are used for specific network requirements and are unable to be sourced locally. Our main sleepers are concrete and are supplied locally. Fletchers opened their new factory during the year to enhance that supply as we continue to invest in the renewal of the rail network.

As a Government-owned entity we know we are subject to a higher level of scrutiny than a comparable private business. We have to accept that the issues we are working through inevitably become matters for external scrutiny. But accepting it does not reduce the disappointment we feel about the impact such scrutiny, and sometimes misinformation, has on our reputation, our suppliers and in particular our staff.

Two years into our strategic plan it is vital we reflect on where we are. Our plan is simple. It requires us to grow volume, maximise its yield, improve productivity through investing well in our assets, tools, systems and processes, and build a world-class culture to underpin the business. We have to do all this to succeed, but growth is measured by customer commitment. Over the last two years freight revenue has increased by 25%, and as freight is where our main growth potential lies, this gives us a level of confidence that if we continue to drive our plan we can achieve our objective of financial sustainability by 2020.

Another achievement over the year was the decision to implement a balance sheet restructure so the company is valued on a commercial basis. As part of this process we are moving ahead to establish a new State Owned Enterprise early next year.

The huge strides that have been made in the first phase of our ten year plan have meant we have a strong foundation going forward. But our challenge is to drive the benefit of revenue growth to the bottom line.

Making the right decisions and continuing to prioritise our investment to customers' needs will ensure we create a sustainable business for New Zealand.

Our thanks go to the Board, management and all at KiwiRail for being resilient and continuing to work hard under challenging conditions to ensure our sustainable future.

John Spencer CNZM, Chairman

Jim Quinn, Chief Executive

Business Reviews

Freight

IN BRIEF

- Rail Freight generates approximately 64 percent of KiwiRail's revenue
- The Freight business has increased revenue by 25 percent over the past two years
- KiwiRail operates approximately 900 freight trains a week
- Rail carries approximately one third of New Zealand's export goods
- Moving bulk goods such as coal, logs and bulk milk continues to be the most significant freight income earner

Impressive freight growth provides confidence for the future

A stellar dairy season and improving service reliability for our customers provided us with the platform to record impressive growth in our bulk and import-export businesses. Growth in our overall business of 25 percent over the past two years gives us confidence that the goals we have set ourselves to become a sustainable business can be met. A flat economy and the delayed Christchurch re-build are holding back our domestic business but it's still achieving growth through the partnerships we are building with our freight-forwarding customers.

Iain Hill, General Manager Freight

Overview

KiwiRail's Freight services are a significant contributor to the New Zealand economy and to the business as a whole. Approximately 30 percent of New Zealand's export goods are carried by rail to the country's ports. As well as moving goods to port, the 900 freight trains that operate on the network each week move bulky and containerised goods over long distances between cities.

Freight is the major contributor to the KiwiRail business, earning 64 percent of the revenue generated. It is also the most important element in the plan to create a financially sustainable business by 2020.

The 2011-12 year for the Freight business has been influenced most by an excellent season for the dairy industry, a comparatively weak domestic freight market and port rationalisation which has created opportunities for rail. An increase in freight revenue for the year of almost 15 percent to $457.6 million is an excellent result in the current economic climate and an indication that the goals we are seeking, as we work toward financial sustainability, are achievable. Net tonnes carried is up 10 percent to 17.4 million tonnes.

The good dairy season increased the volumes of bulk milk carried and also the volumes of processed goods moved to port. The decision by some shipping lines to rationalise port calls has created extra business, particularly between Auckland and Tauranga and on the South Island's east coast. Our forestry business, although impacted by the strong New Zealand dollar, continued to grow.

As a result of these factors, our bulk business grew by 13 percent and our import-export by 16 percent.

Domestic freight is a good barometer of economic activity. While there has been growth in new business gained by KiwiRail, the domestic freight sector overall has been affected by the global economic uncertainty and the delayed Christchurch post-earthquake rebuild. Despite this we achieved 9.9 percent growth in domestic business.

While economic and seasonal issues have influenced the results, so too has the greater reliability of service we provide as a result of network improvements, new rolling stock and new equipment. It's also significant there has been a material improvement in the on-time performance of premier freight services over the 12 months to the end of July.

Bulk goods

Bulk revenues grew by 13 percent to $165.6 million. Bulk milk was the stand-out performer as a result of a good growing season generating record milk production across the country. We also gained new milk traffic in the South Island. Volumes for other commodities such as LPG, fertiliser and steel also grew.

Volumes of export coal were down on expectations with production suspended for an extended period at an underground mine to undertake development work.

Forestry revenues continue to grow with a five percent increase this year, principally from export logs in the Bay of Plenty.

During the year, 98 additional log wagons were introduced and new traffic gained from the Wairarapa to Wellington and Manawatu to Napier lines improved train utilisation. Timber exports

overall were down as a result of the high New Zealand dollar, but the outlook for logs is positive as forests mature.

Import-Export

The Import-Export business had an excellent year. The volume of cargo carried measured in twenty foot equivalent containers (TEU) increased 19 percent while, revenue increased 16 percent to $123 million.

We continue to benefit from Fonterra's policy of creating centralised cool and dry stores and its preference for using rail to move product between these facilities and to port. An excellent dairy season with record production figures at key plants provided large tonnages for KiwiRail to transport, reflected in dairy sector revenue rising 20 percent on last year.

The decision by shipping companies to rationalise port calls also worked to our advantage. Maersk's Southern Star service substituted Auckland for Tauranga as first call, generating significantly more import cargo moving on Metroport services. As a result, Port of Tauranga's revenue was up 22 percent on last year.

The industrial action that affected Ports of Auckland resulted in additional unplanned cargo moving to and from Tauranga on Metroport and KiwiRail services. A number of lines diverted their ships to other ports and KiwiRail assisted in moving significant import volumes north to Auckland.

Shipping line sector revenue overall was down two percent on last year. Had it not been for the industrial action, the reduction in business would have been greater.

Maersk's removal of Port Taranaki from their schedule resulted in significant volume moving to KiwiRail. Meat sector revenue was up eight percent on last year as a result of the reduction in coastal shipping options available from Taranaki. The new business was helpful at a time when overseas demand had been depressed by the high exchange rate and the economic recession in Europe.

Domestic

In line with sluggish general economic conditions and a delayed start to the Christchurch re-build, the domestic freight market remained weak. Domestic freight revenue, at $108 million recorded modest growth of three percent over the previous year.

As a result of the forecast Christchurch rebuild volumes failing to materialise, volumes on the key Auckland – Christchurch corridor were below expectations.

There was however positive growth in the Auckland – Wellington corridor as new freight forwarders opened up premises on rail-served KiwiRail land, and successfully converted freight from road to rail with the help of the newly introduced intermodal 25ft and 48ft curtain side equipment.

The introduction of new wagons provided the capacity for us to meet demand during the November-December peak although constrained domestic spending reduced volumes being moved.

Outlook

While it's difficult to predict how the weather will influence milk volumes in the new dairy season, we have been developing new bulk milk business. After a reduction in the amount of coal carried in the past year, the outlook for coal over the next year is difficult to predict in the face of reducing international commodity prices and slowing demand from Asia. We are, however, anticipating a new opencast development to be approved this financial year and expect an increase in domestic demand on rail due to new dairy processing capacity in the South Island.

In the IMEX business, we can expect a further lift from continuing port rationalisation. International shipping lines have already announced that they will no longer serve Prime Port (Timaru). This creates opportunities for KiwiRail to centralise to other ports.

A depressed global shipping industry looking to improve returns could result in further initiatives which could create opportunities for KiwiRail.

However, these initiatives also create some risk as lines look to provide some differentiation in the market. The most recent example is Maersk adding CentrePort to their Southern Star rotation.

There are opportunities arising from the larger meat exporters looking to control their own inland transport rather than relying on shipping lines to provide services at the closest port to production.

In the domestic business the outlook remains uncertain. Progress on the Christchurch rebuild and recovery in the domestic retail sector would need to occur to significantly boost traffic.

The continuing development of customer terminals on rail land is an encouraging trend which will yield new business. Mainfreight opened its Wellington terminal just before Christmas and is currently involved in terminal projects in Palmerston North, Christchurch and Invercargill.

We expect the task force working on improving on-time performance to make further gains in the coming year, improving the level of service we are able to offer customers.

Volume of Freight Carried

Measure	2011/2012	2010/2011	2009/2010
Net tonnes (000)	17,455	15,700	14,764
Net tonnes/km (m)	4,581	4,178	3,919

Performance Measures

Measure	2011/2012	2010/2011	2009/2010
Freight premium train on-time (%<30mins)	81	79	79
Freight operating cost/NTK	7.6 c	8.1 c	8.4 c
Freight labour cost/NTK	2.0 c	2.2 c	2.2 c

Financial Performance ($m)

	2011/2012	2010/2011	2009/2010
External revenue	457.6	396.7	367.1
EBITDA ($000)	129.1	117.7	100.7
EBIT ($000)	66.3	86.9	55.7
Total net assets ($000)*	299.3	523.2	471.5

* Due to balance sheet restructure

Market Segment

	Bulk*	Import/Export	Domestic
Net tonnes (000)	8,618	6,289	2,546
Net tonnes/km (m)	1,963	1,324	1,250

* Includes forestry

Performance Measures

	2011/2012	2010/2011	2009/2010
New wagons	0	535	55
Wagon wheel-set changes	969	1,360	1,420
Wagon bogie changes	252	637	640
Wagons brought back into service	10	15	40
Wagon conversions	7	12	40
New locomotives	0	20	0
Locomotive bogie changes	31	30	25
Locomotive overhauls	6	6	10
Locomotive engine overhauls	4	6	9

KiwiRail

Infrastructure & Engineering

IN BRIEF

- Infrastructure & Engineering works to provide a robust network on which trains can operate and to maintain and refurbish rolling stock to the highest standard
- Manages the movement of traffic on the network
- Manages major infrastructure projects

Maintaining the momentum

It has been a challenging year for staff in the Infrastructure & Engineering team. We have maintained the momentum of work on increasing the robustness and reliability of the network and played a key role in improving customer service levels. But we've also looked hard at what we do and how we do it as part of rebalancing our investment with the income being generated by the business.

Rick van Barneveld, General Manager Infrastructure & Engineering

Overview

The Infrastructure & Engineering business unit is responsible for operating and maintaining the railway network and much of the rolling stock that operates on it at the Hillside and Hutt engineering workshops. Mechanical Engineering and the workshops had previously operated as an individual business unit.

The acquisition of new locomotives and rolling stock was the catalyst for simplifying the structure. It was logical for the Freight business unit to take greater control of the servicing requirements of its new equipment and for the workshops and fleet engineering to become part of the network infrastructure.

The Infrastrastructure & Engineering team have experienced a challenging year as they adapted to the new structure and also worked to reduce costs in line with lower than expected income from the business units. Despite this, the business unit's performance against key indicators matches anything achieved over the past fifteen years.

This year our infrastructure teams have laid more than 36 kilometres of new rail and 104,500 new sleepers. Last year we laid 106,000 sleepers but only 21 kilometres of new rail. The focus on bridge replacement and renewal is also reflected in this year's figures – 523 metres of bridging compared with 411 metres the year before.

This work, along with further good progress on rail de-stressing, is an integral part of improving the network infrastructure so that service reliability can be improved and transit times reduced.

It is eight years since the network infrastructure returned to public ownership. In that time, the emphasis on addressing underinvestment over the previous ten to fifteen years has resulted in year-on-year improvements to track and associated infrastructure. The trend has continued this year.

During the past year, some of the achievements have included:

- Progress on completing three crossing loops on the East Coast Main Trunk that will, when completed before the end of the year, double capacity on the line from two trains an hour to four.
- An improvement programme on the Wairio Industrial Line north of Invercargill that will enable coal supplies for South Island dairy factories to be moved more reliably.
- The opening of a new concrete sleeper factory in Hamilton in partnership with Fletcher Challenge's Hume Pipeline Services. The new factory secures a stable, cost effective supply of sleepers.
- The replacement or renewal of 12 bridges on the Hokitika Industrial Line to enable heavier loads to be moved to and from the Westland Dairy factory.
- Early work on the construction of a third railway line into and out of Auckland to improve freight flows and reduce conflict with Auckland suburban network passenger services.
- Continuing renewal work on the Auckland and Wellington metro networks which have included new track layouts, new signaling and the building of electrification infrastructure in Auckland. In Wellington it has involved the renewal of traction poles and wiring, measures to reduce land slips and improvements to track and drainage in tunnels.
- The opening of the Manukau branch line in south Auckland was a milestone as the programme of work to improve Auckland suburban rail infrastructure winds down.

The improvement in the condition of track on major lines is reflected in the continuing reduction in mainline derailments. Derailments are caused mainly by track or wagon faults or a combination of the two. Last year, derailments dropped more than 40 percent to a 10-year low. The 27 recorded this year is marginally more than last year but consolidates the trend of reducing detrailments and remains a significant indicator of infrastructure improvement.

For customers, reliability is the critical factor. A continuing reduction in temporary speed restrictions is an indication that we are improving transit times and customer service.

In tandem with the focus on reducing costs, network has been working to improve productivity. The Sirius asset management system project grew out of a recognition that we needed to be more systematic about the recording of our assets and the way we maintain them.

It's an information technology project that has taken longer to implement than we had hoped but pilot programmes operating around the country have been ensuring that the gains made are consolidated. We expect to have Sirius operating across I&E business later in the financial year.

During the year, we made the decision to seek a buyer for Dunedin's Hillside Workshops. The carriages for Tranz Scenic and some wagons for track work trains are the last significant projects for Hillside. The forward work-flow looks increasingly problematic as we continue the renewal of the locomotive and wagon fleets.

Currently we are working through expressions of interest in buying the Workshops before determining the next step. Hillside has a long history of supporting railway work but its declining business base and the changes in the way we operate our business leave us with no option but to consolidate our workshop operations.

RAIL PROJECTS

Auckland electrification

Twenty-four sites across the Auckland network are now ready for electrification in preparation for the arrival of new electric multiple units. In addition, tunnels at Parnell and Purewa have been lowered. Twenty-two bridges have been completed where either the bridge has been raised or the track lowered to accommodate the overhead line infrastructure.

Work has been concentrated in blocks of line around holidays such as Christmas, Easter and

Queen's Birthday Weekend.

During the year, state-of-the-art signalling was introduced on the network. All of the network is now operating on the Invensys Westrace MkII Operating System.

Rail 9000, a new Train Control System has been operational since April in Wellington Train Control. Bi-directional operation under signalling is now operating between Swanson and Papakura. Lock-out zones provided by the new signalling system are being used to implement rail protection.

An Automatic Train Protection system will be commissioned in conjunction with the arrival of the new EMUs.

Over-head wiring has been installed on the Onehunga Branch Line and a Code of Compliance issued.

A total of 2400 foundations for traction masts out of 3500 required have been installed. On the North Auckland Line installation is complete between Westfield and Swanson. On the North Island Main Trunk, South Westfield to Wiri is 38 percent complete, South Wiri to Papakura is 72 pecent complete, and NIMT East is 33 percent complete.

Approximately 110 kilometres of wiring has been erected and six feeder and switching stations have been completed ready for commissioning.

Project costs to date are $351 million. We expect to complete this project on time and on budget.

Wellington rail upgrade

Most of the elements of the Wellington Regional Rail Programme - to prepare the network for the arrival of the Matangi units – have been completed. However work has continued on improving the robustness of the Wellington network.

The focus of work during the Christmas and Easter blocks of line was on renewing sections of ageing traction equipment – lines and poles – on the North Island Main Trunk, replacing track and improving drainage in Tunnel Two north of Wellington and preventative work between Plimmerton and Pukerua Bay to reduce the impact of land slips.

Level crossing upgrades

During the year, KiwiRail upgraded 10 railway level crossings by installing either barrier arms and/or flashing lights and bell (FLB) alarms. The installation of flashing lights and bells at three crossings on the Auckland network, previously protected by passive signs and maze fencing, completes the protection by automatic alarms of all level crossings in the Auckland area between Pukekohe and Swanson.

Performance Measures

	2011/2012	2010/2011	2009/2010
New rail laid (Km)	36.3	21.2	19.0
New sleepers laid (000)	104.5	106.1	53.0
Line de-stressed (km)	242.0	264.0	218.0
Bridges replaced (m)	523.8	411.0	550.0
Timber piers replaced	77.0	71.0	92.0
Derailments	27.0	24.0	41.0

Financial Performance ($m)

	2011/2012	2010/2011	2009/2010
External revenue	34.2	20.0	13.7
EBITDA	(82.4)	(58.2)	(13.7)
Grants	161.5	332.1	455.1
EBIT [1]	(146.3)	46.6	174.1
Total assets [2]	3,669.2	12,589.3	12,365.9
- Infrastructure & Engineering Assets (exl land)	411.0	6,949.7	6,718.6
- Land Assets	3,258.2	5,639.6	5,647.3

[1] Excludes impairment losses and net loss on revaluation of property, plant and equipment.

[2] Reduction due to $2.45 billion decrease in, and values resulting from, the normal revaluations performed by independent valuers; and a $6.5 billion decrease in all other fixed assets as a result of the decision to restructure our balance sheet.

Interislander

IN BRIEF

- Contributed 17 percent of KiwiRail's revenue
- Increased overall revenue by $5 million
- Operates three ships, two of them with dedicated rail decks
- Serves three separate markets – rail freight, commercial vehicle transport and private passenger transport

Reaping the benefits of investment in the future

Increasing revenue in a tough economic environment is satisfying. We faced some big challenges during the year getting Aratere extended and back into service. That's behind us and we're beginning to reap the benefits. It's also satisfying to improve our yield in what has become a highly competitive market. That says a lot for the way our people are accepting the challenges they face and getting the most from what they have to work with.

Thomas Davis, General Manager Interislander

Overview

Interislander overcame a drop in passenger numbers during the year to record an increase in overall revenue of $5 million. Strong competition on Cook Strait, a sluggish economy and the costs associated with the extension of the ferry Aratere reduced EBITDA by 19.3 percent, from $19.2 million last year to $15.5 million.

The prevailing economic conditions in the wider economy provided no underlying stimulus for growth in the freight and passenger markets. These conditions were further compounded by strong competition in the airline industry. These issues were exacerbated in the first quarter by reduced revenue as a result of Aratere being in Singapore for her extension and increased costs associated with leasing an alternative vessel.

While passenger numbers were down, Interislander managed to generate passenger revenue in line with last year through improvements in yields. The number of passenger vehicles carried was broadly in line with last year at 212,000, while passenger numbers dropped by four percent to 755,000. The wholesale market was adversely affected by very weak activity in the inbound tourism markets. The economic uncertainty affecting the northern hemisphere that has constrained the long-distance passenger rail business has also impacted on Interislander.

Commercial vehicle revenue was marginally ahead of last year, despite the previous year's volumes being boosted by earthquake-related activity. A small overall volume decline was offset by a moderate yield gain at slightly above inflation resulting in a net revenue improvement of about $1m.

The freight market is extremely competitive. One of the results has been ongoing reductions in freight rates over a 10 or 20 year period. Achieving a real increase in yields is therefore a positive outcome – the result of a greater focus on the issue.

Revenue from carrying rail freight also increased in terms of both volume and yield. Rail freight volumes were over three percent ahead of the previous year. This increase, on top of the eight percent increase in the previous year, is due to gains achieved by the core rail business as part of KiwiRail's plan to achieve financial sustainability as well as the increased rail capacity of Aratere.

Interislander Profile

The Interislander provides freight and passenger services across Cook Strait on three ferries: Arahura, Aratere and Kaitaki. Arahura and Aratere were purpose-built for New Zealand conditions containing dedicated rail decks for freight.

Aratere returned to service in October 2011 following completion of a major modification in Singapore that resulted in a 30 percent increase in freight capacity, doubling in passenger capacity and improvements in operational performance that included a new bow and improved propulsion systems.

While this project adversely impacted on revenue and costs over the first quarter, it has laid the foundations for improved financial performance in the future. Aratere took some time to settle into her routine when she returned, but after some initial problems has performed well.

Work is continuing on other parts of the fleet strategy. Interislander's future challenge in this respect is the provision of sufficient and reliable capacity to accommodate forecast growth as the plan to achieve financial sustainability is implemented. In the short term, the work is focusing on renewing or replacing the Kaitaki lease which expires in 2013. In the longer term, the 28-year-old Arahura will also need to be replaced. Preliminary work has begun on future options, including innovative solutions that could reduce the reliance on particular vessel types.

Ship	Age (years)	Tonnage	Ownership	Freight Vol* (lane metres)	Passenger Numbers	Crew
Arahura	28	12,735	Owned	756	539	50
Aratere	13	17,816	Owned	1,052	670	39
Kaitaki	16	22,365	Leased	1,150	1,650	60

* Effective capacity

Performance Measures

Measure	2011/2012	2010/2011	2009/2010
Passenger journeys	755,398	785,076	845,411
Commercial vehicle lane metres	1,184,647	1,214,681	1,055,280
On-time performance (%<15 minutes)*	75%	77%	89%
Labour cost/revenue	30.9%	30.7%	31.8%

* Reduction is due to the impact of the Aratere commissioning. Currently at 85%.

Financial Performance ($m)

	2011/2012	2010/2011	2009/2010
External revenue ($m)	123.9	122.9	120.2
Total revenue ($m)	160.4	155.3	149.5
EBITDA ($m)	15.5	19.2	19.8
EBIT ($m)	7.1	12.8	13.0
Total assets ($m)	131.6*	106.4	83.0

* Increase in assets due to Aratere commissioning.

Passenger

IN BRIEF

- Passenger contributed 9.2 percent of KiwiRail's revenue during the year
- Passenger operates three high-quality long distance passenger trains, the TranzAlpine, Coastal Pacific and Northern Explorer
- We operate metro services on the Wellington suburban network under contract to Greater Wellington Regional Council
- Difficult local and global economic conditions have impacted on long-distance services
- The future of the Capital Connection service which operates between Palmerston North and Wellington is currently under review

Improved Metro services and new initiatives for Scenic

It's great to see Wellington commuters responding positively to the city's new train and improved railway infrastructure. We have achieved an on-time performance of 92 percent with most of the new Matangi trains commissioned. But the last two years have shown us that it's a difficult local and global environment in which to run long-distance passenger trains. We have taken steps during the year to reduce our costs and improve services, and feedback from passengers has been positive.

Deborah Hume, General Manager Passenger

A slow increase in the number of people in the Wellington region using Tranz Metro services has not been enough to offset the effects of fewer travellers on long distance passenger trains. The result has been a 24 percent reduction in overall passenger revenue, down from $87.0 million to $65.8 million this year. Passenger as a whole recorded negative EBITDA of ($0.6 million). TranzMetro contributed $3.81 million and Scenic (Long Distance Passenger) negative $4.403 million.

