KiwiRail

ANNUAL REPORT 09

Contents

Vision

To be a world-class mover of people and freight by rail and ships and to be the natural choice for our customers in the markets in which we operate

To be the backbone of the integrated New Zealand transport system

Highlights

- Re-integration of the rail industry as KiwiRail
- Government confirmation of funding for 20 new locomotives and 17 passenger carriages
- KiwiRail commissioned 100 new container wagons
- KiwiRail sets a record for bulk milk movement between Manawatu and Taranaki
- KiwiRail signs $90m contract with Westinghouse Rail Systems for Auckland network electrification signalling
- First sod turned in project to connect Wiri container site to rail network
- Rail ferry Arahura completes $9m refit
- KiwiRail acquires United Group NZ (Hutt Workshops business) after end of outsourcing contract
- KiwiRail named Safeguard New Zealand Workplace Health and Safety Award winner
- Celebration of the centenary of the completion of the North Island Main Trunk Line

KiwiRail – a new entity to operate the country's rail business

On 1 October 2008 the rail industry in New Zealand became a single entity KiwiRail. The establishment of the business within New Zealand Railways Corporation, trading as KiwiRail, follows the Government's 1 July 2008 purchase of the rail and ferry operating businesses previously owned by private sector company Toll Holdings.

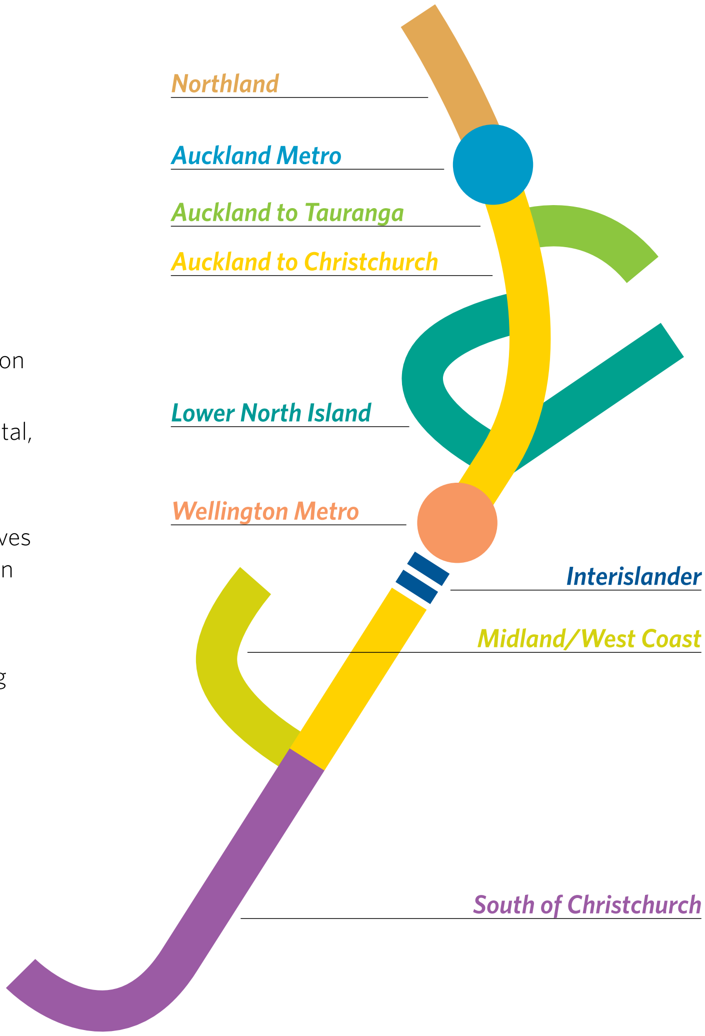
Most New Zealanders know that we are the biggest single land-based carrier of freight. But it comes as a surprise to many that we are one of the country's biggest tourism operators and one of the most significant property owners.

On the one hand we are a new entity bringing the different elements of the rail industry back together; on the other, an established business with a strong New Zealand history.

We have a wide range of customers. Our challenge today is to deliver an efficient and reliable service. To achieve this we are working to improve the quality of our assets and services.