New state-of-the-art passenger carriages and re-branded services will help counter the issues confronting long distance passenger services, but recovery is likely to be slow until the economic outlook in the northern hemisphere improves and the new Christchurch takes shape. The 2011 Rugby World Cup had been expected to provide a lift in passenger numbers but this did not eventuate.

A number of factors have combined to reduce long distance passenger numbers. The impact of the Christchurch earthquakes are still affecting tourism in the South Island. The city's infrastructure, particularly the number of good quality hotels, cannot meet the needs of overseas visitors.

Global economic uncertainty, particularly in Europe, is deterring those who find KiwiRail's long-distance passenger experiences most appealing. There have been increases in the number of visitors from Asia and Australia, but historically they have been less inclined to travel.

The TranzAlpine continues to be our long-distance standard bearer, but not at the level of passenger loadings recorded in the past. In the 2011-12 year, the train carried 105,938 passengers compared with 137,000 the year before and 193,000 in the 2009-10 year.

Reduced advance bookings for what had been known as the TranzCoastal last winter led to services being suspended until September when the service was re-branded as the Coastal Pacific, restoring a brand that had been used successfully in the past. In November, the service received new world class carriages built at Hillside featuring 52 square metres of glass in panoramic side and roof windows.

These improvements were welcomed by passengers but were not enough to overcome the combined effects of fewer northern hemisphere visitors and the Christchurch earthquakes. In the past year, the service carried 42,166 passengers on 598 services compared with 49,000 passengers on 533 services the year before.

The trend was similar on the formerly named Overlander service between Wellington and Auckland. Passenger numbers dropped 13 percent from 63,000 to 55,059. With average passenger numbers per train dropping below 100, it was clear we needed to make changes to restore the service's relevance and economic viability.

The reduction in passenger numbers in the South Island enabled us to transfer four of the new carriages to the North Island and re-brand the Overlander service as the Northern Explorer. The service was launched in late June.

Services running in only one direction and returning in the other direction the following day, combined with a faster transit time, have reduced costs and improved the service's relevance to overseas visitors.

During the year, we have continued our search for a partner who can add value to our long distance passenger business, either in the form of capital for improvement or specific expertise. Current negotiations are suspended but we will continue to look for options while concurrently driving improvements ourselves.

The Wellington Metro business recorded a similar number of passengers carried in 2011 at 11.3 million. While there was an increase in the quality of service provided, evident in the roll out of the Matangi and the improvement in on-time performance, this has come at a time when there has been a reduction in people employed in the Government sector. Overall, 92 percent of services were running to within five minutes of schedule.

In past years we have measured on-time performance within three minutes of schedule. On this measure, performance has lifted from 84 percent to 86 percent. We have moved to the five-minute measure because it is the standard used by comparable service operators.

During the year, more than half of the 48 Matangi units purchased by Greater Wellington Regional Council came into service. We expect service levels to improve further in coming months as the remainder of the new units are commissioned.

Greater Wellington Regional Council's decision to order more Matangi units rather than supplement the metro fleet with refurbished Ganz Mavag units, will ultimately further improve reliability although, they require us to run the best of the Ganz units until they are delivered.

The Capital Connection service which operates on weekdays between Palmerston North and Wellington is included within the Scenic figures for accounting purposes. During the year, it carried 158,972 passengers compared with 170,000 passengers the year before.

Capital Connection passenger numbers have been affected by the extension of Metro services to Waikanae in February 2010. Roughly half of the passengers using the train in the past had boarded or departed the train at either Waikanae or Paraparaumu. Many of these passengers have switched to Metro services, undermining the profitability of a service that does not attract any form of subsidy.

KiwiRail served notice during the year that we would not be able to continue the service without some form of subsidy being provided to offset losses. Horizons and Greater Wellington Regional Councils are currently in negotiations with the New Zealand Transport Agency to determine whether such a subsidy can be provided. If these negotiations are unsuccessful, the Capital Connection service will be discontinued.

Rail Passenger Services

Service	No. of services	Passengers 2011/2012	Passengers 2010/2011	Passengers 2009/2010
Tranz Metro	108,551	11,274,139	11,242,812	11,134,000
Overlander/Northern Explorer	575	55,059	63,376	72,000
Coastal Pacific	598	42,166	49,384	75,000
TranzAlpine	728	105,938	136,985	193,000
Capital Connection	500	158,972	170,218	178,000
Long-distance passenger total	2,401	362,135	419,963	518,000

Performance Measures

Measure	2011/2012	2010/2011	2009/2010
Tranz Metro on-time performance (%<5 mins)	92%	90%	89%
Long-distance operating cost/passenger ($)	105	54	46

Financial Performance (m)

	2011/2012	2010/2011	2009/2010
External revenue (m)	66.0	87.0	91.3
EBITDA	(0.6)	10.5	16.4
EBIT*	(2.6)	4.5	10.4
Total assets	43.9	51.8	87.9

* Excludes impairment losses and net loss on revaluation of property, plant and equipment.

Property

Over the past year KiwiRail's property division has been tasked to build on the complementary opportunities for both our internal capabilities and external customers.

We are systematically getting increased visibility of the various components of the property portfolio. This includes the rail corridor, our internally used depots and workshops, and the parcels of land that can be utilised to grow commercial returns.

In the commercial space we are continuing to grow strong partnerships with customers who want rail-enabled facilities with the dual benefit of commercial returns to the property business and support for rail freight growth.

We are also well into the process of assessing the quality and earthquake resistant compliance of our structures around the country so we can ensure the safety of our staff and tenants.

Another initiative this year is beginning the implementation of a web-based property assessment programme giving us greater visibility of the state of the assets and a assessment of the ongoing maintenance requirements. Over the next 12 months we are looking forward to completing a thorough strategic review of Property to assess what can be further improved and delivered. This includes a review of the quality of the company's property portfolio.

We believe the resources and assets within our Property division can continue to contribute to the overall objective of becoming a sustainable business by their ongoing positive contribution to revenue growth.

Wellington Railway Station 75th anniversary

In mid-June, Wellington Railway Station celebrated its 75th anniversary.

Officially opened in 1937 by the then Governor General, Viscount Galway, the station was designed to reflect the importance of the railways in the nation's progress and development. Enclosing the platforms on three sides, the U-shaped building is 23.5 metres high and 105.5 metres long.

Wellington Railway Station has national architectural significance and demonstrates the design skills of local architectural firm Gray Young, Morton and Young. The station is an important national landmark.

When it was first built, the station accommodated 675 railways department head office and district staff, and replaced Wellington's two former stations, Lambton and Thorndon. Around 7,600 people passed through the station daily in the first year of the building's life.

In its 75 year lifetime, the station has probably had more foot traffic through it than any other public building in Wellington, and has been associated with a great many matters of importance in New Zealand history. It has been used as the start or end of many important train journeys, including Michael Joseph Savage's funeral procession, which started from Parliament and continued by train to Auckland, allowing thousands of people to pay their last respects.

It has also served as a filming location and car chase scene for New Zealand's iconic movie Goodbye Pork Pie.

Over its 75 years, the station building has had some alterations – the biggest of which took place between 2003 and 2008 when the main station building was refurbished to house part of Victoria University.

KiwiRail

Safety and People

With approximately 4200 staff in many different jobs in locations across the country, KiwiRail is one of New Zealand's largest and most widely distributed transport companies. We believe our success in building a sustainable business will only happen with the support of our employees.

We are committed to ensuring we continue to improve the conditions, and provide the resources and training they need from us. As part of this commitment we have commenced a review of training and leadership development that will inform our next steps.

Over the past year we recognised that the Safety and Human Resources areas of the company needed a renewed strategic focus to ensure further improvements could be developed and implemented. As a result a new position of General Manager Safety and People was filled and we initiated a Health, Safety and Environment (HSE) Project with the objective of reviewing the way KiwiRail HSE functions are structured and what tools they use.

Key improvements have been identified and they include:

- A HSE organisation structure to provide the greatest impetus for change and improvement in the company
- A set of Life Saving Rules to focus attention on the fatal risks in the business and how to prevent them
- Talksafe, a KiwiRail HSE leadership behavioural indicator
- A HSE scorecard to provide a common measure of high level safety performance for Executive, Board and the wider business
- A HSE communications strategy to support the KiwiRail team to provide clear and consistent safety messages throughout the business.

Together these will provide the platform to create change and improvement in our health and safety management and injury reduction over time as we continue our commitment to a Zero Harm culture.

SAFETY

All KiwiRail staff are responsible for safety and we take this responsibility seriously. We are committed to Zero Harm – encompassing the belief that all injuries are preventable. We are focused on developing a workplace safety culture where operating discipline is applied to all our planning and tasks.

Harm to People

KiwiRail uses a number of indices to measure workplace safety and health. Two key measures are Lost Time Injury Frequency Rate (LTIFR) and Medical Treatment Injury Frequency Rate (MTIFR).

The year's LTIFR rate of 6.1 per million hours worked is the same as the previous year, while the MTIFR has reduced from 49.1 per million hours worked to 46.9.

Sixty one percent of injuries were either muscular strains from physical tasks or bruises.

KiwiRail has been working to reduce workplace injuries with education programmes such as TalkSAFE. These are implemented using both written and face to face communication with our staff.

As most incidents are the direct result of human behaviour, TalkSAFE encourages staff to watch out for each other and give feedback. By encouraging and discussing the good behaviours, staff help to discourage the bad.

While it is encouraging that these statistics are either improving or staying consistent, we still have a long way to go.

Safe Train Operations

Train derailments

The lower frequency of train derailments was maintained during the year at 27. This is a result of safety improvement strategies, commissioning new rollingstock and the ongoing improvements and upgrades to the national rail network.

CASE STUDY: Ganger Averts Derailment

Due to Hawera Ganger Tony Roberts' decision to use his initiative and conduct further safety checks after some severe weather hit the region, a large slip was discovered that could have led to a derailment. Instead of checking a smaller area where a slip was suspected, Tony undertook a longer check using a high-rail vehicle as he knew the bigger freight services were due to arrive along the main line. "The team did a great job getting the track inspected, cleared and open despite the rough conditions," said Area Manager Daniel Headifen.

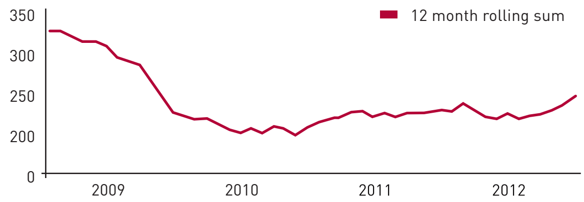
Shunting Safety

In 2010 a new approach to training involving an experiential learning approach using animation was introduced to reduce the occurrence of incidents involving shunting operations. Feedback from both personnel and trainers has been positive, as have the results. The number of incidents have been reduced by 38% since 2010. We are now investigating how this approach to training could assist us in i mproving performance and safety across other operations.

Freight Handling

Gains previously achieved in reducing the risk of freight loss and incidents caused by incorrectly loaded wagons continued to be maintained from the previous year.

Freight Handling Incidents

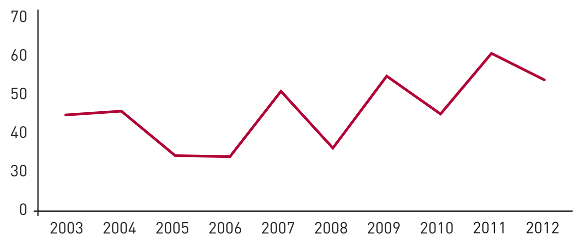


Signals Passed At Danger (SPADs)

Reducing the number of SPADs, or trains going past a red signal, remains a key strategy for the business.

Programmes underway to achieve this include improving training and new in-cab technology being introduced into metropolitan Auckland.

Signals Passed at Danger



Safety programmes

sEWPS (simplified Electronic Worksite Protection System)

KiwiRail considers track-worker protection as a priority when undertaking any construction projects. Through the smart use of technology, we are certain a safety-critical protection system can be developed that improves worksite safety and productivity. This will work by moving away from having to stop trains prior to worksites by guaranteeing they are safe and clear of track workers before a train passes. The sEWPS system will detect whether a locomotive has failed to stop before reaching the Stop Board. If this occurs, it will automatically activate the brakes, stopping the train and providing an independent back-up to the locomotive engineer.

sEWPS is the first milestone in the development of a wider electronic worksite protection system. It will begin to be rolled in the coming months in areas of the North Island Main Trunk and East Coast Main Trunk.

RIC (Rail Incident Controller)

Over the last year KiwiRail has been rolling out RIC training for Managers and Team Leaders so they can better manage incidents. The training guides the Incident Controller through site hazard identification and management, as well as the collection of evidence. Since the rollout began we have seen an immediate improvement in how incidents are managed. This ensures we operate safer incident recovery sites and are better able to fully investigate the incident cause.

HSAT (Health and Safety Action Teams)

HSAT teams meet regularly on all operational sites to review risks and hazards in a collaborative manner. They also help ensure staff are participating jointly with managers in creating a safer working environment.

OUR PEOPLE

Workforce capability

Building and maintaining the right workforce capability is one of KiwiRail's priorities, and despite the ongoing challenges of an ageing workforce and competition for skilled staff, we are committed to offering more opportunities for our staff. As a diversified business with a national footprint, we can offer our people a career with opportunities for change and development.

CASE STUDY: Hutt Zero Harm

Hutt Workshops avhievement in having three separate business teams manage 10 years without a lost time injury received offical recognition when it won the ACC Workplace Safety Award at the Wellington Gold Awards. The win recognised the Workshops electrical, maintenance and administration teams achievement, as well as the site's overall work to achieve a zero harm culture.

One of our biggest challenges is attracting and retaining people for specialist roles in the face of domestic and overseas demand. This year we conducted a comprehensive domestic and international recruitment campaign for Locomotive Engineers resulting in the recruitment of 46 to work in both the passenger and freight businesses.

Over the last year we have continued staff development programmes such as Team Leader Training, our Language, Literacy and Numeracy (LLN) programme, and technical training programmes across all disciplines.

Since August 2010, 140 of our staff have been referred to the online LLN programme. 120 have been assessed and 78 have had 10 or more hours of tuition. As a result of positive feedback, modular-type LLN training is also being developed as a group training offering.

Also during the year 28 KiwiRail employees graduated with the National Certificate in First Line Management

Level 4. This training focuses on developing self and team-management skills needed to successfully lead people and projects, which is a vital part of helping our company improve.

Staff Engagement Survey

As we have for the past four years we conducted an annual staff survey to assess how engaged our people are and what they think about the business and its progress. The survey results confirmed again that KiwiRail staff are passionate about this business and several clear themes emerged. For almost all staff the most positive thing about working at KiwiRail is the people they work with, but there were calls for better communication to make sure everyone understands where the business is heading. They also told us we need to improve on developing career pathways and continue progress on improving performance management.

In the coming year KiwiRail will ensure a stronger effort is made to understand the challenges we have to improve our levels of staff engagement.

Workplace relations

KiwiRail recognises the importance of constructive and mutually beneficial relationships with employees and their representatives.

Our industrial councils operate in each of the business units where participants are able to table business and productivity initiatives. These councils, which operate in partnership with the Rail and Maritime Transport Union (RMTU), have proven particularly effective as a forum for our staff and managers to discuss work practices and issues at a strategic level.

KiwiRail is currently negotiating with the RMTU the main industrial agreement (MECA) that covers over 2,000 of our staff and we are also engaged in negotiations for agreements covering the Interislander business.

Organisational Health and Wellbeing

Drug and Alcohol Policy

A big step forward in ensuring a safe and productive workplace was the implementation this year of a new company-wide Drug and Alcohol Policy. This initiative has been well received by customers, unions and our staff helping to ensure our staff are not at risk from those affected by drugs or alcohol.

Health initiatives

KiwiRail has run or facilitated a number of initiatives aimed at improving the health and wellbeing of our staff including:

1. Work-Well

Over the past year KiwiRail has initiated and begun rolling out a general health and wellbeing initiative called the Work-Well programme. Work-Well focuses on personal health and includes education on alcohol and other drugs, infection control and immunisation, mental health and wellbeing, nutrition, physical activity, sun safety and smokefree. We have encouraged all staff to get involved, as the more fit and well a person is, the more likely they are to be focused and prepared for work and doing it safely.

2. SafeSpine

Onsite Health Solutions (OHS) has implemented an injury reduction programme at Hutt Workshops called Safe Spine. Started in November 2011 the programme worked by educating the 179 employees about the benefits of good muscoskeletal health. Now fully part of the safety culture at Hutt Workshops, teams begin their shifts by doing stretching exercises which help reduce the incidence of injuries.

Rail in the Community

KiwiRail has both a visible and active presence in the community through its 4,000km national rail network, Interislander ferries and over 4,200 employees. Community project work and sponsorship is focused on improving awareness of rail safety, improving the appearance and safety of the rail corridor, and helping to enhance quality of life for New Zealanders.

RAIL SAFETY IN THE COMMUNITY

Safety is paramount in the rail and ferry industry - the safety of our own staff, passengers we carry and safety of the general public. Public safety around the rail corridor and on the ferries relies on individuals making the right decisions to stay safe. KiwiRail attempts to encourage these decisions with safety education programmes, conducting anti-trespass initiatives, and upgrading public level crossings.

Level Crossing Safety

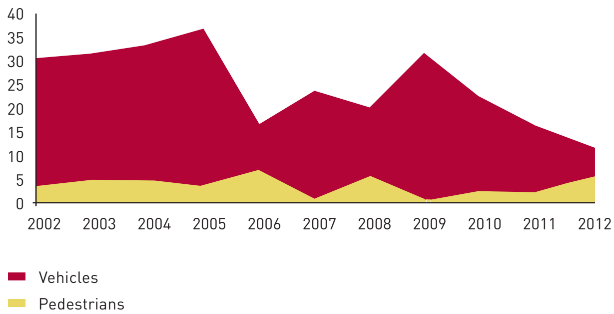
There are approximately 1400 public road level crossings and 85 standalone public pedestrian crossings nationally. Around 700 road crossings have either barrier arms or flashing lights and bells - the others are protected by stop or give way signs.

In the last year 11 vehicle collisions and four pedestrian collisions were reported. A decade ago there were regularly between 30 and 40 level crossing collisions with road vehicles a year. In recent years this number has been decreasing.

We have completed a survey of all public level crossing risk using the Australian Level Crossing Assessment Model (ALCAM) and, along with the NZ Transport Agency, commenced surveying the many private level crossings around the country.

Since 2005 we have conducted an ongoing programme to upgrade level crossings with higher levels of risk and this progress is directly reflected in the reduction in collisions. In the last financial year we upgraded ten level crossings at a cost of $1.3 million.

Level Crossing Collisions



KiwiRail is a major sponsor of the Chris Cairns Foundation, which aims to raise public awareness of the responsibilities at public level crossings. The Foundation focuses on education campaigns to help people understand the dangers associated with level crossings and the rail network. This culminates in the promotion of Rail Safety Awareness Week in August every year.

Passenger safety

There were no fatal or critical injuries to passengers during the year. Seven injuries to rail passengers were reported. The majority of these were slips, trips and falls that occurred on station platforms and passenger ramps or when alighting or boarding stationary trains. There were 35 passenger injuries reported on Interislander for the year, with the majority being trips and falls, and passengers falling ill on-board due to prior medical conditions.

Public safety

Trespassers continued to expose themselves to risk of death and serious injury. Sixteen collisions with trespassers were recorded, with a further 38 near collisions. As a result of the doubling of these statistics Rail Safety Week in 2012 focused on pedestrian safety to try and reduce the number of these distressing incidents.

One hundred and thirty eight incidents of materials theft were reported, primarily relating to infrastructure materials. At least one of these incidents had the potential to cause a serious derailment when pandrol screws were removed from a section of track at Takanini. Fortunately, due to our rigorous track inspection regime, this was noticed by our staff and fixed before a train went through.

Rail bridge strikes caused by over-height road vehicles continued to cause disruption to train services. Thirty events were reported, each resulting in a network closure while the bridge inspection was completed and, if required, emergency repairs made.

RAIL CORRIDOR SECURITY AND APPEARANCE

KiwiRail endeavours to keep the rail corridor looking its best by removing graffiti, managing vegetation growth and planting low maintenance plants. We work in partnership with many organisations around the country to ensure the rail corridor is maintained, kept tidy and remains safe for all users including our neighbours.

The rail corridor is a popular target for trespass which in turn leads to graffiti, littering, damage to property and dumping of rubbish. During the year we have continued to work with Trusts, local Councils, Community Corrections teams, external Contractors and internal staff to highlight the importance of reducing the opportunities of trespass and increasing trespass deterrents to reduce the opportunities for these offences to happen.

As a consequence of this work staff and communities surrounding the rail corridor are more proactive in reporting issues of trespass, graffiti and dumping. Issues are dealt with quickly and feedback provided to complainants.

We have also increased community clean up days, opening up the corridor to proactive members of the community supervised by KiwiRail staff.

Graffiti

KiwiRail will take prompt action to remove any offensive graffiti that occurs on its property. Other graffiti is removed on a periodic basis, bearing in mind that much of the graffiti within the rail corridor is on buildings, fences and other structures not owned by KiwiRail. Around New Zealand KiwiRail has entered into formal partnerships with local community agencies and trusts that specialise in litter and graffiti control.

The Graffiti Rail Partnering Guide has been produced jointly by KiwiRail, Ministry of Justice and the Auckland Regional Graffiti Forum. It provides information on how to make a start on improving the appearance of the rail corridor and any community group or local authority in New Zealand can use it as a tool.

Vegetation or planting

KiwiRail maintains vegetation within the rail corridor to biosecurity standards which enables the control of noxious plants.

Many local councils also take up beautification leases with us and assume responsibility for vegetation maintenance, especially in urban areas.

COMMUNITY ACTIVITIES AND SPONSORSHIP

KiwiRail engages with communities in a variety of ways. One of them is through sponsorship of events and activities that have relevance to rail or ferries, the people who work in our industry and the communities that interact with us.

As mentioned above one of KiwiRail's most significant sponsorships is the Chris Cairns Foundation which seeks to raise awareness of safety on the rail network's level crossings. Further detail about the foundation can be found at www.railsafety.co.nz.

Interislander proudly sponsors many organisations or events including the annual Picton Maritime Festival, Wellington Volunteer Coastguard, Marlborough Food and Wine Festival and the Interislander Teddy Bears Picnic.

They also regularly provide free tickets to charities and deserving causes.

KiwiRail also supports the Rail Heritage Trust of New Zealand which works to maintain records of heritage rail buildings and equipment, and encourage the preservation and restoration of rail heritage. Rail heritage projects and community groups were also donated sleepers and other rail components.

KiwiRail provides freight and passenger transport services, for a range of sporting, cultural, environmental, school and other community groups. Transport services are either provided free of charge or heavily discounted to help these groups move equipment, transport people or as a raffle prize.

Sustainability

KiwiRail has continued to see a growing recognition from customers of the need to future proof their businesses against rising oil prices and to do their fair share to reduce greenhouse gas emissions. Rail as a lower energy intensity means of moving freight and people continues to feature in the transportation plans of major New Zealand businesses.

KiwiRail recognises the opportunity this presents and also the risks to the business of a changing world. In response KiwiRail has produced its first strategy on sustainability. The strategy aims to future proof the business and maximise the advantages from being a low impact mode of transport.

Five key theme areas are identified in the strategy to provide a focal point for the business. These are:

1. Making sustainability a part of the way we do business
   - Recognising that to be successful sustainable behaviours need to be integrated to every day business.
2. Establish sustainability as a key brand proposition
   - Rail's natural advantage aligns well with the concepts of sustainability for both freight and passenger customers.
3. Climate Change
   - Modal shift to rail will have an impact on reducing greenhouse gas emissions from New Zealand's transport sector but KiwiRail also recognises its responsibility to do its fair share to reduce emissions from its business activities.
4. Waste as a Resource
   - As with all businesses we recognise that waste materials that are sent to landfill are a lost opportunity and a cost to the business.
5. Our Place in the Community
   - Traditionally rail has had a strong place in New Zealand communities.

A list of initiatives have been developed to deliver on these themes. Progress on these initiatives is overseen by our sustainability advisory group which is a cross business unit group of senior management.

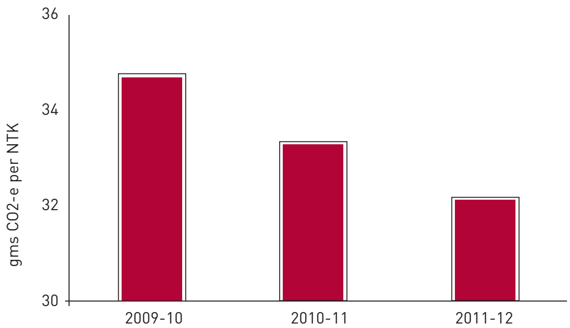
For the coming year KiwiRail has set a number of goals that align with the strategy. These include:

1. Introduce sustainability principles to all procurement processes.
2. Include sustainability criteria into project planning for major projects.
3. All new employees receive sustainability awareness material as part of their employee induction.
4. Achieve an Enviro Gold endorsement for Interislander from Qualmark
5. Achieve an Enviro Silver endorsement for Scenic from Qualmark
6. Improve the carbon intensity of Interislander Freight services by five percent using FY2012 as a baseline.
7. Use the GPS to develop a baseline dataset for the vehicle fleet.
8. Develop an energy management plan for facilities including a baseline dataset to enable future goals for energy reduction to be set.
9. Undertake waste audits at least at three major sites.
10. Produce a community relations plan.

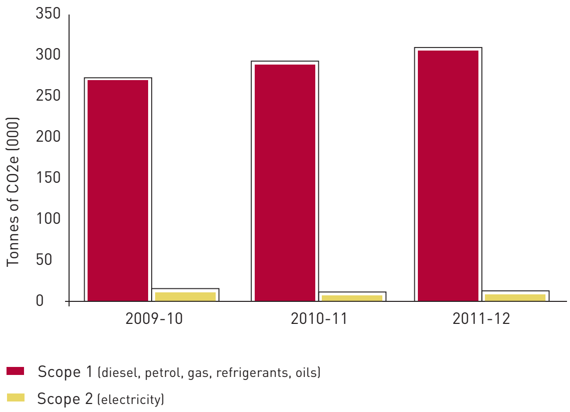
ENVIRONMENT

KiwiRail's business has a lower impact on the environment than other land transport modes, but we are still focused on further improving our operations to reduce our impact. Improving the carbon intensity (emissions per tonne km or passenger km) of our services is a major focus, as it delivers value for our customers and the environment.

Freight carbon intensity



Total Greenhouse emissions



The main measure of carbon intensity for KiwiRail is the emissions per net tonne kilometre of freight transported. Over the last three years we have observed significant improvement in this key indicator. Improved performance will be achieved through a combination of better fuel efficiency and utilisation of existing freight services.

Specific initiatives to reduce fuel consumption and improve fuel efficiency include:

- Replacement of older locomotives with modern DL locomotives
- Efficient driving techniques rolled out through our locomotive Engineer training and assessed by in-cab observers
- Improving the visibility of fuel consumption
- Enforcing locomotive shut-downs to reduce idle time
- Replacing dual locomotives with single more powerful locomotives on some routes
- Improving the configuration of yards to reduce shunting and unnecessary movements.

KiwiRail is continually watching international progress in fuel reduction. Technologies and practices that are applicable to New Zealand will be trialled and introduced where feasible.

We measure carbon emissions from Scope One and Two activities (refer to chart) across the KiwiRail Group on an annual basis and report on these in line with the Greenhouse Gas Protocol. These emissions are directly linked to fuel and electricity consumption and are therefore reflective of our activity levels.

The reduction in Scope Two emissions is primarily due to the reduction in the emissions factor for electricity.

The increase of freight's modal shift to rail is seen as a significant positive step to reducing New Zealand's transport-related carbon emissions. The development of new rail-served sites for some of our larger customers is reducing truck movements leading to reductions in fuel use, reduced emissions and less congestion on the roads.

We are keeping a watching brief on biofuels and in the last year commenced a trial of biodiesel in our generators on South Island passenger services. The biodiesel is made from a mix of recovered cooking oil and virgin rapeseed oil, which is sourced in New Zealand. In total, 60,000 litres of biodiesel were used which equates to a saving of 30 tonnes of carbon emissions.

Significant progress has been made with Interislander ferries in the last year to gain a better understanding of energy use and opportunities to reduce this.

Interislander faces a tough challenge in being able to monitor the impact that operational changes have on fuel use due to the influence of the weather and tides in the Cook Strait. At present these changes are not easily comparable from trip to trip.

Fuel flow meters, when combined with the ships' GPS, will enable Interislander to break the journey up into small distances and build up an historical database of fuel consumption for those sections not influenced by the tide and weather.

The focus has also been on non-propulsion energy use, with an energy audit of the Kaitaki. The audit was aimed at identifying energy saving opportunities, primarily from equipment and processes using electricity produced by the ship's main engine or auxiliary alternators. Using marine fuel to generate electricity results in a higher cost per kilowatt hour than for land-based electricity.

The audit identified a range of initiatives to reduce consumption. These related to heating ventilation and air-conditioning and mechanical ventilation system optimisation, generator selection, lighting control and the compressed air system. The confirmed energy savings identified in the audit totalled 3,003,353 kWh which equates to a saving of 1,219 tonnes of carbon emissions. Additional energy-saving opportunities were identified that required further investigation or had return periods beyond the end of the lease of the ship.

Improving our understanding of energy use has also extended to the vehicle fleet with plans for the rollout of GPS units across the business in coming years. The project will commence with a small pilot in this coming year. Data from GPS will help to ensure better vehicle utilisation, manage vehicle maintenance, identify poor performing vehicles and improve driver behaviour. This is expected to translate in a reduction in fuel use relative to activity.

KiwiRail also considers the environment in the management and establishment of its facilities. The relocation of staff to a new building in Parnell, Auckland is saving a number of vehicle trips between offices and the building itself has a four-star GreenStar rating.

At our depots, our newer train-wash facilities have the ability to reuse water up to five times before it needs to be disposed of.

As part of its normal business activities, KiwiRail recycles at all of its offices and depots and has composting for food wastes at our two main offices. As a part of renewal activities, significant volumes of timber sleepers, concrete sleepers, steel rail, ballast and other components are either reused or recycled. Some of these items are more challenging to recover than others and we continue to engage with industry and research groups to help us recover value from these resources.

A new initiative in this last year has been to sign up with a specialist handler of electronic waste to provide responsible disposal of IT waste.

As a provider of transport services to the public we have supported the Love NZ campaign to improve recycling in public places. New bins have been installed at the Wellington Railway Station and at our ferry terminals. Prior to this, we had already begun a process of overhauling the recycling system onboard the ferries.

KiwiRail has also received endorsements as a responsible tourism operator for our Tranz Scenic and Interislander services. The assessment by QualMark reviewed performance across the areas of energy efficiency, waste management, water conservation, community activities and conservation initiatives. For both parts of the business the endorsements provide recognition of the early stages in their respective sustainability journeys.

Governance

New Zealand Railways Corporation (NZRC), trading as KiwiRail, is a State Owned Enterprise. Under the State Owned Enterprises Act 1986 the principal objective of every State Owned Enterprise is to operate as a successful business providing a commercial return on capital, as well as exhibiting a sense of social responsibility and being a good employer. NZRC is required to be as profitable and efficient as comparable businesses that are not owned by the Crown.

NZRC is also a statutory corporation that must observe the requirements of its incorporation legislation, the New Zealand Railways Act 1981. Under this Act, NZRC is empowered to operate a safe and efficient rail freight and passenger transport service and to carry on operations in such a way that revenue exceeds costs and to provide a return on capital.

Rail Policy is the responsibility of the Minister for Transport.

Under the Railways Act 2005, the New Zealand Transport Agency has a mandate to regulate railway activities in New Zealand. NZRC currently holds separate rail licences under this Act in respect of its rail operations and rail infrastructure/train-control activities.

Shareholder Expectations

The Shareholding Ministers of NZRC are the Minister for State Owned Enterprises and the Minister of Finance. The shareholders' expectations are that NZRC will operate as a commercial business and return a profit. NZRC is expected to deliver on the Strategic Plan, act in accordance with its Statement of Corporate Intent, and improve rail and ferry services as part of a national, integrated transport strategy.

Accountability

As a State Owned Enterprise NZRC must keep Shareholding Ministers informed of material issues as part of the 'no surprises' and 'continuous disclosure' policies. KiwiRail is also required to produce a Statement of Corporate Intent, an Annual Report and a three year business plan.

Board

Directors are appointed by the relevant Minister who is made responsible for the administration of the NZRC Act 1981 by authority of any warrant or with the authority of the Prime Minister. This is currently the Minister for State Owned Enterprises. There must be no more than seven directors, and the Minister appoints the Chairperson and Deputy Chairperson. Directors are selected by the Minister based on their mix of skills and experience.

Throughout the financial year ended 30 June 2012 the Board of NZRC (the 'KiwiRail Board') consisted of John Spencer (Chair), Paula Rebstock (Deputy Chair),Rebecca Thomas, John Leuchars, Bob Field, Mark Tume and Kevin Thompson.

Role

The role of the KiwiRail Board is to guide the strategic direction of NZRC and to direct and oversee management. The Board met eleven times during the year as part of the regular meeting agenda. In addition, the Board held a strategy session during the year.

Committees

During the year the Board operated four Board Committees: the Audit, Finance and Risk Committee (AFR Committee), the Safety, Health and Human Resources Committee (Safety Committee), the

KiwiRail

Infrastructure and Asset Management Committee (Infrastructure Committee), and the Remuneration Committee.

The members of the AFR Committee were Paula Rebstock (Committee Chair), John Spencer, Rebecca Thomas and Mark Tume. This committee met six times during the year.

The role of the AFR Committee is to assist the Board with the discharge of its responsibilities in relation to audit, finance and risk management. The committee monitors the roles, responsibility and performance of management and the auditors in financial reporting, business risk management systems and internal control systems.

The members of the Safety Committee were Bob Field (Committee Chair), John Leuchars, Rebecca Thomas and Kevin Thompson. This Committee met four times during the year.

The role of the Safety Committee is to assist the Board to monitor compliance with safety licences and other legal requirements to protect the health and safety of employees and to reduce the environmental footprint of NZRC. In addition, the Committee provides oversight on human resources strategies and policies.

The members of the Infrastructure Committee were John Leuchars (Committee Chair), Kevin Thompson and Mark Tume. The Committee met seven times during the year.

The role of the Infrastructure Committee is to advise the Board on the performance and management of, and risks associated with, KiwiRail's material assets.

During the year the Chairman, John Spencer, was the Chair of the Remuneration Committee and the other members of that Committee were Paula Rebstock and Bob Field. This Committee met twice during the year.

The role of the Committee is to assist the Board in establishing remuneration strategies and policies for the Chief Executive and his direct reports that support an increase in productivity and the retention of staff.

Insurance and Indemnity

In accordance with the NZRC Act 1981, NZRC indemnifies the members of the KiwiRail Board in respect of liability for conduct that comprises acts or omissions by the director in good faith and in the performance or intended performance of NZRC's functions and for any costs incurred in defending or settling any claim or proceeding relating to liability for such conduct.

KiwiRail has insured the directors and employees of the Group against any costs or liabilities of the type referred to in section 162(5) of the Companies Act 1993.

In addition, KiwiRail indemnifies the directors of its wholly owned subsidiaries against any costs or liabilities of the type referred to in section 162(4) of the Companies Act 1993 that are incurred in any proceedings of the type referred to in section 162(3) of the Act.

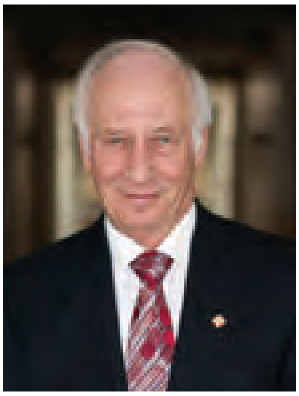
Subsidiaries

The main trading subsidiaries of NZRC are ONTRACK Infrastructure Limited and KiwiRail Limited. The balance of the subsidiaries include KiwiRail Holdings Limited, Clifford Bay Limited and TranzRail Limited.

Reporting against the 2010-2013 Statement of Corporate Intent.

A comparison against the 2011 performance targets and measures as set out in the NZRC 2010-2013 Statement of Corporate Intent, as required under Section 15(2) of the State Owned Enterprises Act is set out in the Business Review section of this Annual Report.

Board



Chair, John Spencer, CNZM

John Spencer is a Wellington-based businessman and company director. His most recent role was Deputy Chairman of Solid Energy, one of KiwiRail's largest customers. His background includes a period as the Chief Executive of NZ Dairy Group - one of the two dairy companies that merged to form Fonterra. He retains his interest in the dairy industry with a seat on the board of DairyNZ. He also led the merger of Asure NZ Ltd and AgriQuality Ltd in 2007 to form AsureQuality Ltd. John is also Chairman of Ruakawa Iwi Investments Ltd, WEL Networks and the Tertiary Education Commission. He serves on the board of Tower Limited, Dispute Resolutions Services Limited and the Mitre 10 Group.

Deputy Chair, Paula Rebstock, CNZM

Paula Rebstock is an Auckland-based economist and company director. She is Chairwoman of the Insurance and Savings Commission, the Work and Income Board and ACC. She is a Director of Synergia Ltd, Health Benefits Ltd, and a Director/Shareholder of Phoenix Limited. Paula is also a Member of the University of Auckland Business School Advisory Board and the Financial Performance Auditor for Nga Puhi Trust Board. Other roles include the Lead Reviewer for the Review of the Ministries of MPIA, MWA, CLO, DOL, DOC, ERO, NZ Police, MFE and MOJ, and the Lead for the MFAT Inquiry.

Director, Bob Field, ONZM

Bob Field is a Manawatu-based businessman and company director. He is an Ambassador for Toyota New Zealand after 45 years of international experience in the motor industry, including 25 years as Toyota's CEO in New Zealand. He has extensive governance experience with a wide range of national organisations involved in tackling such issues as unemployment, business excellence and productivity, road safety and conservation. He is currently Chair of CMD Nominees Ltd and an honorary member of the NZ Initiative. He is also a director of both the NZ Rugby Union and NZ Rugby Promotions Ltd, and an advisor to Emirates Team NZ.

Director, John Leuchars

John Leuchars is a professional company director who is a civil engineer by training, and has significant experience in senior management of international consulting engineering companies. He has governance experience in a number of large engineering consultancy firms and not-for-profit organisations. He is a Director of Genesis Energy and a Fellow of the Institution of Professional Engineers New Zealand.

Director, Rebecca Thomas

Rebecca Thomas has more than 25 years of experience in financial markets in New Zealand and overseas. She has a background in law and business having held roles as both a CEO and Independent Director on UK-based Boards. She is a Director of Mint Asset Management Ltd, Black and White Group Ltd, and Milford Properties Ltd. Rebecca is also an Associate Member of the Foundation Board of the Financial Markets Authority.

Director, Dr Kevin Thompson

Kevin Thompson comes to KiwiRail after 13 years with OPUS International Consultants Ltd including his role as Chief Executive Officer from 2001 and Managing Director from 2007. Prior to OPUS, Dr Thompson was Chief Executive of Works Civil Construction Ltd, now known as Downer EDI Works Ltd. He is Chairman of both the Security and Reliability Council for Electricity Authority, and the Electricity Industry Group for Business NZ. He is Deputy Chairman of the Environmental Protection agency, an advisory member of both the Defence Capability Advisory Board and the Australian Road Research Board, and the Chairman of the University of Canterbury Quake Centre Establishment Board. He is also a Member of the Board of Trustees for the Wellington Catholic Homes Trust, a Member of the New Zealand Institute of Directors, and a Distinguished Fellow of the Institution of Professional Engineers of New Zealand.

Director, Mark Tume

Mark Tume is a professional director with significant experience in the infrastructure sector. He currently holds a number of directorships in New Zealand and Australia, including Infratil, New Zealand Refining Company, Victoria Electricity Pty Ltd, Guardians of The New Zealand Superannuation Fund, NZ Oil and Gas, Welltest Holdings, Koav Capital Partners and Longboard Limited. He is also a member of the Maori Trustee Advisory Board and the Environmental Challenge.

Executive Team

Chief Executive, Jim Quinn

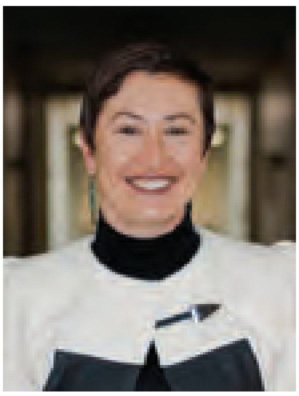
Jim Quinn joined KiwiRail as Chief Executive in March 2009. Previously, he had been Chief Executive Officer of Express Couriers Limited, a joint venture between New Zealand Post and DHL. He brings to the rail industry experience from work in the postal, electricity, information technology and transport sectors as well as a strong customer service dimension from the courier business.

General Manager Corporate & Finance, David Walsh

David Walsh joined KiwiRail from the New Zealand Racing Board where he had been the CFO, and more recently the Chief Operating Officer. Prior to the Racing Board, David has worked in senior roles in a diverse range of businesses and industries such as Fonterra, Transalta and Shell Oil New Zealand.

General Manager Freight, Iain Hill

Iain Hill joined KiwiRail from Express Couriers Limited where he was the Group Manager, Transport and Distribution. Iain has experience in managing large road and air-freight networks.



General Manager Passenger, Dr Deborah Hume

Deborah Hume joined KiwiRail from the New Zealand Transport Agency where she had been Wellington, Nelson, Tasman and Marlborough Regional Director. She had previously worked for NZTA's predecessor, Transit, as well as doing risk management consultancy work and being a principal in a multinational infrastructure company.

General Manager Infrastructure & Engineering, Rick van Barneveld

Rick van Barneveld leads the network infrastructure arm of the KiwiRail business. He was the Chief Executive of Transit New Zealand prior to joining Evans & Peck and working on a project to plan, design and construct a 215 kilometre railway in Queensland.

General Manager Safety and People, Matt Ballard

Matt Ballard joined KiwiRail in May 2012 heading our human resources and safety teams. Previously Matt has held senior roles internationally with BHP Billiton and Royal/Dutch Shell Group, and with Port Otago and Deloitte in New Zealand. His experience spans organisational and culture change, safety leadership, HR and employment relations

General Manager Interislander, Thomas Davis

Thomas Davis moved to Interislander from the KiwiRail Network business where he was the Acting CEO. Prior to working for ONTRACK, Thomas had headed the Interislander and worked for Tranz Rail.

KPIs

Statement of Corporate Intent Comparisons

	2012 Actual	2012 Target
Financial Metrics ($m)		
Total External Revenue	715.8	737.0
Operating Surplus before major one-off items	104.9	139.5
Operating Surplus	77.6	139.5
Strategic Plan Capital Expenditure [1]	357.9	411.1
Metro Project Renewals and Capital Expenditure [2]	148.6	348.4
Key Sales Metrics		
Freight NTK (m)	4,581.0	4,601.0
Freight Average Yield (C/NTK)	8.0	8.3
Key Investment Outcomes		
Rolling Stock Replacement		
- Locomotives (new) [3]	0.0	20.0
Network Renewals		
- New Sleepers Laid (000)	104.5	116.0
- New Rail Laid (km)	36.3	50.0
- Lines Destressed (km)	242.0	250.0
- Span Metres Replaced	523.8	716.0
- Timber Piers Replaced	77.0	105.0
- Culverts Replaced	49.0	71.0
- Level Crossing Upgrades	10.0	11.0
Customer Service Performance		
Freight – Premium Train (%<30min)	81%	90%
Metro (%<5min)	92%	90%
Interislander (%<15min)	75%	90%

[1] Strategic Plan Capital Expenditure excludes major metro projects funded by Government and metro passenger renewals funded by local authorities. The lower spend compared to target reflects a reprioritisation of expenditure as we work within our funding envelope.

[2] The shortfall compared to target relates to the timing of the completion of the Auckland Metro projects.

[3] During the year capital expenditure was incurred developing a series II locomotive prototype and purchasing long lead-time componentry for the second tranche of 20 new locomotives to be delivered in 2013.

	2012 Actual	2012 Target
Productivity Measures		
Total Labour Costs as % of Revenue	39.0%	42.0%
Freight OPEX to Revenue Ratio	0.67	0.69
Interislander OPEX to Revenue Ratio	0.90	0.85
Health and Safety		
LTIFR (per million man hours)	6.1	4.4
MTIFR (per million man hours)	46.9	42.0
Staff Engagement		
Engagement Index	68.0	79.0
Ratio of Shareholder's Funds to Total Assets		
Shareholder's Funds to Total Assets [4]	81.2%	93.6%
The Crown's Investment in KiwiRail ($m)		
Total Shareholder's Funds (TSF) [4]	3,460.0	13,074.0
Average Shareholder's Funds (ASF) [4]	8,049.0	12,856.0
Financial Performance Measures for SOE Portfolio		
Crown Investment in KiwiRail		
- Dividend Yield	Nil	Nil
- Dividend Payout	Nil	Nil
- Return on Equity [4]	(28.5%)	(1.4%)
- Return on Equity Adjusted for IFRS fair valuation movements and asset revaluations [4]	(189.4%)	(7.2%)
Profitability/Efficiency Measures		
- Return on Capital Employed [4]	(144.9%)	(4.9%)
- Operating Margin	10.8%	18.9%
Leverage/Solvency Measures		
- Gearing Ratio (net) [4]	0.15	0.04
- Interest Cover	2.30	4.01
- Solvency (current assets/current liabilities)	0.33	0.38

[4] The 2012 targets are not comparable to the actual results as they did not reflect the writedowns undertaken on the balance sheet restructure.