Key elements of the business

- **KiwiRail Freight** provides rail freight services and locomotives for passenger services.
- **KiwiRail Interislander** operates Cook Strait ferry services for passenger, rail and freight.
- **KiwiRail Passenger**
  - **Tranz Metro** provides urban passenger services in Wellington under contract to the Greater Wellington Regional Council.
  - **Tranz Scenic** operates the TranzAlpine, TranzCoastal, Overlander and Capital Connection long distance passenger rail services.
- **KiwiRail Network** (ONTRACK) maintains and improves the rail network and controls the operation of trains on the network.
- **KiwiRail Mechanical** services our locomotives and rolling stock at Hutt workshops and builds new rolling stock at Hillside Engineering workshops.



Operations

Each week, train control operations manage the movement of:

- 900 freight trains.
- 52 inter-city passenger trains.
- Approximately 2,200 suburban passenger services in Wellington.
- Approximately 1,490 suburban passenger services in Auckland.

In a year, the Interislander manages 5,500 sailings carrying:

- 859,000 passengers.
- 59,000 rail wagons.
- 56,000 trucks.
- 223,000 cars.

Assets

Track	4,000 km
Bridges	1,656
Land managed	18,000 ha
Weekly freight services	900
Mainline locomotives	149
Freight wagons	4,200
Ferries	1 owned, 2 leased
Staff	4,000 approx

Chairman's Report

In July 2008 the New Zealand Government bought the rail and ferry business from Toll Holdings. It returned the business to public sector ownership after fifteen years in private hands.

It opened the way to changing our approach to the business. Because Toll retained the road transport arm, we have been able to concentrate solely on rail and ferry customers.

Since the purchase, we have worked with our customers across the business to understand their needs. We have a very clear remit from our Shareholding Ministers that we must operate as a commercial business with a focus on improved productivity and increased revenue. Tough trading conditions have not been ideal for forging new commercial relationships. Despite this, good progress has been made.

The economic recession has inevitably influenced trading results. Trading conditions have been volatile as customers move freight in irregular patterns. Freight volumes and passenger numbers on the ferries are significantly down on budget and previous trading years. Like us, our freight customers are under pressure to cut costs, improve productivity and drive efficiencies in their businesses.

The trading performance of the business does not do justice to the amount of work undertaken during the 2008-09 year. Rail took a bigger step forward than it has for many years, not only in the establishment of KiwiRail, but in the advancement of projects that improve both the rail infrastructure and rolling stock.

One of the most important issues for us this year has been to develop a long term strategy for rail. We have worked closely with Shareholding Ministers and officials to develop our business plan and to discuss long term strategy and investment in rail. This will be an ongoing process over the coming months.

KiwiRail is reporting a surplus after taxation of $238.7m. The surplus occurs as a result of the Crown and Regional Council operating and capital grant receipts being recorded as earnings while capital expenditure is recorded as an asset on the balance sheet of KiwiRail.

The 2008-09 financial year is further complicated with the purchase within the reporting period of the Toll and United Group operations.

When the effect of capital grant and capital expenditure issues are excluded, KiwiRail reports a $63.3m positive result before depreciation, interest, taxation and funding support. This becomes a loss of $186.6m after depreciation and finance charges, largely due to the significant depreciation expense on the network assets, at over $167.4m.

KiwiRail is forecast to record a deficit for the 2009-10 financial year, primarily connected with a shortfall in funding of our capital investment programme. Beyond the 2009-10 financial year, no operating support grant has been assumed nor has additional capital support (beyond specifically approved projects) been assumed. This results in larger deficits for those future years.

The Board expects that it will provide to the Government during the current financial year a long-term plan to support further investment being made in the business. The plan will identify a case to enable the business to deliver future benefits by way of specific investment strategies and initiatives.

Change has been a constant this year. Over the past twelve months the business has had a change of ownership, closely followed by a change of Government, a change in the board of directors, a new Chief Executive and changes to the senior management team. Change is a challenge for staff and customers but I am confident that the work we have done has laid the platform for a company that has stronger relationships with its shareholder, its customers, its staff and the communities in which it operates.