Audited Annual Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

Statement of Financial Performance

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

	Note	Group 2012	Group 2011	Parent 2012	Parent 2011
		$m	$m	$m	$m
Operating revenues	2	715.8	667.4	202.7	168.2
Operating expenses	3	(638.2)	(564.8)	(155.7)	(116.5)
Operating surplus		**77.6**	**102.6**	**47.0**	**51.7**
Grant income	4	172.3	344.6	129.7	324.7
Depreciation and amortisation expense	6	(309.4)	(283.1)	(220.7)	(212.7)
Foreign exchange and commodity gains and losses	7	3.1	(15.9)	(1.0)	5.5
Finance income	8	2.1	4.4	13.6	14.2
Finance costs	8	(42.5)	(36.6)	(43.1)	(34.8)
Net loss on sale of land	5	(18.1)	(2.3)	(18.1)	(2.3)
Impairment losses	17	(2,199.2)	-	(2,252.8)	-
Revaluation of property, plant and equipment	16	(8.1)	-	(10.4)	-
Gain on transfer of Electrical Multiple Unit FX contracts to Auckland Council Group	14	42.8	-	42.8	-
Cumulative foreign exchange loss on Electrical Multiple Unit FX contracts	14	(40.2)	-	(40.2)	-
Loss on transfer of assets to GWRC	18	-	(107.6)	-	(36.4)
Net (loss)/surplus before taxation		**(2,319.6)**	**6.1**	**(2,353.2)**	**109.9**
Taxation credit	9	14.5	27.9	-	-
Net (loss)/surplus after taxation		**(2,305.1)**	**34.0**	**(2,353.2)**	**109.9**

The accompanying notes form part of these financial statements

Statement of Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

	Note	Group 2012	Group 2011	Parent 2012	Parent 2011
		$m	$m	$m	$m
Net (loss)/surplus after taxation		**(2,305.1)**	**34.0**	**(2,353.2)**	**109.9**
Other comprehensive (loss)/income					
Revaluation of property, plant and equipment	16	333.4	-	321.6	-
Tax effect of revaluation	22	(3.3)	-	-	-
Release of revaluation on asset disposals		-	(1.8)	-	(2.1)
Tax effect of release of revaluation on asset disposals		-	-	-	-
Reversal of asset revaluations	17	(7,563.8)	-	(7,502.7)	-
Tax effect of reversal of asset revaluations	22	49.0	-	-	-
Gains/(losses) from cash flow hedges	29c	22.2	(63.3)	22.2	(63.3)
Transfer to asset carrying value from cash flow hedge reverse		(0.7)	-	(0.7)	-
Transfer of Electrical Multiple Unit FX contracts to Auckland Council Group	14	40.2	-	40.2	-
Total comprehensive (loss)/income		**(9,428.1)**	**(31.1)**	**(9,472.6)**	**44.5**

The accompanying notes form part of these financial statements

Statement of Financial Position

AS AT 30 JUNE 2012

	Note	Group 2012	Group 2011	Parent 2012	Parent 2011
		$m	$m	$m	$m
Current assets					
Cash and cash equivalents	10	36.1	81.1	9.5	16.1
Trade and other receivables	11	117.1	115.5	212.9	169.8
Inventories	12, 29e	57.9	73.4	-	-
Financial assets	13	0.5	1.2	0.4	1.2
		211.6	**271.2**	**222.8**	**187.1**
Non-current assets					
Property, plant and equipment	16	4,045.2	13,284.3	3,561.0	12,519.4
Investment property	15	5.0	-	5.0	-
Intangible assets	19	0.6	14.6	-	9.7
Financial assets	13	-	-	276.3	274.5
Trade and other receivables	11	-	-	-	-
Investment in subsidiary		-	-	93.5	460.6
		4,050.8	**13,298.9**	**3,935.8**	**13,264.2**
Total Assets		**4,262.4**	**13,570.1**	**4,158.6**	**13,451.3**
Current liabilities					
Trade and other liabilities	20	177.1	198.1	123.3	122.0
Financial liabilities	13, 29d	439.2	329.1	456.1	354.2
Income taxes payable		-	-	-	-
Provisions	21	22.8	12.7	1.0	3.1
		639.1	**539.9**	**580.4**	**479.3**
Non-current liabilities					
Trade and other liabilities	20	39.4	35.5	1.5	0.8
Financial liabilities	13, 29d	120.5	292.2	120.6	292.4
Provisions	21	3.3	4.0	-	-
Deferred taxation	22	-	60.2	-	-
		163.1	**391.9**	**122.1**	**293.2**
Total Liabilities		**802.2**	**931.8**	**702.5**	**772.5**
Net Assets		**3,460.2**	**12,638.3**	**3,456.2**	**12,678.8**
Equity					
Equity capital		1,046.9	796.9	1,046.9	796.9
Retained earnings		(774.4)	1,364.2	(753.4)	1,433.6
Asset revaluation reserve		3,189.3	10,540.5	3,164.3	10,511.6
Cash flow hedge reserve	29c	(1.6)	(63.3)	(1.6)	(63.3)
Total Equity		**3,460.2**	**12,638.3**	**3,456.2**	**12,678.8**

John Spencer, Chair
27 August 2012

Paula Rebstock, Deputy Chair
27 August 2012

The accompanying notes form part of these financial statements

Statements of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

	Note	Equity Capital	Retained Earnings	Asset Valuation Reserve	Cash Flow Hedge Reserve	Total
		$m	$m	$m	$m	$m
GROUP						
As at 1 July 2010		**546.9**	**1,170.7**	**10,701.8**	**-**	**12,419.4**
Net surplus for the period		-	34.0	-	-	34.0
Other comprehensive income/(loss)						
Release of revaluation reserve to retained earnings		-	152.0	(152.0)	-	-
Release of revaluation reserve on transfer of Metro assets to GWRC		-	7.5	(7.5)	-	-
Release of revaluation reverse on disposal of other assets		-	-	(1.8)	-	(1.8)
Losses from cash flow hedges	29c	-	-	-	(63.3)	(63.3)
Total comprehensive income/(loss)		**-**	**193.5**	**(161.3)**	**(63.3)**	**(31.1)**
Transactions with owners						
Capital investment		250.0	-	-	-	250.0
As at 30 June 2011		**796.9**	**1,364.2**	**10,540.5**	**(63.3)**	**12,638.3**
Net loss for the period		-	(2,305.1)	-	-	(2,305.1)
Other comprehensive (loss)/income						
Revaluation of property, plant and equipment	16	-	-	333.4	-	333.4
Tax effect of revaluation of property, plant and equipment	22	-	-	(3.3)	-	(3.3)
Release of revaluation reserve to retained earnings		-	168.3	(168.3)	-	-
Reversal of prior period revaluations	17	-	(1.8)	(7,562.0)	-	(7,563.8)
Tax effect of reversal of prior period revaluations	22	-	-	49.0	-	49.0
Transfer to asset carrying value from cash flow hedge reserve		-	-	-	(0.7)	(0.7)
Transfer of Electrical Multiple Unit FX contracts to Auckland Council Group	14	-	-	-	40.2	40.2
Gains/(losses) from cash flow hedges	29c	-	-	-	22.2	22.2
Total comprehensive (loss)/income		**-**	**(2,138.6)**	**(7,351.2)**	**61.7**	**(9,428.1)**
Transactions with owners						
Capital investment		250.0	-	-	-	250.0
As at 30 June 2012		**1,046.9**	**(774.4)**	**3,189.3**	**(1.6)**	**3,460.2**

The accompanying notes form part of these financial statements

Statements of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

	Note	Equity Capital	Retained Earnings	Asset Valuation Reserve	Cash Flow Hedge Reserve	Total
		$m	$m	$m	$m	$m
PARENT						
As at 1 July 2010		**546.9**	**1,164.3**	**10,673.1**	**-**	**12,384.3**
Net surplus for the period		-	109.9	-	-	109.9
Other comprehensive income/(loss)						
Release of revaluation reserve to retained earnings		-	152.0	(152.0)	-	-
Release of revaluation reserve on transfer of Metro assets to GWRC		-	7.4	(7.4)	-	-
Release of revaluation reverse on disposal of other assets		-	-	(2.1)	-	(2.1)
Losses from cash flow hedges	29c	-	-	-	(63.3)	(63.3)
Total comprehensive income/(loss)		**-**	**269.3**	**(161.5)**	**(63.3)**	**44.5**
Transactions with owners						
Capital investment		250.0	-	-	-	250.0
As at 30 June 2011		**796.9**	**1,433.6**	**10,511.6**	**(63.3)**	**12,678.8**
Net loss for the period		-	(2,353.2)	-	-	(2,353.2)
Other comprehensive (loss)/income						
Revaluation of property, plant and equipment	16	-	-	321.6	-	321.6
Release of revaluation reserve to retained earnings		-	168.1	(168.1)	-	-
Reversal of prior period revaluations	17	-	(1.9)	(7,500.8)	-	(7,502.7)
Transfer to asset carrying value from cash flow hedge reserve		-	-	-	(0.7)	(0.7)
Transfer of Electrical Multiple Unit FX contracts to Auckland Council Group	14	-	-	-	40.2	40.2
Gains/(losses) from cash flow hedges	29c	-	-	-	22.2	22.2
Total comprehensive (loss)/income		**-**	**(2,187.0)**	**(7,347.3)**	**61.7**	**(9,472.6)**
Transactions with owners						
Capital investment		250.0	-	-	-	250.0
As at 30 June 2012		**1,046.9**	**(753.4)**	**3,164.3**	**(1.6)**	**3,456.2**

The accompanying notes form part of these financial statements

Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

	Note	Group 2012	Group 2011	Parent 2012	Parent 2011
		$m	$m	$m	$m
Cash flows from operating activities					
Proceeds from:					
Receipts from customers		710.0	657.6	185.6	168.7
Interest received		2.1	4.3	13.6	14.2
Proceeds utilised for:					
Payments to suppliers and employees		(632.4)	(585.2)	(188.8)	(170.4)
Interest expense		(38.6)	(28.9)	(41.3)	(33.0)
Income tax paid		-	-	-	-
Net cash from operating activities	26	**41.1**	**47.8**	**(30.9)**	**(20.5)**
Cash flows from investing activities					
Proceeds from:					
Sale of property, plant and equipment		9.4	14.4	9.4	5.9
Capital grant receipts		172.3	344.6	129.7	324.7
Proceeds utilised for:					
Purchase of property, plant and equipment		(513.4)	(653.2)	(354.2)	(506.3)
Purchase of intangibles		(6.4)	(7.4)	(5.7)	(7.0)
Loan to subsidiaries		-	-	-	(89.5)
Capital investment in subsidiary		-	-	-	(72.3)
Net cash used in investing activities		**(338.1)**	**(301.6)**	**(220.8)**	**(344.5)**
Cash flows from financing activities					
Proceeds from:					
Long term borrowings		3.6	90.8	-	90.8
Short term loan from subsidiary		-	-	20.0	25.0
Crown capital investment		250.0	250.0	250.0	250.0
Finance lease	23	0.2	-	0.2	-
Proceeds utilised for:					
Repayment of finance lease liability		-	(36.0)	-	-
Repayment of borrowings		(2.3)	(1.7)	(0.5)	(1.8)
Repayment of short term loan from subsidiary		-	-	(25.0)	-
Net cash from financing activities		**251.5**	**303.1**	**244.7**	**364.0**
Net (decrease)/increase in cash and equivalents		**(45.5)**	**49.3**	**(7.0)**	**(1.0)**
Cash and cash equivalents at the beginning of the period		**81.1**	**32.0**	**16.1**	**17.2**
Effect of exchange rate fluctuations on cash held		0.5	(0.2)	0.4	(0.1)
Cash and cash equivalents at the end of the period	10	**36.1**	**81.1**	**9.5**	**16.1**

The accompanying notes form part of these financial statements

Statement of Accounting Policies

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

REPORTING ENTITY

New Zealand Railways Corporation ("NZRC", "the Parent") is a statutory corporation established pursuant to the New Zealand Railways Corporation Act 1981 and is included within the First Schedule of the State Owned Enterprises Act 1986. The Group comprises the New Zealand Railways Corporation and its subsidiaries. The Group is domiciled in New Zealand. The Parent and the Group have been designated as a Public Benefit Entity ("PBE").

The primary objective of the Group is to establish, maintain and operate, or otherwise arrange for, safe and efficient rail, road and ferry freight and passenger transport services within New Zealand in such a way that revenue exceeds costs, including interest and depreciation; and to provide for a return on capital as specified by the Minister of Finance from time to time.

The financial statements of the Group are for the year ended 30 June 2012 and were authorised for issue by the Board of Directors on 27 August 2012.

Change of accounting designation

The Group's balance sheet valuations previously reflected the view that its assets were held for a public benefit rather than to generate a commercial return. At KiwiRail's annual public meeting in November 2011, it was announced that a change in accounting approach would be made to reflect a more standard commercial approach to non-land asset valuations and impairment testing. This change reflects the shareholder's requirement that the Group maximise cash flow generated from assets other than rail corridor land. Cash generating units ("CGUs") to which the assets are allocated are therefore required to be impairment tested on the basis of the commercial returns they are forecast to generate. This has resulted in the recorded value of affected assets being significantly reduced to values supported by forecast future cash flows. This change has been accounted for as a change in assessment of assets from non-cash generating to cash generating.

After consultation between NZRC Directors and Ministers of the Crown (acting as shareholders of the Group), it has been determined by the shareholder and publically announced (27 June 2012) that the following structural changes will be made:

a) A new company (which will be an SOE) will be established to hold all the rail assets and liabilities currently held in the Group, excluding Crown land that is currently made available to the Parent of the Group under its legislation. Assets to be transferred to the new SOE include all rolling stock, tracks, railway infrastructure, ships, plant and equipment, buildings and all shares in subsidiaries. The new company will be classified as a Profit Oriented Entity ("POE") for accounting purposes, and its assets will therefore be valued and impairment tested on a commercial basis. It is expected that Group's rail assets and liabilities will be vested in the new company early in 2013. The vesting of rail assets and liabilities will use a statutory procedure under the New Zealand Railways Corporation Restructuring Act 1990 for which the shareholder is providing its support.

b) Agreements will be entered into as required to enable the Crown land that is currently made available to the Parent of the Group to be made available to the new company to continue to fulfil its objectives as a rail operator.

c) Appropriate cash generating units will be defined for impairment testing in accordance with POE accounting guidelines to ensure transparent reporting of the performance of the new company and to ensure the appropriate valuation of assets consistent with the commercial return they generate.

As the decision by the shareholder was made public prior to the end of the financial year, the impact of this decision is reflected in the Financial Statements as at 30 June 2012. The consequences of this are:

a) Fixed and Intangible Assets are reflected in the financial statements at their recoverable amount being the higher of value in use or fair value less cost to sell, with value in use being the present value of future cash flows. Where the recoverable amount of the asset is below net book value, an impairment has been recognised. The impairment is first applied against any revaluation reserve and then against the statement of financial performance if the revaluation reserve is insufficient.

b) The following cash generating units have been established:

   i) Rail (which includes the Metro and Tranz Scenic businesses);

   ii) Interislander; and

   iii) Leased buildings.

The results of applying cash generating principles for the CGUs are detailed in the Financial Statements as follows:

a) The Statement of Financial Performance reflects the value of impairments in excess of any applicable revaluation reserve.

b) The Statement of Comprehensive Income reflects the impairments that have been applied against asset revaluation reserves.

c) Section (c) (iv) of Significant Accounting Policies details the approach to valuation and potential impairment of property, plant and equipment.

d) Section (d) of Significant Accounting Policies details the approach to valuation and potential impairment of intangible assets.

e) Note 16 details the impact of revaluations and impairments by class of fixed asset.

f) Note 17 details the impact of revaluations and impairments by class and CGU.

g) Note 19 details the impact of impairments for intangible assets.

BASIS OF PREPARATION

Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and comply with the New Zealand Railways Corporations Act 1981, the State-Owned Enterprises Act of 1986 and New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for public benefit entities.

Measurement base

The financial statements have been prepared on the basis of historical cost, modified by the revaluation of certain non-current assets and certain financial instruments (including derivative instruments).

Cost is based on the fair value of the consideration given in exchange for assets at the date of the transaction.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Unless otherwise specified, all dollar amounts in these financial statements and accompanying notes are stated in New Zealand dollars and all values are expressed in millions of dollars ($m). The functional and presentation currency is New Zealand dollars.

Going concern

The successful transformation of KiwiRail to a self-sustaining railway business is outlined in the long term business plan presented to the shareholder in 2010 and the latest three year business case presented to the shareholder in 2012. These plans outline the support required from the shareholder to contribute to the proposed investments that will provide the opportunity to drive long term, sustainable earnings.
The shareholder has confirmed $250m of equity funding in the 2012/13 financial year. In addition, on 16th July 2012 $322.5m of debt included in current financial liabilities was converted to equity by the shareholder.
We have completed these financial statements on a "going concern" basis based on the assumption the shareholder support will continue largely in line with those plans. The shareholder has confirmed that any shareholder funding that is committed to the Group prior to the establishment of the new company will be provided to the new company once established.

Changes in accounting policies

The group and parent have applied Joint Venture accounting in the current financial year to account for an arrangement with Northland Regional Council. See note (n) below for further details. There have been no other material changes in accounting policies in the year. All other policies have been applied on a basis consistent with those used in previous periods.

NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES

The Group carries out the following activities:

- Manage and operate the New Zealand Rail Network
- Provide rail operators with access to the rail network
- Provide advice to the Crown on rail infrastructure issues
- Manage land on the rail corridor
- Operate interisland ferries
- Operate Wellington Metro and long distance rail passenger services
- Operate rail freight transport services in New Zealand
- Carry out engineering and mechanical services to the locomotives and other rolling stock

ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Asset revaluations

The remaining useful lives of property, plant and equipment represents management's best estimates of the useful lives of individual asset classes. When assets are revalued the valuers provide updated expected remaining useful lives for the assets that have been revalued.

Employee entitlements

Independent actuaries are engaged to provide the valuation of employee entitlements. Reliance is placed on the expertise of the independent actuaries to provide accurate valuations of employee benefits. The two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. The discount rate is the yield on 10 year Government bonds as at the end of the financial year, which have terms to maturity that match, as closely as possible, to the estimated future cash outflows. The salary inflation factor is determined with consideration of historical salary inflation patterns.

Inventory obsolescence

Management relies on its knowledge of the business to calculate inventory obsolescence provisions. The bulk of inventory held is spare parts for rolling stock and the network. Due to the age of these assets the parts held are often old and management relies on its knowledge of the business to identify items of inventory that are truly obsolete.

CRITICAL JUDGEMENTS

Asset revaluations

The Group's land is held at fair value and other assets are carried at depreciable replacement cost. Assets are revalued on a cyclical basis by independent valuers. The valuation of land is based on "across the fence" methodology. For further details please refer to Note 16.

SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been consistently applied to all reporting periods presented in these financial statements.

(a) Consolidated financial statements

The consolidated financial statements of the Parent and its subsidiaries include the financial statements of subsidiary companies using the acquisition method of consolidation. The acquisition method of consolidation involves adding together like items of assets, liabilities, equity, income and expense on a line by line basis from the date that control commences to the date that control ceases and eliminating all significant intra-group balances and transactions. Subsidiary companies are those entities that are controlled directly or indirectly by the Parent.

The Parent values subsidiary companies at the time of acquisition as the identifiable assets and liabilities acquired measured at the aggregate of fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Unrealised losses relating to impairment of subsidiaries are recognised in the Statement of Financial Performance.

(b) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable by the Parent and Group, and represents amounts receivable for goods and services provided in the normal course of business once significant risk and rewards of ownership have been transferred to the buyer after eliminating the sales within the Group.

(i) Freight revenue is recognised based on the date of freight acceptance. Freight revenue also includes maintenance revenue which is recognised at the date that the maintenance service is provided.

(ii) Interislander revenue is comprised of freight revenue and passenger revenue. Freight revenue is recognised based on the date of freight acceptance. Passenger revenue is recognised at the date of travel.

(iii) Tranz Metro and Tranz Scenic revenue is recognised at the date of travel.

(iv) Property and Corporate revenue comprises rental income, Government funding for operating expenditure and other revenue. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging the operating lease are recognised on a straight-line basis over the lease term.

(v) Infrastructure and Engineering revenue comprises track access revenue, Government funding for operating expenditure, manufacturing revenue, maintenance revenue and other revenue. Track access revenue is recognised on a straight-line basis over the term of the relevant agreement. Manufacturing revenue is recognised by reference to the stage of completion of the contract activity at the balance date, if the outcome of the contract can be reliably estimated. The stage of completion is assessed by reference to surveys of work performed. Manufacturing revenue includes revenue from design services. Maintenance revenue is recognised at the date that the maintenance service is provided.

(vi) Interest income from call and term deposits is recognised as it accrues, using the effective interest method.

(vii) Dividend income is recognised when the right to receive payment has been established.

(viii) Other sources of income are recognised when earned and are reported in the financial periods to which they relate.

(ix) Government funding received as reimbursements of operating costs are recognised as income in the period in which the funding is receivable.

(x) Government funding received as reimbursements of the costs of capital projects is recognised as income in the period in which the funding is receivable.

(xi) Grants received in respect of services provided are recognised when the requirements of the relevant grant agreement are met.

(c) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment asset classes consist of land, buildings, railway infrastructure, rolling stock, ships and plant and equipment.

Property, plant and equipment are shown at cost or valuation, less any accumulated depreciation. Items of property, plant and equipment in the course of construction are classified as capital work in progress. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Where an asset is acquired for nil or nominal consideration the asset is recognised initially at fair value, where fair value can be reliably determined; and the fair value of the asset received less costs incurred to acquire the asset is also recognised as income in the Statement of Financial Performance.

(ii) Revaluation

Land, buildings and railway infrastructure are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. Fair value is determined from market-based evidence by an external, independent valuer. Valuations are undertaken in accordance with the standards issued by the New Zealand Property Institute with the following bases of valuation adopted:

- *Specialised buildings and railway infrastructure* – valued using optimised depreciated replacement cost.
- *Rail corridor* – land associated with the rail corridor is valued based on adjacent use ('across the fence'), as an approximation of fair value.
- *Non-specialised land and buildings* which could be sold with relative ease are valued at market value.

Any revaluation increase arising on the revaluation of land and buildings and railway infrastructure is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in the Statement of Financial Performance, in which case the increase is credited to the Statement of Financial Performance to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land, buildings or track assets is charged as an expense to the Statement of Financial Performance to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Other additions between revaluations are recorded at cost.

(iii) Disposals

Realised gains and losses arising from the disposal of property, plant and equipment are recognised in the Statement of Financial Performance in the period in which the transaction occurs. The gain or loss is calculated as the difference between the carrying amount of the asset and the sale proceeds received (if any). Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

(iv) Impairment

The carrying amounts of the Group's non-current assets are reviewed at each reporting date to determine if there is any indication of impairment. If any such indication exists, the asset or its related cash-generating unit (CGU) will be tested for impairment by comparing its recoverable amount to its carrying amount. The recoverable amount of an asset or CGU is the higher of its value in use and its fair value less costs to sell.

Where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the Group would, if deprived of the asset, replace its remaining future economic benefits or service potential, the value in use is the depreciated replacement cost.

The value in use for cash-generating assets and cash-generating units is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is treated as a revaluation decrease (see c(ii) above).

For assets not carried at a revalued amount, the total impairment loss is recognised in the Statement of Financial Performance.

Plant and equipment, motor vehicles, leasehold improvements and equipment under finance leases are stated at cost less accumulated depreciation and impairment. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of the acquisition.

(v) Renewals

Expenditures, including inventory, relating to track renewals, ballast, formation upgrading, and major overhauls of rolling stock are capitalised as fixed assets. Repairs and maintenance costs are expensed through the Statement of Financial Performance as incurred.

(vi) Depreciation

Depreciation is charged on a straight line basis at rates that will allocate the cost or valuation of the asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter. In determining an asset's useful life, consideration is given to its expected usage, its expected wear and tear, technical or commercial obsolescence, and legal or similar limits on its use.

Depreciation is provided on freehold buildings, railway infrastructure, rolling stock, ships and containers, plant and equipment, but excludes land.

Depreciation on revalued buildings and track assets is charged to the Statement of Financial Performance. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

For assets that are revalued, any difference between the depreciation on the revalued asset value and the depreciation based on the original cost is transferred from the asset revaluation reserve to retained earnings.

The average depreciable lives for major categories of property, plant and equipment are as follows:

Category	Useful life
Infrastructure	
Tunnels and bridges	75 - 200 years
Track and ballast	40 – 50 years
Overhead traction	20 – 80 years
Signals and communications	15 – 50 years
Buildings	35 – 80 years
Rolling stock and ships	
Wagons and carriages	5 - 30 years
Locomotives	5 - 23 years
Ships	20 years
Containers	10 years
Plant and equipment	
Plant and equipment	5 – 35 years
Motor vehicles	5 – 10 years
Furniture and fittings	5 years
Office equipment	3 – 5 years

(d) Valuation of intangible assets

Intangible assets comprise software applications which have a finite useful life and are recorded at cost less accumulated amortisation and impairment.

Intangible assets are recognised initially at cost. Intangible assets with a finite useful life are amortised on a straight-line basis over their estimated useful lives, which were 3 to 5 years for all reporting periods.

(e) Net finance costs

Borrowing costs – Interest expense on borrowings is recognised in the Statement of Financial Performance using the effective interest rate method.

Other finance costs include interest expense on finance leases and the net change in fair value of derivative financial instruments.

As a public benefit entity the Group has elected not to capitalise borrowing costs on capital projects.

(f) Inventories

Inventory comprises items that are used in the maintenance and operation of the rail network, fuel, passenger consumable items, and items used in the manufacture of assets for sale to external parties. Inventory is not held for trading purposes with the exception of consumable cafeteria supplies held on the rail and ferry passenger services.

Inventory is recorded at the lower of cost and current replacement cost. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventory to its present condition and location. Cost is calculated on the weighted average method.

(g) Leases

Operating leases
Operating leases are defined as leases under which substantially all the risks and rewards of ownership of the applicable asset or assets remain with the lessor. Operating lease payments and receipts are recognised in the Statement of Financial Performance in accordance with the pattern of benefits derived or received.

Finance leases
Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Finance lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The interest expense component of finance lease payments is recognised in the Statement of Financial Performance using the effective interest rate method. Assets acquired by way of a finance lease are included in property, plant and equipment, initially at an amount equal to the lower of its fair value and the present value of the future minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

(h) Income tax

The parent is exempt from income tax as a public authority. All subsidiaries of the Parent are taxpayers. The accounting policies applied in respect of the subsidiaries are as follows:

Income tax expense comprises both current and deferred tax. Income tax expense is charged or credited to the Statement of Financial Performance, except when it relates to items charged or credited directly to equity, in which case the tax is charged to equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date and any adjustments to tax in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the carrying amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at each reporting date. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised in the financial statements for all deductible temporary differences and for the carry forward of unused tax losses and unused tax credits only to the extent that it is probable that future taxable surpluses will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Unrecognised deferred tax assets are reassessed at each balance sheet date.

(i) Goods and services tax (GST)

All items in the financial statements are presented exclusive of GST, except for receivables and payables, which are presented on a GST inclusive basis. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the statement of cash flows on a net basis in respect of GST. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, IRD, are classified as operating cash flows.

(j) Provisions

Provisions are recognised when the Group has a present or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the future cash flows. Where discounting is used, the increase in the provision for the passage of time is recognised as a finance cost.

(k) ACC Partnership Programme

The New Zealand Railways Corporation, Ontrack Infrastructure Limited and KiwiRail Limited belong to the ACC Partnership Programme whereby each company accepts the management and financial responsibility for employee work related accidents. Under the programme the employer is liable for all its claims costs for a period of four years up to a specified maximum. At the end of the four year period a premium is paid to ACC for the value of residual claims, and from that point the liability for on-going claims passes to ACC.

The liability for the ACC Partnership Programme is measured annually by independent actuaries using actuarial techniques at the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date. Consideration is given to anticipated future wages and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields on secondary market Government bond yields at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(l) Employee entitlements

Provision is made for benefits accruing to employees in respect of annual leave, retiring leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

The provision for retiring leave, long service leave and sick leave is calculated on an annual basis by independent actuaries.

Provisions made in respect of employee benefits expected to be settled within twelve months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within twelve months are measured on an actuarial basis at the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date.

Employee entitlements to salaries and wages, annual leave, long service leave and other similar benefits are actuarially valued on an annual basis and are recognised in the Statement of Financial Performance when they accrue.

(m) Contributions to superannuation plans

Certain employees are members of defined contribution schemes and the Group contributes to those schemes. A defined contribution scheme is a plan under which the employee and the Group pay fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions in relation to employee service in the current and prior periods. The contributions are recognised as labour and related costs in the Statement of Financial Performance when they are due.

(n) Joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The Group is party to a joint venture arrangement with Northland Regional Council. For these jointly controlled operations the Group recognises in its financial statements the Group's share of the assets, liabilities, revenues and expenses using the proportional consolidation method. This represents a change in accounting policy from the prior year as the impact of accounting for the arrangement in this way was not previously considered to be material to the financial statements.

(o) Financial assets

Financial assets comprise cash and cash equivalents trade receivables and derivative financial assets. Derivatives are measured at fair value through profit and loss unless they are hedge accounted. Trade receivables are classified as loans and receivables and are carried at amortised cost using the effective interest method. Loans and receivables are not discounted due to their short-term nature.

Financial assets are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, call deposits and other investments with an initial term of less than three months.

Impairment of financial assets
Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment has been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of a doubtful debt provision. When a trade receivable is uncollectible, it is written off against the doubtful debt provision. Subsequent recoveries of amounts previously written off are credited to the Statement of Financial Performance. Changes in the carrying amount of the doubtful debt provision are recognised in the Statement of Financial Performance.

(p) Financial liabilities

Financial liabilities are classified as either financial liabilities at 'fair value through profit or loss' or 'at amortised cost'.

Payables
Payables are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. Payables are initially measured at fair value and subsequently measured at amortised costs using the effective interest rate method.

Borrowings
Borrowings are initially measured at fair value, net of transaction costs. Borrowings are subsequently measured at amortised cost using the effective interest method, with the interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for more than 12 months after the balance sheet date.

(q) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments within predetermined policies and limits in order to manage its exposure to fluctuations in foreign exchange, commodity and interest rate risks. The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

To manage this exposure the Group uses the following derivative financial instruments:

- Foreign exchange forward contracts and options
- Interest rate swaps
- Fuel commodity hedges

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into (the trade date). Any transaction costs are expensed immediately. The derivative financial instruments are subsequently re-measured to fair value. The method of recognising the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument, and the nature of the item being hedged.

Gains and losses, and movements in fair values of derivative financial instruments not in hedging relationships are recognised in the Statement of Financial Performance as follows:

- Foreign exchange forward contracts and options excluding contracts relating to fuel purchases– as part of 'Foreign exchange and commodity net gains and losses'
- Interest rate swaps – as part of 'Finance costs'
- Fuel related foreign exchange forward contracts and fuel commodity hedges – as part of 'Operating expenses'

The risk management objectives and strategy for undertaking various hedge transactions is covered by the Group Treasury Policy. The Group documents, at the inception of the transaction, the hedging relationship between hedging financial instruments and the hedged items. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives used in the hedging transaction are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of derivative financial instruments is classified as a non-current asset or liability when maturity of the hedged item exceeds 12 months. It is classified as a current asset or liability when the maturity of the hedged item is less than 12 months.

Cash flow hedges

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised in the Statement of Comprehensive Income and the cash flow hedge reserve within equity to the extent that the hedges are deemed effective. To the extent that the hedges are ineffective for accounting, changes in fair value are recognised in the Statement of Financial Performance in *Foreign exchange and commodity net gains and losses*.

If a derivative financial instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation of the hedge relationship is revoked or changed, then hedge accounting is discontinued. The cumulative gain or loss previously recorded in the cash flow hedge reserve remains there until the forecast transaction occurs. If the underlying hedged transaction is no longer expected to occur, the cumulative, unrealised gain or loss recognised in the cash flow hedge reserve with respect to the derivative instrument is recognised immediately in the Statement of Financial Performance.

Where the hedge relationship continues throughout its designated term, the amount in the cash flow hedge reserve is transferred to the carrying value of the asset when it is recognised.

(r) Foreign currency translation

Foreign currency transactions are translated to New Zealand currency at the exchange rates ruling at the transaction date.

Monetary assets and liabilities in foreign currencies at balance date are translated at exchange rates ruling at balance date. All exchange differences arising on the translation of monetary assets and liabilities in foreign currencies, whether realised or unrealised, are recognised in the Statement of Financial Performance, except when deferred in equity as qualifying cash flow hedges.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical costs are translated using the exchange rate at the date of the transaction.

COMPARATIVES

Certain comparatives have been reclassified to correspond with the current year presentation as follows:

Net losses on land sales – these were previously classified as operating expenses, however the sale of land is not part of the normal trading of the Group and therefore the gains or losses on these transactions are now shown outside of operating surplus. The 2011 comparatives have been restated accordingly.

NEW STANDARDS ADOPTED

The Group has adopted the following new and amended NZ IFRSs as of 1 July 2011:

- *IFRIC 13 Customer Loyalty Programmes* (amended 2010) became effective for reporting periods beginning on or after 1 January 2011. The revised standard clarifies that the fair value of award credits takes into account the amounts of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. This change has not had a material impact on the consolidated financial results of the Group as award programmes is a relatively small part of the business of the Group.
- *NZ IAS 24 Related Party Disclosures* (revised 2009) became effective for reporting periods beginning on or after 1 January 2011. The revised standard requires further disclosures of certain transactions with related parties. These disclosures have been made in Note 27 Related Party Transactions.
- *NZ FRS 44 Additional Disclosures* became effective for reporting periods beginning on or after 1 July 2011. The standard requires certain additional disclosures specific to New Zealand. All applicable disclosures required by the standard have previously, and will continue to be included in the Group's financial statements.
- *Harmonisation Amendments* became effective for reporting periods beginning on or after 1 July 2011. These amendments have not had any material impact on the consolidated financial results of the Group.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards and amendments were available for early adoption but have not been applied by the Group in the preparation of these financial statements:

- *NZ IFRS 9 Financial Instruments* (revised 2010) is the first standard issued as part of a wider project to replace NZ IAS 39 and is effective for reporting periods beginning on or after 1 January 2013. The revised standard amends measurement categories for financial assets. It is not expected to have any impact on the consolidated financial results of the Group.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

1. TOTAL INCOME

	Note	Group 2012	Group 2011	Parent 2012	Parent 2011
		$m	$m	$m	$m
Operating revenue	2	715.8	667.4	202.7	168.2
Grant income	4	172.3	344.6	129.7	324.7
Total income		**888.1**	**1,012.0**	**332.4**	**492.9**

2. OPERATING REVENUE

	Note	Group 2012	Group 2011	Parent 2012	Parent 2011
		$m	$m	$m	$m
Freight	29a	457.6	396.7	-	-
Mechanical	29a	-	9.0	-	-
Interislander	29a	123.9	122.9	-	-
Tranz Metro	29a	45.7	65.5	-	-
Tranz Scenic	29a	20.3	21.5	-	-
Property & Corporate		34.1	31.8	174.4	142.9
Infrastructure & Engineering	29a	34.2	20.0	28.3	25.3
Total revenue		**715.8**	**667.4**	**202.7**	**168.2**

3. OPERATING EXPENSES

	Group 2012	Group 2011	Parent 2012	Parent 2011
	$m	$m	$m	$m
Salaries and wages	270.8	249.8	33.5	23.8
Defined contribution plan employer contributions	8.7	8.3	0.8	0.7
Employee entitlements	9.8	13.9	3.0	2.2
Other employee expenses	4.3	4.2	1.4	0.8
Total staff costs	293.6	276.2	38.7	27.5
Materials and supplies	91.7	67.1	10.7	10.2
Fuel and traction electricity	124.2	105.3	0.1	0.1
Lease and rental costs	49.2	46.7	7.0	3.3
Incidents, casualties and insurance	16.0	13.9	7.3	4.2
Contractors expenses	16.1	14.2	72.9	45.7
Fees paid to auditors:				
Audit fees	0.4	0.4	0.4	0.2
Impairment of receivables	0.1	(0.5)	(0.2)	(0.3)
Directors' fees	0.3	0.3	0.3	0.3
Loss on disposal of property, plant and equipment	0.6	(1.0)	0.1	(1.9)
Other expenses	46.0	42.2	18.4	27.2
Total operating expenses	**638.2**	**564.8**	**155.7**	**116.5**

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

4. GRANT INCOME

	Note	Group 2012	Group 2011	Parent 2012	Parent 2011
		$m	$m	$m	$m
Capital grants for metro projects					
Auckland rail development		0.5	46.6	0.5	46.6
Wellington rail development		-	79.9	-	79.9
Auckland electrification project		124.6	125.0	124.6	125.0
Other capital grants					
Rail upgrade and growth		10.1	70.8	(32.3)	50.8
Other		36.6	21.8	36.4	21.9
Public policy grant		0.5	0.5	0.5	0.5
Total grant income	29b	**172.3**	**344.6**	**129.7**	**324.7**

The Group receives operating grants from the Crown for the purpose of maintaining the railway networks and infrastructure costs. There are no unfulfilled conditions or other contingencies attached.

5. NET LOSS ON SALE OF LAND

From time to time the Group sells parcels of the land that it owns. Permission is required from the Crown to make these sales and it is not part of the regular trading of the Group. Any gains or losses on the sale of this land are therefore excluded from Operating Surplus. Where land has previously been revalued any gain or loss is based on the valuation and any revaluation reserve relating to the land sold is released through the Statement of Movements in Equity.

	Group 2012	Group 2011	Parent 2012	Parent 2011
	$m	$m	$m	$m
Carrying value of land sold	27.0	7.9	27.0	7.9
Proceeds received	8.9	5.6	8.9	5.6
Net loss on sale of land recognised in Statement of Financial Performance	**(18.1)**	**(2.3)**	**(18.1)**	**(2.3)**
Release of revaluation reserve	24.5	7.9	24.5	7.9
Net gain on original cost	**6.4**	**5.6**	**6.4**	**5.6**

The loss on sale of land in the current financial year is mainly associated with land designated for the potential Southdown to Avondale line. The land, in the vicinity of Waterview, Auckland was sold to NZTA for the construction of State Highway 20. The sale price of $8.1m was established using two independent valuers. The carrying value of the land sold was $26.2m. The sale contract includes an obligation on NZTA to provide sufficient land back to NZRC to establish a replacement rail corridor at equivalent land pricing to the sale.

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

6. DEPRECIATION AND AMORTISATION EXPENSE

	Note	Group 2012	Group 2011	Parent 2012	Parent 2011
		$m	$m	$m	$m
Depreciation expense	16	302.9	277.4	216.8	209.7
Amortisation expense	19	6.5	5.7	3.9	3.0
Total depreciation and amortisation expense		**309.4**	**283.1**	**220.7**	**212.7**

7. FOREIGN EXCHANGE AND COMMODITY GAINS AND LOSSES

	Note	Group 2012	Group 2011	Parent 2012	Parent 2011
		$m	$m	$m	$m
Net realised foreign exchange and commodity losses		(3.7)	(18.2)	(9.4)	(1.0)
Net change in the fair value of derivatives not designated as cash flow hedges		6.8	7.6	8.4	11.8
Net foreign exchange losses on derivative instruments designated as cash flow hedges	29c	-	(5.3)	-	(5.3)
Total foreign exchange gains and losses		**3.1**	**(15.9)**	**(1.0)**	**5.5**

The table above excludes foreign exchange gains and losses on fuel related contracts which are reported within 'Fuel and Traction Electricity Expenses'.

8. NET FINANCE COSTS

	Group 2012	Group 2011	Parent 2012	Parent 2011
	$m	$m	$m	$m
Finance income				
Interest income on bank deposits	2.1	4.4	1.1	2.6
Interest income other	-	-	12.5	11.6
Net change in fair value of derivatives	-	-	-	-
	2.1	4.4	13.6	14.2
Less Finance costs				
Interest expense on borrowings	(33.3)	(28.9)	(34.0)	(28.9)
Interest expense on finance lease	-	(0.7)	-	-
Interest expense – other	(0.1)	(1.1)	-	-
Net change in fair value of derivatives	(9.1)	(5.9)	(9.1)	(5.9)
	(42.5)	(36.6)	(43.1)	(34.8)
Net finance costs	**40.4**	**32.2**	**29.5**	**20.6**

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

9. TAXATION

Figures are presented only for the Group as the Parent is exempt from tax.

	Group 2012	Group 2011
	$m	$m
Components of tax expense		
Current tax expense	-	5.6
Deferred tax expense	14.5	24.8
Adjustments to current tax relating to prior periods	-	(0.1)
Losses recognised	-	1.2
Tax rate change on current year losses	-	(1.1)
Adjustments to deferred tax relating to prior periods	-	-
Deferred tax income relating to temporary differences	-	(1.5)
Deferred tax income relating to the utilisation of tax losses	-	(1.0)
Deferred tax expense relating to write-down of deferred tax asset	-	-
Tax benefit	**14.5**	**27.9**
Reconciliation between tax expense and accounting surplus		
Surplus before tax	(2,319.6)	6.1
Tax at 28% (2011: 30%)	649.5	(1.8)
Tax effect of:		
Parent company income not taxable	(587.9)	32.9
Tax rate change on current year losses	-	(1.1)
Non-deductible expenditure	(1.1)	(0.1)
Previously unrecognised tax losses now recognised	2.9	1.2
Prior year adjustment	(2.2)	(0.1)
Tax losses – benefit	-	(2.0)
Other temporary differences	(46.7)	(1.1)
Tax benefit	**14.5**	**27.9**

10. CASH AND CASH EQUIVALENTS

	Group 2012	Group 2011	Parent 2012	Parent 2011
	$m	$m	$m	$m
Cash on hand	0.1	0.1	-	-
Current accounts	17.4	49.9	4.4	6.5
Call deposits	18.5	19.2	5.0	-
Foreign currency accounts	0.1	11.9	0.1	9.6
	36.1	**81.1**	**9.5**	**16.1**

The carrying value of cash at bank and call deposits with maturities less than three months approximate their fair value.

There are no cash or cash equivalent balances that are not available for use by the Group.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 28.

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

11. TRADE AND OTHER RECEIVABLES

	Group 2012	Group 2011	Parent 2012	Parent 2011
	$m	$m	$m	$m
Trade receivables	54.1	62.0	11.5	13.6
Accrued and other receivables:				
Construction contract accrual	-	-	-	-
Prepayments	11.5	9.8	5.2	2.0
Related party receivables	22.2	30.1	177.8	149.9
Other	30.5	14.8	18.9	5.0
Gross receivables	118.3	116.7	213.4	170.5
Less provision for impairment	(1.2)	(1.2)	(0.5)	(0.7)
	117.1	**115.5**	**212.9**	**169.8**
Current assets	117.1	115.5	212.9	169.8
Non-current assets	-	-	-	-
	117.1	**115.5**	**212.9**	**169.8**

Fair value

The carrying value of receivables approximates their fair value.

Impairment

The carrying amount of receivables that would otherwise be past due, but not impaired, whose terms have been renegotiated is $nil (2011: $nil).

All overdue receivables have been assessed for impairment at balance date and appropriate provisions applied, as detailed below:

	2012			2011		
	Gross	Impairment	Net	Gross	Impairment	Net
GROUP	$m	$m	$m	$m	$m	$m
Not past due	42.4	-	42.4	53.1	-	53.1
Past due 1 – 30 days	8.0	-	8.0	5.2	-	5.2
Past due 31 – 60 days	1.2	(0.2)	1.0	0.8	-	0.8
Past due 61 - 90 days	1.3	(0.4)	0.9	1.2	(0.4)	0.8
Past due > 91 days	1.2	(0.6)	0.6	1.7	(0.8)	0.9
Total	**54.1**	**(1.2)**	**52.9**	**62.0**	**(1.2)**	**60.8**
PARENT						
Not past due	7.6	-	7.6	10.5	-	10.5
Past due 1 – 30 days	2.4	-	2.4	1.4	-	1.4
Past due 31 – 60 days	0.2	-	0.2	0.2	-	0.2
Past due 61 - 90 days	0.7	(0.1)	0.6	0.1	-	0.1
Past due > 91 days	0.6	(0.4)	0.2	1.4	(0.7)	0.7
Total	**11.5**	**(0.5)**	**11.0**	**13.6**	**(0.7)**	**12.9**

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

The provision for impairment has been calculated based on an estimate of incurred losses for the Group's pool of debtors. This estimate has been determined based on a review of specific debtors.