In the first six months of the year there was uncertainty over the future direction and investment in the business. Following the appointment of a permanent chief executive in March we worked closely with the Government and officials to build greater understanding of the business and its role as part of an integrated transport system for New Zealand. Significant progress has been made but there remains a substantial amount of work to be done to determine the optimal structure and funding arrangements.

One thing is abundantly clear. For rail to be truly relevant in today's and future markets, it must deliver efficiently and economically on the needs of its customers and shareholders. Rail has a natural advantage in transporting high volumes of bulk freight over long distances and urban passengers in major cities. A third of the country's exports are transported by rail and the volume of freight carried in New Zealand is predicted to almost double over the next twenty years.

We were pleased to announce in March that the Government had agreed to contribute $115m towards the acquisition of 20 new locomotives and 17 new passenger carriages. This will be the first time new diesel locomotives have been added to the fleet in the last 30 years. The first of the new locomotives are due in New Zealand in the middle of 2010.

Our major cities are growing and grappling with the issue of traffic congestion. Around the world, local, regional and central governments are turning to rail as an efficient means of moving people through crowded urban areas. We intend to work closely with our customers to identify ways in which we can work together to provide transport solutions.

I would like to take the opportunity to thank the staff and management for all their hard work and effort over the year in dealing with the uncertainty and in imparting their knowledge and understanding of the business to the new members of the team. I would like to thank William Peet for his work as Acting Chief Executive between October and March and also for his services to rail over the past 15 years. I am grateful for the work done by Jim Quinn who took up his appointment as Chief Executive in March. Both Jim and William have contributed to the integration process and the development of a new senior management team that can lead us forward in years to come. My thanks also extend to the management team which has evolved over the year into a group I am confident can lead the company forward.

Our railway network passes through most local and regional authorities in the country. Each area and the communities who live within it, have their own relationship with KiwiRail. We have a responsibility to be a good neighbour and to contribute to community life and issues in the areas we touch. Our interaction with communities is greatest in Auckland and Wellington where we are renewing or redeveloping networks. But it extends throughout the country where trains operate or track maintenance is carried out.

Finally, I would like to thank my fellow directors for their support and contributions throughout the year. It has been a unique experience to be part of the inaugural board responsible for the consolidation of the rail business once again under Government ownership.

I would like to acknowledge the contributions made by Brian Corban, Ross Wilson and Ross Martin whose terms of appointment have ended and welcome our three new directors Paula Rebstock, Bob Field and Mark Tume who joined us in July. In addition, I would like to thank the former ONTRACK board, especially Chairman Cam Moore, for continuing in a dual role for the first three months of this year.

I look forward to the remainder of this current financial year and the finalisation of our long term strategy.

Rt Hon James B Bolger, ONZ
Chairman, KiwiRail

Project	Benefit to the network	Status
Decision to buy 20 new diesel locomotives	Improve efficiency of freight services	On schedule for late 2010 delivery
Decision to buy 17 new passenger carriages	Revitalise TranzAlpine and TranzCoastal services	Design underway, production starts 2010
Commissioning 100 new container flat wagons	Improve reliability of freight services	Commissioned on schedule
Launch of Wiri rail link project	Provides rail connection for Wiri container storage site to Ports of Auckland	Proceeding
Upgrade Auckland urban network	Improve reliability and capacity of existing network	70% complete
Upgrade Wellington urban network	Improve reliability and capacity of existing network	33% complete
Arahura refit	Extend working life as passenger ferry	Completed September 2008
Replacement of wooden bridges on Coal Route	Improved reliability and transit times for coal exports	Forty percent of bridges strengthened or refurbished
Replacement of Arahura Bridge	Guarantees and improves road and rail links on the West Coast	Completion in December '09 ahead of schedule
Develop asset management plan	Draft prepared for Network assets	On schedule
Improve rail safety awareness	Reduce collisions at railway crossings and for pedestrians	On-going

Financial performance

The circumstances of KiwiRail's first nine months as an integrated company adds complication to the ability to report on its underlying financial performance. Further, the financial statements are prepared on the basis that KiwiRail is a Public Benefit Entity and as such reports a surplus after taxation of $238.7m due to the treatment of Crown and regional council funding.

The surplus occurs through the Crown and regional council operating and capital grant receipts being recorded as earnings while capital expenditure is recorded as an asset on the balance sheet of KiwiRail.