Trade receivables which are not past due and which have not been impaired include a wide variety of customers including large bulk transport customers, shipping companies, ports and trucking companies. Historically, rates of default amongst this group of customers have been very low.

Movements in the provision for impairment of receivables are as follows:

	Group 2012	Group 2011	Parent 2012	Parent 2011
	$m	$m	$m	$m
Balance at 1 July 2011	1.2	1.7	0.7	0.9
Amounts written off during the year	(0.4)	(0.3)	(0.3)	(0.2)
Additional provisions made/(reversed) during the year	0.4	(0.2)	0.1	-
Balance at 30 June 2012	**1.2**	**1.2**	**0.5**	**0.7**

Changes in the provision for impairment of receivables are charged to operating expenses in the Statement of Financial Performance (see Note 3).

The Group holds no collaterals as security or other credit enhancements over receivables that are either past due or impaired.

Exposure to credit and currency risks and impairment losses related are disclosed in Note 28.

The average credit period on sales of goods and services is 24.6 days (2011: 27.9 days).

12. INVENTORIES

Figures presented are for the Group only as no inventory is held in the Parent.

	Group 2012	Group 2011	Parent 2012	Parent 2011
	$m	$m	$m	$m
Operational Activities				
Fuel	1.2	1.9	-	-
Inventory held to maintain railway	30.4	32.0	-	-
Inventory held to maintain rolling stock and vessels	51.1	49.4	-	-
Inventory held for resale	0.7	0.8	-	-
Contracting activities – work in progress	2.5	-	-	-
Gross inventory	**85.9**	**84.1**	**-**	**-**
Less obsolescence provision	(28.0)	(10.7)	-	-
Net inventory	**57.9**	**73.4**	**-**	**-**

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

	Group 2012	Group 2011	Parent 2012	Parent 2011
Movement in provision for stock obsolescence during the year	$m	$m	$m	$m
Opening balance	10.7	25.2	-	-
Provisions made during the year	21.9	-	-	-
Provisions utilised during the year	(4.6)	(14.5)	-	-
Closing balance	**28.0**	**10.7**	**-**	**-**

No inventories are pledged as security for liabilities (2011: nil).

The carrying amount of inventory is valued at the lower of cost and current replacement cost.

There have been no reversals of write-downs. All write-downs or reversals of write-downs of inventories are recognised in operating expenses in the Statement of Financial Performance, in the period the loss or reversal occurs.

13. FINANCIAL ASSETS AND LIABILITIES

	Note	Group 2012	Group 2011	Parent 2012	Parent 2011
		$m	$m	$m	$m
Current financial assets					
Commodity forward contracts		-	1.2	-	1.2
Foreign currency forward contracts		0.5	-	0.4	-
Foreign currency options		-	-	-	-
Total current financial assets		0.5	1.2	0.4	1.2
Non-current financial assets					
Foreign currency forward contracts		-	-	-	-
Interest rate swaps		-	-	-	-
Intercompany advances		-	-	276.3	274.5
Total non-current financial assets		-	-	276.3	274.5
Total financial assets		**0.5**	**1.2**	**276.7**	**275.7**
Current financial liabilities					
Commodity forward contracts		1.1	-	-	-
Loans		432.9	252.2	453.0	277.3
Finance leases		-	-	-	-
Interest rate swaps		0.6	0.8	0.6	0.8
Foreign currency forward contracts		4.6	76.1	2.5	76.1
Total current financial liabilities		439.2	329.1	456.1	354.2
Non-current financial liabilities					
Foreign currency forward contracts		-	1.9	-	1.8
Loans		101.2	280.5	101.3	280.8
Finance leases		0.2	-	0.2	-
Interest rate swaps		19.1	9.8	19.1	9.8
Total non-current financial liabilities		120.5	292.2	120.6	292.4
Total financial liabilities	29d	**559.7**	**621.3**	**576.7**	**646.6**

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

Unsecured loans

The notional principal amounts of the outstanding loans for the Group were $501.6m (2011: $498.5m).

Secured loans

On 29 September 2010, the Aratere finance lease was collapsed with a loan from Commonwealth Bank of Australia on similar amortising terms secured against the vessel. The amount outstanding as at 30 June 2012 is $32.8m.

The average term to maturity and average fixed interest rates for external unsecured and secured loans is shown in the table below:

	Unit	Group 2012	Group 2011	Parent 2012	Parent 2011
Notional principle	$ m	534.5	532.7	534.5	532.7
Average fixed interest rate	%	4.55	4.43	4.55	4.43
Average term to maturity	years	1.1	1.8	1.1	1.8

Credit card facilities

The Group has a credit card facility with a maximum limit of $2.5m and $1.8m was drawn as at 30 June 2012 (2011: $1.3m drawn, $1.5m limit).

Letter of credit facilities

The Group had one outstanding Import Letter of Credit with a total outstanding balance of USD3.6m for rail purchases as at 30 June 2012 (2011: USD7.3m for rails and container purchases).

Fair value of derivative instruments

The fair values of all derivative financial instruments are calculated on a discounted value of future cash flows. Assumptions on the determination of the future cash flows are based on publically available market prices. Management classifies these fair value measurements as Level 2 in terms of the requirements of NZ IFRS 7 par 27A.

Commodity forward contracts

The Group is party to a number of commodity forward contracts for heavy and light fuel oil. The total notional principal amount of outstanding commodity forward contracts is $8.5m (2011: $7.9m).

Foreign currency forward contracts

The New Zealand Dollar notional principal amounts of outstanding forward foreign exchange contracts were $83.3m (2011: $580.2m).

Interest rate swaps

The notional principal amounts of the outstanding interest rate swaps for the Group were $300.0m (2011: $350.0m), with average term to maturity and average fixed interest rate shown in the table below:

	Unit	Group 2012	Group 2011	Parent 2012	Parent 2011
Notional principle	$ m	300.0	350.0	300.0	350.0
Average fixed interest rate	%	4.98	4.92	4.98	4.92
Average term to maturity	years	3.4	3.9	3.4	3.9

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

14. TRANSFER OF ELECTRICAL MULTIPLE UNITS ("EMU") FOREIGN EXCHANGE CONTRACTS TO AUCKLAND COUNCIL GROUP

During the year an agreement was reached between the Crown and Auckland Council Group to transfer the procurement and ownership of the EMUs from NZRC to Auckland Transport.

During the initial phases of the procurement process NZRC entered into forward exchange contracts to mitigate the foreign currency exposure on the EMU units. These forward exchange contracts were being hedge accounted in NZRC's financial statements. In October 2011 the hedge contracts were novated to Auckland Council Group and from this date, hedge accounting for these contracts was discontinued and the contracts derecognised in the financial statements.

This has resulted in the following:

- A gain in the Statement of Financial Performance of $42.8m being the value of the liability novated to Auckland Council Group for nil consideration. This profit on derecognition has been separately disclosed in the Statement of Financial Performance.
- An expense in the Statement of Financial Performance of $40.2m being the cumulative loss on the hedging instruments held in the cashflow hedge reserve. This expense has been separately disclosed in the Statement of Financial Performance.

The difference between the gain on derecognition and the cumulative loss on the hedging instrument is the ineffective portion of the hedge contract that was expensed in the 2011 financial year.

15. INVESTMENT PROPERTY

	Group 2012	Group 2011	Parent 2012	Parent 2011
	$m	$m	$m	$m
Balance at 1 July 2011	-	-	-	-
Recognition of correct opening balance	4.9	-	4.9	-
Additions	0.1	-	0.1	-
Disposals	-	-	-	-
Fair value gains/(losses) on valuation	-	-	-	-
Balance at 30 June 2012	**5.0**	**-**	**5.0**	**-**

Investment property comprises land and rail designation assets acquired as part of the joint venture arrangement with Northland Regional Council. The joint venture was established to advance a proposed rail corridor in the Oakleigh to Marsden Point area. A number of properties along the proposed corridor have been purchased by the Northland Regional Council and whilst the Council has full legal title and full ownership rights to these properties the accounting treatment is based on the economic substance of the agreement. The land and rail designation asset are deemed to be jointly controlled, therefore the Group and the Council each recognise a 50% share of these assets. The balance of investment property at 30 June 2012 comprises land of $3.7m (2011: $nil) and rail designation asset of $1.3m (2011: $nil). See Note 24 for further information on this joint venture arrangement.

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

16. PROPERTY, PLANT AND EQUIPMENT - GROUP

	Note	Land	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant and Equipment	Capital Work In Progress	Total
Cost:		$m	$m	$m	$m	$m	$m	$m	$m
Balance at 1 July 2010		5,648.9	280.8	6,213.6	537.1	60.5	99.2	492.4	13,332.4
Additions		0.2	28.2	401.6	62.4	0.3	13.7	146.9	653.3
Disposals		(7.9)	(4.6)	-	(6.0)	-	(0.2)	-	(18.7)
Assets transferred to GWRC		-	(6.7)	(6.0)	(66.1)	-	(0.9)	(30.1)	(109.8)
Reclassifications		-	(1.9)	1.9	-	-	-	-	-
Balance at 30 June 2011		5,641.2	295.8	6,611.1	527.4	60.8	111.8	609.1	13,857.1
Additions		3.2	22.5	276.6	163.1	51.7	34.5	(38.1)	513.5
Disposals		(27.0)	(0.3)	-	(1.9)	-	(0.5)	-	(29.7)
Reclassifications		-	(0.7)	0.7	-	-	-	-	-
Revaluations	29f	(2,357.6)	12.1	-	-	-	-	-	(2,345.5)
Impairment	17	-	(182.7)	(6,724.0)	(445.3)	-	(23.8)	(510.6)	(7,886.4)
Balance at 30 June 2012		**3,259.8**	**146.7**	**164.4**	**243.3**	**112.5**	**122.0**	**60.4**	**4,109.1**
Accumulated depreciation:									
Balance at 1 July 2010		-	-	198.0	79.5	7.6	23.5	-	308.5
Depreciation expense	6	-	16.0	193.8	51.6	3.9	12.2	-	277.4
Disposals		-	-	-	(2.2)	-	(0.2)	-	(2.4)
Assets transferred to GWRC		-	(0.4)	(0.4)	(10.4)	-	(0.3)	-	(11.6)
Reclassifications		-	(0.5)	0.5	-	-	-	-	-
Revaluations		-	0.7	-	-	-	-	-	0.7
Balance at 30 June 2011		-	15.8	391.9	118.4	11.5	35.2	-	572.8
Depreciation expense	6	-	14.5	208.7	60.2	6.1	13.3	-	302.9
Disposals		-	(0.3)	-	(1.2)	-	(0.4)	-	(1.9)
Reclassifications		-	-	-	-	-	-	-	-
Revaluations		-	(4.3)	-	-	-	-	-	(4.3)
Impairment	17	-	(21.3)	(600.6)	(168.6)	-	(15.2)	-	(805.7)
Balance at 30 June 2012		**-**	**4.4**	**-**	**8.9**	**17.6**	**32.9**	**-**	**63.8**
Net book value:									
At 30 June 2011		5,641.2	280.0	6,219.2	408.9	49.3	76.6	609.1	13,284.3
At 30 June 2012		**3,259.8**	**142.3**	**164.4**	**234.4**	**94.9**	**89.1**	**60.4**	**4,045.2**

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KiwiRail

16. PROPERTY, PLANT AND EQUIPMENT – PARENT

	Note	Land	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant and Equipment	Capital Work In Progress	Total
Cost:		$m	$m	$m	$m	$m	$m	$m	$m
Balance at 1 July 2010		5,647.3	129.7	6,181.7	-	-	69.6	443.8	12,472.1
Additions		0.2	27.4	401.6	-	-	10.5	65.7	505.4
Disposals		(7.9)	-	-	-	-	-	-	(7.9)
Assets transferred to GWRC		-	(2.2)	(6.0)	-	-	-	(28.7)	(36.9)
Balance at 30 June 2011		5,639.6	154.9	6,577.3	-	-	80.1	480.8	12,932.7
Additions		3.2	14.2	276.8	-	-	21.3	38.7	354.2
Disposals		(27.0)	-	-	-	-	(0.2)	-	(27.2)
Revaluations	29f	(2,357.6)	6.5	-	-	-	-	-	(2,351.1)
Impairment	17	-	(122.8)	(6,689.7)	-	-	(15.5)	(500.2)	(7,328.2)
Balance at 30 June 2012		**3,258.2**	**52.7**	**164.4**	**-**	**-**	**85.7**	**19.3**	**3,580.3**
Accumulated depreciation:									
Balance at 1 July 2010		-	-	194.7	-	-	13.0	-	207.7
Depreciation expense	6	-	6.2	191.9	-	-	8.0	-	206.1
Assets transferred to GWRC		-	(0.1)	(0.4)	-	-	-	-	(0.5)
Balance at 30 June 2011		-	6.1	386.2	-	-	21.0	-	413.3
Depreciation expense	6	-	6.1	206.5	-	-	9.1	-	221.7
Disposals		-	-	(0.1)	-	-	(0.2)	-	(0.3)
Revaluations		-	(1.3)	-	-	-	-	-	(1.3)
Impairment	17	-	(10.3)	(592.7)	-	-	(11.1)	-	(614.1)
Balance at 30 June 2012		**-**	**0.5**	**-**	**-**	**-**	**18.8**	**-**	**19.3**
Net book value:									
At 30 June 2011		5,639.6	148.8	6,191.1	-	-	59.1	480.8	12,519.4
At 30 June 2012		**3,258.2**	**52.2**	**164.4**	**-**	**-**	**66.9**	**19.3**	**3,561.0**

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

Valuation of Assets

Property, plant and equipment values have been reviewed by management and the carrying value is considered to approximate fair value.

(i) Railway Infrastructure Assets

In June 2009 an external, independent valuer, DTZ conducted a valuation of railway infrastructure assets with a fair value of $5.835 billion based on the optimised depreciated replacement cost method. Notional replacement cost estimates were supplied to the valuers by internal engineering staff. Depreciation has been applied on a straight line basis. The remaining useful lives adopted in the valuation are a reflection of indicative useful lives adjusted for factors such as upgrading, level of maintenance, standard of construction and use. The key drivers of changes in values of railway infrastructure are steel and copper prices and foreign exchange rates.

(ii) Land and Buildings

In June 2012 Darroch Limited (previously DTZ) conducted a valuation of land and buildings. Valuation of specialised land is based on the market values of neighbouring land. The valuation of specialised buildings is calculated on the optimised depreciated replacement cost. Notional replacement cost estimates were supplied to the valuers by internal engineering staff. Non-specialised land and buildings, being severable and stand-alone properties, were valued at market value.

Depreciation has been applied on a straight line basis. The remaining useful lives adopted in the valuation are a reflection of indicative useful lives adjusted for factors such as upgrading, level of maintenance, standard of construction and use.

(iii) Other Assets

Other assets are measured at depreciated historical cost as a proxy for fair value.

Impairment

There has been a change in the way that assets are reviewed for impairment in the current year. The change is described in the accounting policies and details of impairments for the year are provided in Note 17.

Property, plant and equipment pledged to secure borrowing

The MV Aratere is pledged as security for a loan from Commonwealth Bank of Australia. There are no restrictions on title and the balance of the loan at 30 June 2012 is $32.7m (2011: $34.5m).

Leasing

Included within the plant and equipment asset class are Hi-Rail vehicles with a net book value of $0.2m which are held under a finance lease from Westpac Banking Corporation. Further details of the lease term are provided in Note 23 (a).

Reconciliation of Land and Buildings Revaluation to Primary Statements

	Note	Group	Parent
		$m	$m
Revaluation decrease on land		(2,357.6)	(2,357.6)
Revaluation increase on buildings		12.1	6.5
Accumulated depreciation reversed on revalued buildings		4.3	1.3
		(2,341.2)	**(2,349.8)**
Disclosed as:			
Revaluation increase to Asset Valuation Reserve		333.4	321.6
Revaluation loss in Statement of Financial Performance		(8.1)	(10.4)
Reversal of prior period revaluations in Statement of Comprehensive Income	17	(2,666.5)	(2,661.0)
		(2,341.2)	**(2,349.8)**

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

17. IMPAIRMENT OF PROPERTY, PLANT & EQUIPMENT

Reconciliation of Impairment Movements to Primary Statements

	Impairment recognised in Statement of Financial Performance	
	Group	**Parent**
	$m	$m
Impairment of Cash Generating Units (below)	(2,197.2)	(1,883.8)
Impairment of joint venture investment property	(2.0)	(2.0)
Impairment of investment in subsidiary	-	(367.0)
Impairment losses in Statement of Financial Performance	**(2,199.2)**	**(2,252.8)**

		Impairment recognised in Asset Valuation Reserve	
	Note	**Group**	**Parent**
		$m	$m
Impairment of Cash Generating Units (below)		(4,897.3)	(4,841.7)
Revaluation of land and buildings resulting in reversal of Asset Valuation Reserve	16	(2,666.5)	(2,661.0)
Reversal of prior period revaluations in Statement of Comprehensive Income		**(7,563.8)**	**(7,502.7)**

The non-leased buildings, railway infrastructure, rolling stock, plant and equipment and intangible assets are considered by management to form one cash generating unit (the "Rail CGU"). Recent discussions with the Crown regarding the structure of the Group have indicated that the assets within the CGU may be impaired. The recoverable amount of these assets is the higher of the value in use and fair value less costs to sell. The value in use for the CGU is the discounted estimated future cash flows that will be derived from the assets. The impairment for the Rail CGU is $7,094.5m (2011: $nil). The impairment is allocated across each asset class within the CGU, including intangible assets.

Where assets have a readily determinable market value they have been impaired to this value. Where a market value is not able to be determined the assets have been impaired to their share of the calculated value in use for the CGU. A discount rate of 9.8% has been used to calculate the value in use for the CGU. Market values have been provided by independent valuers as at 30 June 2012, Darroch Limited for buildings and Ernst and Young for all other asset classes.

The ships and related plant and equipment and intangible assets that relate to the Interislander business unit are considered by management to form a separate cash generating unit (the "Interislander CGU"). The recoverable amount of these assets is the higher of the value in use and fair value less costs to sell. The value in use for the CGU is the discounted estimated future cash flows that will be derived from the assets. The value in use exceeds the fair value less costs to sell and the current carrying value, therefore these assets are not impaired.

Leased buildings are considered by Management to each form a separate cash generating unit (together the Leased Building CGUs). Market values have been provided by Darroch Limited as at 30 June 2012 in order to determine the fair value of the buildings. Value in use for the CGU is the discounted estimated future cash flows to be derived from the assets.

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

The following impairments have been recorded in relation to each asset class for each CGU:

	Carrying amount before impairment	Impairment recognised in Statement of Financial Performance	Impairment recognised in Asset Valuation Reserve	Carrying amount after impairment
GROUP	$m	$m	$m	$m
Rail CGU				
Non-leased buildings	231.4	(83.0)	(78.4)	70.0
Railway infrastructure	6,287.9	(1,346.3)	(4,777.2)	164.4
Rolling stock	511.1	(234.9)	(41.7)	234.4
Plant and equipment	90.4	(8.6)	-	81.9
Assets under construction	570.8	(510.6)	-	60.2
Software	13.9	(13.9)	-	-
	7,705.5	**(2,197.2)**	**(4,897.3)**	**610.9**
Interislander CGU				
Ships	94.9	-	-	94.9
Plant and equipment	7.2	-	-	7.2
Assets under construction	0.2	-	-	0.2
Software	0.6	-	-	0.6
	102.9	**-**	**-**	**102.9**
Leased Building CGUs				
Buildings	72.3	-	-	72.3
	72.3	**-**	**-**	**72.3**
Total	**7,880.7**	**(2,197.2)**	**(4,897.3)**	**786.1**

	Carrying amount before impairment	Impairment recognised in Statement of Financial Performance	Impairment recognised in Asset Valuation Reserve	Carrying amount after impairment
PARENT	$m	$m	$m	$m
Rail CGU				
Non-leased buildings	140.1	(48.0)	(64.5)	27.6
Railway infrastructure	6,261.4	(1,319.8)	(4,777.2)	164.4
Plant and equipment	71.3	(4.3)	-	66.9
Assets under construction	519.5	(500.2)	-	19.3
Software	11.4	(11.4)	-	-
	7,003.7	**(1,883.8)**	**(4,841.7)**	**278.2**
Leased Building CGUs				
Buildings	24.5	-	-	24.5
	24.5	**-**	**-**	**24.5**
Total	**7,028.2**	**(1,883.8)**	**(4,841.7)**	**302.7**

In Note 16 Property, Plant and Equipment, the impairment is split between cost and accumulated depreciation as appropriate.

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18. TRANSFER OF ASSETS

On 30 June 2011 assets relating to the Wellington Metro business, including both property, plant and equipment and inventory were transferred to Greater Wellington Regional Council for nominal consideration. The net book value of assets transferred was $107.6m resulting in a loss on disposal of the same amount in the Statement of Financial Performance.

The tables below outline the cost and net book value of the assets transferred.

	Cost	Accumulated depreciation	Net book value
GROUP	$m	$m	$m
Buildings	6.7	(0.4)	6.3
Railway infrastructure	6.0	(0.4)	5.6
Rolling stock	66.1	(10.4)	55.7
Plant and equipment	0.9	(0.3)	0.6
Capital work in progress	30.1	-	30.1
Inventory	9.3	-	9.3
	119.1	**(11.5)**	**107.6**

	Cost	Accumulated depreciation	Net book value
PARENT	$m	$m	$m
Buildings	2.2	(0.1)	2.1
Railway infrastructure	6.0	(0.4)	5.6
Rolling stock	-	-	-
Plant and equipment	-	-	-
Capital work in progress	28.7	-	28.7
Inventory	-	-	-
	36.9	**(0.5)**	**36.4**

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19. INTANGIBLE ASSETS

	Note	Group Software	Parent Software
		$m	$m
Gross carrying amount			
Balance at 1 July 2010		23.1	11.5
Additions		7.4	7.0
Disposals		(1.0)	(1.0)
Balance at 30 June 2011		29.5	17.5
Additions		6.2	5.7
Impairment		(33.5)	(23.2)
Balance at 30 June 2012		**2.2**	**-**
Accumulated amortisation and impairment			
Balance at 1 July 2010		10.1	5.8
Amortisation expense	6	5.7	3.0
Disposals		(0.9)	(1.0)
Balance at 30 June 2011		14.9	7.8
Amortisation expense	6	6.5	3.9
Impairment		(19.8)	(11.7)
Balance at 30 June 2012		**1.6**	**-**
Net book value			
As at 30 June 2011		14.6	9.7
As at 30 June 2012		**0.6**	**-**

Amortisation expense is included in the line item "depreciation and amortisation expense" in the Statement of Financial Performance.

Impairment losses of $13.7m for the Group and $11.5m for the Parent (2011: $nil) are included in the impairment loss in the Statement of Financial Performance. For more details see Note 17.

No software is pledged as security for liabilities at the balance date (2011: $nil) and there are no restrictions on title.

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20. TRADE AND OTHER LIABILITIES

	Note	Group 2012	Group 2011	Parent 2012	Parent 2011
		$m	$m	$m	$m
Trade payables		50.4	71.1	15.3	13.9
Goods and services tax (GST) payable		0.3	(2.6)	(1.1)	(0.8)
Employee entitlements	a	94.9	91.3	7.6	6.1
Unearned revenue		8.5	12.1	4.0	6.4
Accrued interest		7.2	4.1	5.1	4.1
Amounts payable to related parties		0.2	0.5	56.3	55.6
Joint venture payable	24	5.5	-	5.5	-
Other payables and accruals		49.5	57.1	32.1	37.6
Total payables		**216.5**	**233.6**	**124.8**	**122.8**
Current liabilities		177.1	198.1	123.3	122.0
Non-current liabilities		39.4	35.5	1.5	0.8
		216.5	**233.6**	**124.8**	**122.8**

Trade payables are settled on normal commercial terms and the carrying value approximates fair value. No interest is incurred on trade payables unless the amounts fall overdue. Interest is charged at the discretion of the vendor.

The Group has financial risk management policies in place to ensure that all payables are paid within their credit timeframe.

Exposure to credit and currency risks and impairment losses are disclosed in Note 28.

a. EMPLOYEE ENTITLEMENTS

	Group 2012	Group 2011	Parent 2012	Parent 2011
	$m	$m	$m	$m
Current portion				
Accrued salaries and wages	6.3	4.2	0.7	0.6
Annual leave entitlement accruals	45.2	45.7	5.2	4.5
Sick leave entitlement accruals	-	-	-	-
Retirement and long service leave liability	4.0	5.9	0.2	0.2
Total current portion	55.5	55.8	6.1	5.3
Non-current portion				
Retirement and long service leave	39.4	35.5	1.5	0.8
Total non-current portion	39.4	35.5	1.5	0.8
Total employee entitlements	**94.9**	**91.3**	**7.6**	**6.1**

The present value of the retirement and long service leave obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating

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this liability include the discount rate and the salary inflation factor. The assumptions used by the actuaries in arriving at the retirement and long service leave liabilities were a salary increase rate of 3.0% per annum (2011: 3.0%) and term specific risk-free discount rate between 2.4% and 6.0% per annum (2011: 2.8% - 6.0%). The discount rate is derived from the yields on government bonds as at 30 June 2012, which have terms to maturity that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns.

21. PROVISIONS

	Group 2012	Group 2011	Parent 2012	Parent 2011
	$m	$m	$m	$m
ACC partnership programme	2.2	1.2	0.4	-
Leased vessel costs	3.3	2.9	-	-
Reclamation costs	-	2.9	-	2.9
Transition costs	0.6	1.1	-	-
Warranty costs	0.2	1.5	-	-
Reorganisation costs	17.4	5.1	-	0.2
Other provisions	2.4	2.0	0.6	-
	26.1	**16.7**	**1.0**	**3.1**
Represented by:				
Current	22.8	12.7	1.0	3.1
Non-current	3.3	4.0	-	-
	26.1	**16.7**	**1.0**	**3.1**

Movements in each class of provision are as follows:

	Balance at 1 July 2011	Provisions made during the year	Provisions utilised during the year	Balance at 30 June 2012	Current	Non-Current
	$m	$m	$m	$m	$m	$m
ACC partnership programme	1.2	1.7	(0.7)	2.2	2.2	-
Leased vessel costs	2.9	0.4	-	3.3	-	3.3
Reclamation costs	2.9	-	(2.9)	-	-	-
Transition costs	1.1	-	(0.5)	0.6	0.6	-
Warranty costs	1.5	-	(1.3)	0.2	0.2	-
Reorganisation costs	5.1	15.6	(3.3)	17.4	17.4	-
Other provisions	2.0	1.9	(1.5)	2.4	2.4	-
	16.7	**19.6**	**(10.2)**	**26.1**	**22.8**	**3.3**

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

ACC partnership programme

The Group is a member of the ACC partnership scheme. New Zealand Railways Corporation has been approved primary status since 1 May 2011.

Liability valuation - The liability of the Group was calculated by Melville Jessup Weaver, an external independent actuarial valuer. The actuaries have attested that they are satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. The actuary's report is without qualifications.

Assumptions - The key assumptions used in determining the outstanding claims liability are:

- The principal assumption of the Bornheutter-Fergusson (BF) method is that the development pattern of claims payments is the same for all loss periods;
- The BF method assumes that future inflation will be the same as the historical weighted average inflation which is present in the claims data. It is not possible to calculate the inflation rate explicitly;
- Projected future claim payments were discounted for the time value of money based on secondary market government bond yields as at the valuation date;
- The assumed "loss ratio" for New Zealand Railways Corporation of 0.69% was based on estimated cost of claims from the standard 2012/13 levy divided by the expected earnings for this year;
- Included a provision of 10% for the costs of managing future claims.

The value of the liability is not material in the Group's financial statements. Any changes in assumptions will not have a material impact on the financial statements.

Leased vessel cost

Redelivery costs: The Group has a charter agreement with Stena Finance B.V. for the Kaitaki roll-on-roll-off ferry until 1 July 2013. The ship commenced in service on 22 August 2005. Redelivery costs are accrued during the period of the lease. At balance date the provision totalled $3.3m (2011: $2.9m).

Reclamation costs

The provision covered the expected costs of removing contamination from a property being sold by the Group to a third party. The sale completed during the financial year and the provision was released against the payment made to the purchaser for the cost of removing the contamination.

Transition costs

Following the acquisition of KiwiRail Holdings Limited the Group provides for the costs of removing the previous owners' branding from certain plant and equipment.

Warranty costs

The provision for warranties relates mainly to third party engineering work done during prior financial years. The provision is based on estimates made from historical warranty data associated with similar products and services. The Group expects to incur most of the liability over the next financial year.

Reorganisation costs

During the year the Group committed to a plan to restructure its Infrastructure and Engineering division including the potential sale or closure of Hillside workshop. A provision of $15.6m has been recognised for the expected restructuring costs, including contract termination costs, consulting fees and employee termination benefits; an additional $1.8m has been carried forward from the prior financial year. The restructuring is expected to be completed during the 2013 financial year.

22. DEFERRED TAXATION

The deferred taxation assets and liabilities of the Group at balance date comprise:

	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
	$m	$m	$m	$m	$m	$m
Property, plant and equipment	-	20.8	-	(124.1)	-	(103.3)
Inventory	-	2.5	-	-	-	2.5
Financial instruments	-	0.1	-	(0.4)	-	(0.3)
Employee entitlements	-	24.8	-	-	-	24.8
Provisions	-	6.9	-	-	-	6.9
Other items	-	0.7	-	(6.3)	-	(5.6)
Tax Losses	-	14.8	-	-	-	14.8
Net tax assets/(liabilities)	**-**	**70.6**	**-**	**(130.8)**	**-**	**(60.2)**

The Group has an unrecognised deferred tax asset of $36.2m (2011: $nil) arising from deducible temporary differences of $60.0m (2011: $nil) and unused tax losses of $69.4m (2011: $nil) in KiwiRail Limited and an unrecognised deferred tax asset of $10.4m (2011: $2.9m) arising from deductible temporary differences of $37.2m (2011: $9.6m) in Ontrack Infrastructure Limited.

Movements in the net deferred tax liability during the year comprise:

	Balance at 1 July 2011	Recognised in profit or loss	Recognised in equity	Acquired in business combinations	Balance at 30 June 2012
	$m	$m	$m	$m	$m
Property, plant and equipment	(103.3)	57.6	45.7	-	-
Inventory	2.5	(2.5)	-	-	-
Financial instruments	(0.3)	0.3	-	-	-
Employee entitlements	24.8	(24.8)	-	-	-
Provisions	6.9	(6.9)	-	-	-
Other items	(5.6)	5.6	-	-	-
Tax Losses	14.8	(14.8)	-	-	-
	(60.2)	**14.5**	**45.7**	**-**	**-**

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23. LEASE COMMITMENTS

(a) Finance lease commitments

In May 2012 the Group entered into an agreement with Westpac Banking Corporation to lease 69 Hi-Rail Trucks and 15 Hi-Rail Light Inspection Vehicles. The approved limit of the agreement is $13.1m to be drawn down between May 2012 and December 2014. At 30 June 2012 the Group had the following commitments under this lease agreement:

	Group 2012	Group 2011
	$m	$m
Total minimum lease payments due:		
Not later than one year	-	-
Later than one year but not later than five years	0.2	-
Later than five years	-	-
Total minimum lease payments	**0.2**	**-**
Future lease finance charges	-	-
Present value of minimum lease payments	**0.2**	**-**

	Parent 2012	Parent 2011
	$m	$m
Present value of minimum lease payments payable		
Not later than one year	-	-
Later than one year but not later than five years	0.2	-
Later than five years	-	-
Total present value of minimum lease payments	**0.2**	**-**
Represented by:		
Current	-	-
Non-current	0.2	-
Total finance leases	**0.2**	**-**

(b) Operating lease commitments as lessee

The Group leases vessels and plant and equipment in the normal course of its business. Included in these lease commitments is the Group's charter for the roll-on-roll-off ferry, Kaitaki. On 20 March 2009 the lease period of the Kaitaki vessel was extended by a non-cancellable term of three years and the lease expires on 30 June 2013. Motor vehicle leases generally have a non-cancellable term of three years.

Where lease payments are denominated in foreign currencies, they have been converted to New Zealand currency at the exchange rate ruling at balance date.

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

The future aggregate minimum lease payments payable under non-cancellable operating leases are as follows:

	Group 2012	Group 2011	Parent 2012	Parent 2011
	$m	$m	$m	$m
Total minimum lease payments due:				
Not later than one year	24.6	26.8	3.7	4.8
Later than one year but not later than five years	41.8	55.6	11.5	11.8
Later than five years	15.3	19.2	14.1	13.4
	81.7	**101.6**	**29.3**	**30.0**

The total minimum future sublease payments expected to be received under non-cancellable subleases at balance date is $nil (2011: $nil).

Exposure to currency risks are included in the currency exposures in Note 28.

(c) Operating lease commitments as lessor

The Group has certain non-cancellable property leases. The property lease portfolio is made up of a large number of leases with varying terms. The commitment includes a significant lease with FX Networks with 29 years remaining of the lease term and a total commitment of $62.2m. The only other significant lease is with Toll Networks (NZ) Limited and has a term of 5 years, with 2 years remaining at balance date. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

	Group 2012	Group 2011	Parent 2012	Parent 2011
	$m	$m	$m	$m
Total minimum lease payments receivable:				
Not later than one year	22.3	15.3	22.3	15.3
Later than one year but not later than five years	46.3	37.6	46.3	37.6
Later than five years	64.4	14.6	64.4	14.6
	133.0	**67.5**	**133.0**	**67.5**

For the year ended 30 June 2012 $24.0m was recognised as revenue in the Statement of Financial Performance (2011: $24.6m).

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

24. JOINT VENTURE WITH NORTHLAND REGIONAL COUNCIL

In January 2009 the Group entered into an agreement with Northland Regional Council to create a Joint Venture in order to advance the proposed Oakleigh to Marsden Point rail link. The Council entered into voluntary negotiations with landowners who owned land along the existing corridor and to date have acquired eight properties with a total acquisition cost of $11.3m.

The process of designating the rail corridor started in the 2009 financial year and to date $1.3m has been spent to designate the land as rail corridor. This designation constitutes an asset and is included in investment property (see Note 15).

Both the land and designation assets are accounted for based on the economic substance of the joint venture agreement. The land and designation asset are deemed to be jointly controlled so each party to the agreement recognises a 50% share of each asset.

At 30 June 2012 the Group has a liability of $5.5m to the Council for its share of the cost of land purchased by the Council; this is included in other liabilities in Note 20. The Group also has a receivable of $0.4m from the Council for their share of associated costs paid by the Group; this is included in other receivables in Note 11.

25. CAPITAL AND OTHER COMMITMENTS

The Group has capital commitments for network upgrades, infrastructure renewal materials, manufacturing of new rolling stock, refurbishment costs relating to rolling stock and purchases of plant and equipment.

	Group 2012	Group 2011	Parent 2012	Parent 2011
	$m	$m	$m	$m
Capital expenditure commitments:				
Not later than one year	126.9	224.7	81.8	118.5
Later than one year but not later than five years	9.9	88.9	9.9	58.7
Later than five years	-	-	-	-
	136.8	**313.6**	**91.7**	**177.2**

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26. RECONCILIATION OF NET (DEFICIT)/SURPLUS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Group 2012	Group 2011	Parent 2012	Parent 2011
	$m	$m	$m	$m
Net (loss)/surplus after taxation	(2,305.1)	34.0	(2,353.2)	109.9
Add/(deduct) items classified as investing or financing activities				
Loss on sale of assets	18.1	0.9	17.6	0.9
Loss on transfer of assets to GWRC	-	98.3	-	36.4
Fair value movement in derivatives	(0.7)	0.8	(3.8)	0.8
Capital grant receipts	(172.3)	(344.6)	(129.7)	(324.7)
	(2,460.0)	(210.6)	(2,469.1)	(176.7)
Add non-cash flow items				
Depreciation and amortisation expense	309.4	283.1	225.7	209.1
Movements in deferred tax and provisions	12.3	(22.2)	(2.2)	0.8
Effect of exchange rate changes on cash balances	(0.5)	0.2	(0.4)	0.1
Impairment of property, plant and equipment	2,199.2	-	2,252.8	-
Revaluation of property, plant and equipment	8.1	-	10.4	-
	68.5	50.5	17.2	33.3
Add/(deduct) movements in working capital				
Decrease in trade receivables	7.9	6.2	1.9	11.0
Increase in other receivables	(10.9)	(8.9)	(46.6)	(102.7)
Increase in inventories	(1.9)	(6.7)	-	-
(Decrease)/increase in trade payables	(17.9)	3.4	1.1	(12.1)
(Decrease)/increase in other payables	(4.6)	3.3	(4.5)	50.0
Net cash flows from operating activities	**41.1**	**47.8**	**(30.9)**	**(20.5)**

27. RELATED PARTY TRANSACTIONS

As these transactions are material in nature they have been disclosed in thousands rather than expressed in millions.

The beneficial shareholder of the Parent is the Crown. The Parent controls two subsidiaries and their subsidiaries, namely KiwiRail Holdings Limited and Ontrack Infrastructure Limited.

	% holding 2012	% holding 2011	Incorporation	Balance date	Nature of activities
KiwiRail Holdings Limited	100 %	100 %	New Zealand	30 June	Operates a nationwide rail and ferry transportation business
Ontrack Infrastructure Limited	100 %	100 %	New Zealand	30 June	Provides maintenance services for the national track infrastructure

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The Group enters into transactions with related parties all of which are carried out on a commercial and arm's length basis. Those transactions that occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the Parent or its subsidiaries and associates would have adopted if dealing with that entity at arm's length in the same circumstance are not disclosed.

Significant transactions with Government-related entities

The Group has been provided with equity and capital grant funding from the Crown. Equity funding of $250.0m (2011: $250.0m) has been received together with capital grant funding of $158.7m.

The Group receives operating revenue for providing rail freight services to Solid Energy and Genesis Power both State Owned Enterprises. The Group received revenue from Solid Energy of $50.2m (2011: $44.3m) and Genesis Power of $1.4m (2011: $1.6m).

Collectively but not individually significant transactions with Government-related entities

The Group is required to pay various taxes and levies (such as GST, FBT, PAYE and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies is based on the standard terms and conditions that apply to all tax and levy payers.

The Group also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. These purchases included the purchase of electricity from Meridian Energy $7.6m (2011: $7.2m), air travel from Air New Zealand $3.9m (2011: $5.1m) and postal services from New Zealand Post $1.7m (2011: $2.7m).

Transactions with key management personnel

Key management personnel is defined as directors, the Chief Executive Officer and all executive level direct reports of the Chief Executive Officer. Key management personnel of the Group may be directors or officers of other companies or organisations with whom the Group may transact. Such transactions are all carried out independently on an arms' length basis. The following transactions were carried out with related parties:

	Statement of Financial Performance		Statement of Financial Position	
	Sales 2012	**Purchases 2012**	**Receivable 2012**	**Payable 2012**
	$000	$000	$000	$000
Paula Rebstock (Director)				
ACC	-	3,675	-	8
Work & Income	18	-	2	-
	18	**3,675**	**2**	**8**
Kevin Thompson (Director)				
Opus International Consultants Limited	-	566	-	206
	-	**566**	**-**	**206**
	18	**4,241**	**2**	**214**

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

	Statement of Financial Performance		Statement of Financial Position	
	Sales 2011	**Purchases 2011**	**Receivable 2011**	**Payable 2011**
	$000	$000	$000	$000
Paula Rebstock (Director)				
ACC	-	3,131	-	4,196
	-	**3,131**	**-**	**4,196**
Kevin Thompson (Director)				
Opus International Consultants Limited	-	3,310	-	251
	-	**3,310**	**-**	**251**
	-	**6,441**	**-**	**4,447**

All transactions with related parties are carried out at arm's length and are to be settled on normal credit terms. No security is held against related party receivables.

The Parent operates an intercompany account with its subsidiary, Ontrack Infrastructure Limited in the ordinary course of business. As at 30 June 2012 the net balance payable by the Parent was $50.9m (2011: $14.2m) and no debt has been forgiven. During the year Ontrack Infrastructure Limited received $229.5m in payments from the Parent for services provided (2011: $220.1m).

The Parent has provided loans to its subsidiary KiwiRail Limited. As at 30 June 2012 the outstanding balance of the loans amounted to $256.3m (2011: $274.5m). Interest on the loans is charged at the cost of funds to the parent plus a margin of 0.25%. Interest on the loans during the year amounted to $12.4m (2011: $11.5m).

On 21 May 2012 the Parent entered into an agreement to receive a short term advance of $20.0m from its subsidiary KiwiRail Limited. As at 30 June 2012 the outstanding balance on the loan was $20.0m. The loan was repaid on 20 July 2012.

The compensation of the key management personnel of the Group was as follows:

	Group 2012	**Group 2011**	**Parent 2012**	**Parent 2011**
	$000	$000	$000	$000
Key management personnel compensation				
Short term employee benefits	4,350	4,177	3,813	3,719
Termination benefits	396	-	207	-
Post-employment benefits	-	-	-	-
Balance at end of year	**4,746**	**4,177**	**4,020**	**3,719**

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

EMPLOYEES' REMUNERATION

Total remuneration and benefits in $000	Group 2012	Group 2011	Parent 2012	Parent 2011
100 – 110	210	122	43	30
110 – 120	102	66	20	13
120 – 130	64	60	9	14
130 – 140	49	37	14	7
140 – 150	34	23	5	7
150 – 160	29	23	8	7
160 – 170	17	17	4	4
170 – 180	12	8	3	1
180 – 190	7	15	-	3
190 - 200	9	7	2	2
200 – 210	5	3	2	2
210 – 220	7	6	2	3
220 – 230	2	1	2	-
230 – 240	-	1	-	1
240 – 250	2	3	2	1
250 – 260	1	-	1	-
260 – 270	1	-	1	-
270 – 280	2	-	1	-
280 – 290	-	3	-	3
290 – 300	1	1	1	1
300 – 310	1	1	-	1
320 – 330	2	1	1	1
340 – 350	-	1	-	-
390 – 400	-	1	-	-
400 – 410	2	1	2	1
410 – 420	-	2	-	2
430 – 440	1	1	1	1
440 – 450	2	-	2	-
720 – 730	1	-	-	-
810 – 820 *	1	1	1	1
	564	**405**	**127**	**106**

* The remuneration of the Chief Executive Officer is included in this band.

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The Directors earned the following fees during the year:

	Group 2012	Group 2011	Parent 2012	Parent 2011
	$000	$000	$000	$000
John Spencer	80	80	80	80
Paula Rebstock	50	50	50	50
Robert Field	40	40	40	40
John Leuchars	40	40	40	40
Rebecca Thomas	40	7	40	7
Kevin Thompson	40	7	40	7
Mark Tume	40	40	40	40
Mark Franklin	-	33	-	33
Bryan Jackson	-	33	-	33
	330	**330**	**330**	**330**

28. FINANCIAL INSTRUMENTS

a. Market Risk

Market risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises three types of risk; currency risk, interest rate risk and other price risk.

i. Foreign Exchange Risk

Foreign exchange risk is the risk of cash flow volatility arising from a movement in foreign exchange rates to which the Group may be exposed. The Group is exposed to foreign exchange risk from normal operating activities and the purchase of capital equipment.

The Group's treasury policy requires it to manage foreign currency risks arising from future transactions and liabilities by entering into foreign exchange contracts or currency options to hedge exposure to currency risk.

The Group's exposure to foreign exchange risk on financial instruments outstanding at reporting date is summarised as follows:

	Group - As at 30 June 2012			
In NZ $m	**USD**	**AUD**	**EUR**	**Other**
Foreign currency risk				
Non-derivative financial instruments				
Cash and cash equivalents	-	-	0.1	0.1
Trade and other receivables (excluding prepayments)	-	-	-	-
Trade and other liabilities	(0.1)	(0.4)	(0.6)	-
Net balance sheet exposure before hedging activities	(0.1)	(0.4)	(0.5)	0.1
Gross forecast sales	-	-	-	-
Gross forecast purchases	(120.4)	(6.5)	(4.8)	(7.8)
Net exposure (NZD)	(120.5)	(6.9)	(5.3)	(7.7)
Foreign currency derivatives				
Notional principal (NZD)				
Cash flow hedges	51.1	4.1	-	-
Non-hedge accounted	13.7	2.3	4.8	7.2
Balance*	**(55.7)**	**(0.5)**	**(0.5)**	**(0.5)**
Cash flows in respect of foreign currency cash flow hedges are expected to occur:				
Not later than 1 year	51.1	4.1	-	-
Later than 1 year not later than 2 years	-	-	-	-
	51.1	4.1	-	-

* The balance represents hedges of highly probable forecast foreign currency operating and capital expenditure transactions

	Group - As at 30 June 2011			
In NZ $m	**USD**	**AUD**	**EUR**	**Other**
Foreign currency risk				
Non-derivative financial instruments				
Cash and cash equivalents	11.0	0.6	0.2	-
Trade and other receivables (excluding prepayments)	-	-	-	-
Trade and other liabilities	(14.9)	(0.2)	-	-
Net balance sheet exposure before hedging activities	(3.9)	0.4	0.2	-
Gross forecast sales	-	-	-	-
Gross forecast purchases	(447.3)	(7.6)	(12.1)	(36.5)
Net exposure (NZD)	(451.2)	(7.2)	(11.9)	(36.5)
Foreign currency derivatives				
Notional principal (NZD)				
Cash flow hedges	396.0	-	-	-
Non-hedge accounted	51.1	7.4	11.6	36.0
Balance*	**(4.1)**	**0.2**	**(0.3)**	**(0.5)**
Cash flows in respect of foreign currency cash flow hedges are expected to occur:				
Not later than 1 year	396.0	-	-	-
Later than 1 year not later than 2 years	-	-	-	-
	396.0	-	-	-

* The balance represents hedges of highly probable forecast foreign currency operating and capital expenditure transactions

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Foreign currency sensitivity on financial instruments

The following table demonstrates the sensitivity of the Group's equity and profit to a 10% strengthening or weakening in the value of the New Zealand Dollar. A 10% movement in exchange rates is considered reasonably possible over the short term given historical fluctuations in the value of the New Zealand Dollar. This analysis does not include future forecast hedged operating or capital transactions.