The 2008/09 financial year is further complicated with the purchase within the reporting period of the Toll and United Group operations.

KiwiRail appreciates the need to give greater visibility of performance given its wide range of stakeholders. In future reporting, KiwiRail will separately report the Network business unit from the rest of the business. It is not practical to report in such a manner this year given the scale of change that has occured.

KiwiRail's revenue includes all Freight, Interislander, Passenger and commercial property receipts.

External expenditure covers staff, fuel and electricity expenditure as well as materials and equipment to maintain locomotives, rolling stock and the rail network.

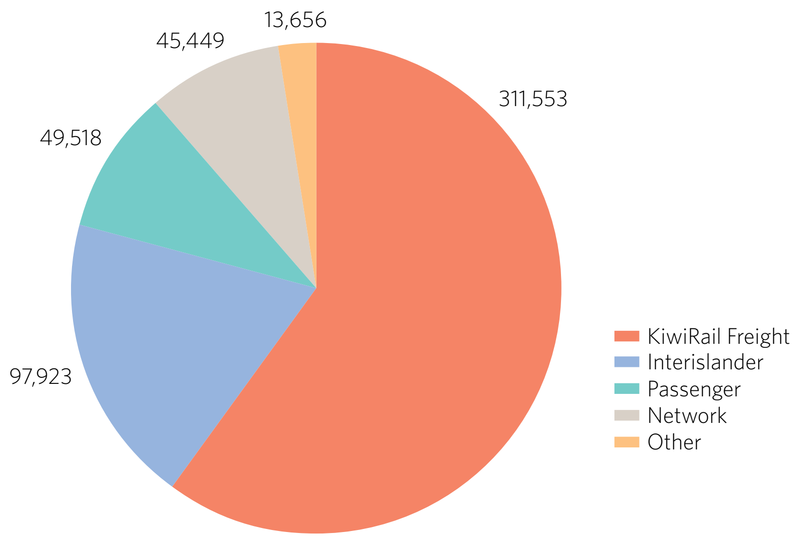
KiwiRail reports a $63.3m positive result before depreciation, interest, taxation and shareholder contribution. This becomes a loss of $186.6m after depreciation and finance charges, largely due to the significant depreciation expense on the network assets, at over $167.4m.

KiwiRail has made significant progress on key infrastructure projects on both the Wellington and Auckland metro networks. In Wellington this will provide a safer, more reliable network which is already well used by commuters with over 12 million passenger trips annually. In Auckland double tracking, station upgrades and electrification will see usage grow to over 15 million passenger trips per annum (from less than 7 million presently). These are multi-year projects with approximately $1.4b to be invested over 3 years.

The remaining capital support from the Crown of $48.7m has been applied to capital works primarily on the rail network. A significant amount of this funding is a catch up on many years of under investment in the network on bridges, sleepers and rail. The Arahura Bridge on the West Coast accounted for over $14m of this funding. The majority of this funding has been channeled to the segments of the network that carries the most traffic or has the greatest need from a health and safety perspective.

KiwiRail operates the Wellington metro rail services. Funding of approximately $18m was received by KiwiRail to undertake this operation in line with the agreements with the Greater Wellington Regional Council. ARTA also made a capital payment of $2.6m to KiwiRail during 2008/09.

KiwiRail's External Revenues by Business Unit
($000's)



KiwiRail reports a $63.3m positive result before depreciation, interest, taxation and shareholder contribution

KiwiRail Performance Analysis for 2008/09

	Total ($000)
Revenue	518,099
Internally Charged Income	118,525
Total Income	**636,624**
Expenditure to Suppliers, Staff etc	(454,769)
Internal Expenses	(118,525)
Total Expense	**(573,294)**
KiwiRail Earnings before Depreciation, Interest and Taxation	**63,330**
Depreciation	(215,868)
Net Finance Charges	(34,093)
Losses before Crown/Regional Council Funding	**(186,631)**
Crown provided Funding through	
Operating Grant (Output Agreement)	68,000
Public Policy Grant	3,776
Capital Grants for Metro Projects	
Auckland - 2008/2009 grant out of a total $1100m (DART $600m and Electrification $500m)	222,240
Wellington - 2008/2009 grant out of a total $316m	61,687
Total Metro Capital Funding	**283,927**
Capital Funding for KiwiRail Projects	48,742
Regional Council Service Fee for Metro Operations	20,712
Total Crown and Regional Council Funding	**425,157**
Taxation	204
Profit Reported in Financial Statements as a Public Benefit Entity	**238,730**