	Group June 2012		Group June 2011		Parent June 2012		Parent June 2011	
In NZ $m	**Equity**	**Profit**	**Equity**	**Profit**	**Equity**	**Profit**	**Equity**	**Profit**
Foreign currency sensitivity analysis								
Impact of a 10% strengthening of the NZD	(7.6)	(2.5)	(41.0)	(15.1)	(7.6)	(2.5)	(41.1)	(15.2)
Impact of a 10% weakening of the NZD	9.2	3.1	50.6	14.3	9.2	3.1	50.1	13.8

ii. Interest Rate Risk

The Group's interest rate risk arises from long-term borrowing activities. Borrowings undertaken and funds on deposit held at variable interest rates expose the Group to cash flow interest rate risk. Fixed rate borrowing and investments expose the Group to fair value interest rate risk.

The Group borrows a mixture of fixed and floating rate debt in New Zealand Dollars. The Group hedges its re-pricing profile using interest rate swaps in accordance with its Treasury Policy in order to minimise and provide certainty over funding costs. The Group's benchmark is to ensure 50% of the Group's funding profile is fixed.

The Group's treasury policy benchmark requires it to have 50% of its borrowings at fixed rates and 50% at variable rates. The Group can enter into interest rate swap or option contracts as necessary to ensure that the risk is managed prudently and the policy is complied with.

Interest rate risk

Cash flow interest rate risk is the risk that cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings and investments issued at variable interest rates expose the Group to cash flow interest rate risk.

Interest sensitivity analysis

A change in the interest rates would also have an impact on interest payments and receipts on the Group's floating rate debt and investment instruments (including the floating rate leg of any interest rate derivatives). The sensitivity to a 100 basis point movement in interest rates (based on financial assets and liabilities held at the reporting date) is as follows:

	Group June 2012	Group June 2011	Parent June 2012	Parent June 2011
In NZ $m	**Profit**	**Profit**	**Profit**	**Profit**
Impact of a 100 bp interest rate increase	4.8	7.1	4.8	7.1
Impact of a 100 bp interest rate decrease	(5.3)	(7.8)	(5.3)	(7.8)

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iii. Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices.

a. Fuel price risk - The Group seeks to recover increased costs caused by increased fuel prices from its customers in the form of a fuel surcharge or fuel adjustment factor. Since the Group purchases its fuel at floating market rates, the Group is exposed to fuel price risk to the extent that it is unable to fully recover fuel price increases from its customers in the form of fuel surcharges. Accordingly, the Group's policy allows commodity swap and option contracts to be entered into to provide price certainty.

Fuel price sensitivity on financial instruments

The sensitivity of the fair value of these derivatives as at reporting date to a reasonably possible change in the underlying price of fuel is shown below. This analysis assumes that all other variables, including the refining margin, remain constant. This analysis does not include the future forecast hedged fuel transactions.

	Group June 2012	Group June 2011	Parent June 2012	Group June 2011
In NZ $m	**Profit**	**Profit**	**Profit**	**Profit**
Impact from a 10% increase in fuel	0.9	0.8	0.9	0.8
Impact from a 10% decrease in fuel	(0.9)	(0.8)	(0.9)	(0.8)

The sensitivity level for the Group's commodity risk was set at 10% and was based on the variation of the average of the commodities prices compared during 2011/12.

b. Credit Risk

Credit risk is the potential loss from a transaction in the event of default by a counterparty during the term of the transaction or on settlement of the transaction. Financial instruments which potentially subject the Group to credit risk consists primarily of cash at bank, accounts receivable, financial instruments, loans extended and bank guarantees issued. The maximum exposure to credit risk is represented by the carrying value of financial assets.

While the Group may be subjected to losses up to the contract value of the instruments in the event of default by its counterparties, it does not expect such losses to occur. On-going credit evaluation is performed on the financial condition of accounts receivable and customers' compliance with credit terms. The Group's policy does not require collateral support for financial instruments subject to credit risk, although personal guarantees may be obtained in support of the financial performance of certain customers.

The Group does not have any significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics due to the large number of customers included in the Group's customer base. The credit risk on cash at bank, short term investments and foreign exchange dealings is limited as the Group spreads its business amongst a number of Standard & Poors AA rated counterparties.

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Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure.

The Group's maximum credit exposure for each class of financial instrument is as follows:

	Group 2012	Group 2011	Parent 2012	Parent 2011
	$m	$m	$m	$m
Cash at bank and term deposits	36.1	81.1	9.5	16.1
Trade and other receivables	105.6	105.7	207.7	167.8
Derivative instrument assets	0.5	1.2	0.4	1.2
Intercompany advances	-	-	256.3	274.5
Total credit risk	**142.2**	**188.0**	**473.9**	**459.6**

c. Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet financial commitments as they fall due. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

The Group accesses funds via Crown appropriations for specified capital projects.

Exposure to liquidity risk

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate on the instrument at the balance date. The amounts disclosed are the contractual undiscounted cash flows.

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

Financial Liabilities and Derivative Financial Instruments

GROUP 2012	Carrying amount $m	Contractual cash flows $m	Less than 1 year $m	1 – 2 years $m	2 – 5 years $m	More than 5 years $m
Financial Liabilities						
Trade and other payables	113.1	113.1	113.1	-	-	-
Net settled derivative liabilities	25.4	25.4	6.3	2.9	6.3	9.9
Borrowings	534.1	577.0	448.0	10.7	60.2	58.0
Total	**672.6**	**715.5**	**567.4**	**13.6**	**66.5**	**67.9**
Derivative Financial Instruments						
Forward exchange contracts:						
- outflow	(90.0)	(90.0)	(88.7)	(1.3)	-	-
- inflow	85.5	85.5	84.2	1.3	-	-
Total	**(4.5)**	**(4.5)**	**(4.5)**	**-**	**-**	**-**

PARENT 2012	Carrying amount $m	Contractual cash flows $m	Less than 1 year $m	1 – 2 years $m	2 – 5 years $m	More than 5 years $m
Financial Liabilities						
Trade and other payables	113.2	113.2	113.2	-	-	-
Net settled derivative liabilities	22.2	22.2	3.1	2.9	6.3	9.9
Borrowings	534.3	577.0	448.0	10.7	60.2	58.0
Total	**669.7**	**712.4**	**564.3**	**13.6**	**66.5**	**67.9**
Derivative Financial Instruments						
Forward exchange contracts:						
- outflow	(90.0)	(90.0)	(88.7)	(1.3)	-	-
- inflow	85.5	85.5	84.2	1.3	-	-
Total	**(4.5)**	**(4.5)**	**(4.5)**	**-**	**-**	**-**

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

Financial Liabilities and Derivative Financial Instruments

GROUP 2011	Carrying amount $m	Contractual cash flows $m	Less than 1 year $m	1 – 2 years $m	2 – 5 years $m	More than 5 years $m
Financial Liabilities						
Trade and other payables	129.9	129.9	129.9	-	-	-
Net settled derivative liabilities	88.5	88.5	76.9	3.3	5.4	3.0
Borrowings	533.1	593.5	271.8	196.2	63.4	62.1
Total	**751.5**	**811.9**	**478.6**	**199.5**	**68.8**	**65.1**
Derivative Financial Instruments						
Forward exchange contracts:						
- outflow	(580.2)	(580.2)	(570.0)	(10.2)	-	-
- inflow	497.5	497.5	489.5	8.0	-	-
Total	**(82.7)**	**(82.7)**	**(80.5)**	**(2.2)**	**-**	**-**

PARENT 2011	Carrying amount $m	Contractual cash flows $m	Less than 1 year $m	1 – 2 years $m	2 – 5 years $m	More than 5 years $m
Financial Liabilities						
Trade and other payables	110.3	110.3	110.3	-	-	-
Net settled derivative liabilities	88.5	88.5	76.9	3.3	5.4	3.0
Borrowings	533.1	593.5	271.8	196.2	63.4	62.1
Total	**731.9**	**792.3**	**459.0**	**199.5**	**68.8**	**65.1**
Derivative Financial Instruments						
Forward exchange contracts:						
- outflow	(580.2)	(580.2)	(570.0)	(10.2)	-	-
- inflow	497.5	497.5	489.5	8.0	-	-
Total	**(82.7)**	**(82.7)**	**(80.5)**	**(2.2)**	**-**	**-**

The table above analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

d. Capital Risk Management

The Group manages its capital structure to ensure it is able to continue as a going concern whilst maximising its investment into rail infrastructure and rolling stock assets. The State Owned Enterprises Act (1986) requires the Board to manage the Group as a profitable and efficient organisation that is comparable to businesses that are not owned by the Crown.

The capital structure of the Group consists of borrowings (as outlined in Note 13), cash and cash equivalents (as outlined in Note 10) and equity. Equity comprises of a capital contribution from the Crown as permitted by the New Zealand Railways Corporation Act (1981), retained earnings and reserves.

The Board reviews the capital structure of the Group as part of the Group's planning cycle and regular on-going reviews. As part of this review, the Board considers the level of capital invested in the business and the amounts retained to ensure it effectively achieves its objectives and purpose.

e. Financial Instrument Fair Values and Classification

The classification of each category of financial instruments, and their carrying amounts, are set out below:

In NZ $m	Group as at 30 June 2012					
	Loans and Receivables	Other Amortised Cost	Non-Hedge Accounted	Hedge Accounted	Carrying Amount	Fair Value
Financial assets						
Cash and cash equivalents	36.1	-	-	-	36.1	36.1
Trade and other receivables (excluding prepayments)	105.6	-	-	-	105.6	105.6
Derivative financial assets – current	-	-	0.4	0.1	0.5	0.5
Derivative financial assets – non-current	-	-	-	-	-	-
Total financial assets	**141.7**	**-**	**0.4**	**0.1**	**142.2**	**142.2**
Financial liabilities						
Trade and other liabilities	-	(216.5)	-	-	(216.5)	(216.5)
Interest-bearing liabilities	-	(233.6)	-	-	(233.6)	(233.6)
Derivative financial liabilities – current	-	-	(4.6)	(1.8)	(6.3)	(6.3)
Derivative financial liabilities – non-current	-	-	(19.1)	-	(19.1)	(19.1)
Total financial liabilities	**-**	**(450.1)**	**(23.7)**	**(1.8)**	**(475.5)**	**(475.5)**

In NZ $m	Group as at 30 June 2011					
	Loans and Receivables	Other Amortised Cost	Non-Hedge Accounted	Hedge Accounted	Carrying Amount	Fair Value
Financial assets						
Cash and cash equivalents	81.1	-	-	-	81.1	81.1
Trade and other receivables (excluding prepayments)	105.7	-	-	-	105.7	105.7
Derivative financial assets – current	-	-	1.2	-	1.2	1.2
Derivative financial assets – non-current	-	-	-	-	-	-
Total financial assets	**186.8**	**-**	**1.2**	**-**	**188.0**	**188.0**
Financial liabilities						
Trade and other liabilities	-	(233.6)	-	-	(233.6)	(233.6)
Interest-bearing liabilities	-	(532.3)	-	-	(532.2)	(532.2)
Derivative financial liabilities – current	-	-	(13.6)	(63.3)	(76.9)	(76.9)
Derivative financial liabilities – non-current	-	-	(11.7)	-	(11.7)	(11.7)
Total financial liabilities	**-**	**(765.9)**	**(25.3)**	**(63.3)**	**(854.4)**	**(854.4)**

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

	Parent as at 30 June 2012					
In NZ $m	**Loans and Receivables**	**Other Amortised Cost**	**Non- Hedge Accounted**	**Hedge Accounted**	**Carrying Amount**	**Fair Value**
Financial assets						
Cash and cash equivalents	9.5	-	-	-	9.5	9.5
Trade and other receivables (excluding prepayments)	207.7	-	-	-	207.7	207.7
Derivative financial assets – current	-	-	0.4	-	0.4	0.4
Derivative financial assets – non-current	-	-	-	-	-	-
Total financial assets	**217.2**	**-**	**0.4**	**-**	**217.6**	**217.6**
Financial liabilities						
Trade and other liabilities	-	(124.8)	-	-	(124.8)	(124.8)
Interest-bearing liabilities	-	(534.5)	-	-	(534.5)	(549.6)
Derivative financial liabilities – current	-	-	(3.1)	-	(3.1)	(3.1)
Derivative financial liabilities – non-current	-	-	(19.1)	-	(19.1)	(19.1)
Total financial liabilities	**-**	**(659.3)**	**(22.2)**	**-**	**(681.5)**	**(696.6)**

	Parent as at 30 June 2011					
In NZ $m	**Loans and Receivables**	**Other Amortised Cost**	**Non- Hedge Accounted**	**Hedge Accounted**	**Carrying Amount**	**Fair Value**
Financial assets						
Cash and cash equivalents	16.1	-	-	-	16.1	16.1
Trade and other receivables (excluding prepayments)	267.3	-	-	-	267.3	267.3
Derivative financial assets – current	-	-	1.2	-	1.2	1.2
Derivative financial assets – non-current	-	-	-	-	-	-
Total financial assets	**283.4**	**-**	**1.2**	**-**	**284.6**	**284.6**
Financial liabilities						
Trade and other liabilities	-	(122.0)	-	-	(122.0)	(122.0)
Interest-bearing liabilities	-	(533.1)	-	-	(533.1)	(533.1)
Derivative financial liabilities – current	-	-	(13.6)	(63.3)	(76.9)	(76.9)
Derivative financial liabilities – non-current	-	-	(11.7)	-	(11.7)	(11.7)
Total financial liabilities	**-**	**(655.1)**	**(25.3)**	**(63.3)**	**(743.7)**	**(743.7)**

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

f. Fair Value Movements Recognised in the Statement of Financial Performance

The fair value of derivative financial instruments is based on accepted valuation methodologies. The fair market value of these instruments is calculated by discounting estimated future cash flows based on the terms and maturity of each contract, at market rates.

Fair values are allocated to a fair value hierarchy based on the following:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets and liabilities outlined in tables in Note 28e above are classified as following:

Level 1	Cash & cash equivalents
Level 2	Derivative financial assets - current Derivative financial assets - non-current Interest-bearing liabilities Derivative financial liabilities - current Derivative financial liabilities - non-current
Level 3	Trade and other receivables (excluding prepayments) Trade and other liabilities

29. ACTUAL COMPARATIVE INFORMATION

a. Revenue

Total Group revenue grew by 7.3% on the prior year and is attributable to strong growth in our Freight business unit, offset by challenging economic factors in our other business units.

The growth in our Freight revenue can be attributed to two key segments. Our import-export revenue grew 16% to $123m due primarily to the strong dairy export session. Our bulk business, including forestry, coal and bulk milk, grew by nearly 13% to $150m. As with import-export, this is also largely the result of the growth in the dairy season. The flat economy has resulted in domestic revenue growth of just 3%.

Tranz Metro revenue is down on the prior year due to changed funding arrangements with GWRC effective 1 July 2011. Excluding this impact, revenue was in line with prior year with total passenger numbers materially the same.

The decline in Scenic revenue is due to on-going impacts of the Christchurch earthquakes on tourism. Total passenger numbers were down 14%. The most significant impact on passenger numbers was on the TranzAlpine service, which was down 23%.

Interislander revenue was up only marginally on prior year and did not achieve the growth expected. Similar to the Scenic business, this is due to the tourism impacts on passenger numbers but also the planned outage while the Aratere was being extended.

The numbers in the Notes to the Financial Statements are expressed in millions unless otherwise stated.

Note the Group's Mechanical activities have been divided between the Freight and Infrastructure and Engineering business units during the 2012 year. Maintenance depots are now managed within Freight, external maintenance revenue for the year is included within Freight revenue. The Workshops are now being managed by Infrastructure and Engineering and revenue for the current year is included within that business unit's result.

b. Grant Income

KiwiRail receives grant income from the Crown and Regional Councils to completed specific rail projects on their behalf. The decrease reflects the Wellington and Auckland metro rail projects drawing to a close.

c. Cash flow hedge losses

The cash flow hedge losses recorded in the Statement of Comprehensive Income represent unrealised foreign exchange losses on asset purchases where hedge accounting is applied and effective. The ineffective portion of these foreign exchange losses (2012: $0m; 2011: $6.3m) is recorded in foreign exchange and commodity net gains and losses in the Statement of Financial Performance. These losses are of a non-cash nature.

d. Financial liabilities

Financial liabilities decreased $61.6m since last year. This is due predominantly to the reduction in foreign currency hedge contracts in place last year for the EMU contracts for Auckland Council.

The mix of current and non-current liabilities has changed as a result of DMO debt maturing within the next financial year. As detailed in Note 31, $322.5m of DMO debt was converted to equity on 16 July 2012.

e. Inventory

Inventory balances have decreased by $15.5m. This largely due to an increase in provision for obsolescence in respect of inventory items that are effectively spare parts for our rail network. With the reduction in the asset value of our network infrastructure due to the impairments detailed in Note 17, it was appropriate to also reassess the value of the items in inventory that support it.

f. Land values

The reduction in land valuation of $2,357.6m, covered by revaluation reserves, is caused by a combination of market conditions and methodology changes applied by the independent valuers. Previously a 20% enhancement factor on the "across the fence" values was applied, this has been removed. In addition, a greater level of attention was given to: local economic conditions; adjustments for size, shape and access to the land; and application of farm values rather than lifestyle block values in some rural land sections.

30. CONTINGENT LIABILITIES

a. Claims

The Group continues to manage residual activities relating to the previous operations of the organisation. Although the impact of such activities has diminished over time, a number of claims against the Group remain outstanding. In addition, the Group faces the continuing likelihood that liabilities not previously identified may arise in the future. No right of recourse exists for reimbursement of these claims. The outcome of these claims is uncertain at this stage and an estimate of financial effect is not practicable.

b. Treaty of Waitangi claims

Claims lodged under the Treaty of Waitangi Act 1975, in respect of land and other assets currently or previously administered by the Group, have not been recognised in these financial statements. Since 1 July 1993 such claims are considered to be the responsibility of the Crown rather than that of the Group and administered by the Office of Treaty Settlements, Ministry of Justice. The outcome of these claims is uncertain at this stage and an estimate of financial effect is not practicable.

c. Option to purchase Wellington Railway Station

Included in the Waitangi Treaty Settlement signed by the Crown dated 19 August 2008, Taranaki Whanui Ki Te Upoko O Te Ika and The Port Nicholson Block Settlement Trust, has an option to purchase the Wellington Railway Station and surrounding land. This option was exercised on 1st September 2011 and valuers have been appointed and the parties are currently working through the joint statutory valuation procedure to assess the price and terms of the sale and purchase of the Station.

d. Removal of contaminated material

The Group may need to make provision for the removal of contaminated material from land previously used for rail operations. The cost of this remedial work is uncertain. An estimation of the likely cost is to be made at the time that an investigation is undertaken.

e. Marsden Point rail corridor designation

The Group has confirmed it's designation of the rail corridor from the North Auckland Line to Marsden Point. The Northland Regional Council will purchase any land that may be required.
The Group has an agreement with the Northland Regional Council that it will have a half share in the acquisition and holding costs of land purchases with the Council.

31. EVENTS SUBSEQUENT TO BALANCE DATE

On 16 July 2012 $322.5m of debt with the Debt Management Office was converted to equity in the Parent company. At balance date this debt was included in current financial liabilities, therefore has resulted in a decrease in current liabilities and a corresponding increase in equity capital of $322.5m.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of the
New Zealand Railways Corporation and group's
financial statements
for the year ended 30 June 2012

The Auditor-General is the auditor of the New Zealand Railways Corporation (the Corporation) and group. The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Corporation and group, on her behalf.

We have audited the financial statements of the Corporation and group on pages 44 to 100, that comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion

In our opinion the financial statements of the Corporation and group on pages 44 to 100:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Corporation and group's:
    - financial position as at 30 June 2012; and
    - financial performance and cash flows for the year ended on that date.

Our audit was completed on 27 August 2012. This is the date at which our opinion is expressed.

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

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Corporation and group's financial statements that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Corporation and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect the Corporation and group's financial position, financial performance and cash flows.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 19(1) of the State-Owned Enterprises Act 1986.

Independence

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

In addition to the audit we are carrying out a special purpose audit relating to the Funding Agreement for Suburban Rail Services between a subsidiary of the Corporation, KiwiRail Limited, and the Greater Wellington Regional Council. The special purpose audit is compatible with those independence requirements. Other than the audit and the special purpose audit, we have no relationship with or interests in the Corporation or any of its subsidiaries.

S B Lucy
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of New Zealand Railways Corporation (the Corporation) and group for the year ended 30 June 2012 included on the Corporation's website. The Board of Directors is responsible for the maintenance and integrity of the Corporation's website. We have not been engaged to report on the integrity of the Corporation's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 27 August 2012 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Directory

Directors

Chair	**John Spencer, CNZM**
Deputy Chair	Paula Rebstock, CNZM
Directors	Bob Field, ONZM
	John Leuchars
	Rebecca Thomas
	Kevin Thompson
	Mark Tume

Executive Team

Chief Executive	**Jim Quinn**
General Manager KiwiRail Freight	Iain Hill
General Manager Corporate & Finance	David Walsh
General Manager KiwiRail Infrastructure & Engineering	Rick van Barneveld
General Manager Safety & People	Mathew Ballard
General Manager Interislander	Thomas Davis
General Manager KiwiRail Passenger	Deborah Hume

Bankers	Bank of New Zealand North End Branch, 100 Lambton Quay Wellington P.O. Box 1596, Wellington 6140
Auditors	Stephen Lucy, Audit New Zealand On behalf of the Auditor-General L8, St Paul's Square, Wellington Private Bag 99, Wellington 6140
Registered office	L4, Wellington Railway Station, Bunny Street, Wellington 6011

Further information

For assistance, publications or information concerning KiwiRail please visit our website at www.kiwirail.co.nz or contact:

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