Board Profiles (as at 30 June 2009)

Jim Bolger, ONZ

The Rt Hon James Bolger is a former Prime Minister of New Zealand, diplomat and now a company director and Chancellor of the University of Waikato. He is Chairman of New Zealand Post and its subsidiary, KiwiBank. He chairs a number of other companies and charitable or public policy organisations.

Brian Corban, CNZM. QSO

Brian Corban is a professional company director, lawyer, business and community leader. He is Chairman of Genesis Energy and Radio New Zealand, as well as Ngatarawa Wines and the Melanesian Mission Trust. He is Chairman of a number of private companies and trustee of various community trusts.

Linda Constable

Linda Constable is a professional director. She was Chair of the electricity lines company Orion for seven years. Currently, she is interim Chair of Ngai Tahu Holdings Corporation Ltd, Chair of Ngai Tahu Property Ltd, director of Ngai Tahu Tourism, Ngai Tahu Seafood Ltd and Ngai Tahu Capital Ltd, a member of the Electricity Commission and a director of the Christchurch Arts Festival Trust.

Ross Martin

Ross Martin is a professional company director with a strong transport sector background. He was the former Executive Chair of Stagecoach Asia Pacific. He holds various other directorships and trustee positions.

Ross Wilson

Ross Wilson is a former Chairman of the Accident Compensation Commission and former President of the New Zealand Council of Trade Unions. He is a director of the Hui Taumata Trust Limited and the Workforce Development Trust.

Bryan Jackson

Bryan Jackson is a company director. He is Chairman of Vehicle Testing New Zealand, a board member of the New Zealand Transport Agency, and a director of ING NZ Pty Limited, IEF NZ Ltd, and Nees Hardware and Building Supplies Ltd.

Mark Franklin

Prior to taking up the chief executive role with TZ1 in late 2007, Mark was chief executive of infrastructure company Vector, which grew into one of New Zealand's largest publicly listed companies. An Australian, Mark has extensive experience in the energy and technology sectors in New Zealand, Australia and across Asia. His CEO roles in the IT and Telco sectors have encompassed startup and consolidation as well as leadership roles.

Board members from 1 July, 2009

Paula Rebstock

Paula Rebstock succeeds Brian Corban as Deputy Chair of KiwiRail. She is an Auckland-based economic consultant and company director. She has recently completed a four-year term as Chair of the Commerce Commission and continues to be a Commission member. In October she becomes Chair of the Insurance & Savings Ombudsman Commission.

Bob Field, ONZM

Bob Field is currently Chair of Toyota New Zealand after 40 years international experience in the motor industry , including 25 years as Toyota's CEO in New Zealand. He is the newly elected Chair of the NZ Business Council for Sustainable Development, a trustee of the World Wide Fund for Nature and an alumnus member of the NZ Business Roundtable.

Mark Tume

Mark Tume is a professional director with significant experience in the infrastructure sector. He currently holds a number of directorships with listed and unlisted companies, including Infratil, Transpower New Zealand Limited, New Zealand Refining Company, and Ngai Tahu Holdings Corporation. He is also a member of the board of the Guardians of The New Zealand Superannuation Fund.

KiwiRail

The year in review

July 2008

Government takes ownership of Toll NZ's rail and ferry businesses

New passenger time table introduced enabling 15 minute frequency services - Swanson to Britomart and Britomart to Helensville

Australasian Rail Safety Awareness Week activities around the country

August 2008

Contract signed with Fletcher Construction for New Lynn trench project

Contract signed with Eastern Coal Holdings to rail 120,000 tonnes of coal a year from Southland to Clandeboye dairy factory in South Canterbury

Re-enactment of Parliamentary Special train journey between Wellington and Auckland to mark centenary of North Island Main Trunk Line

September 2008

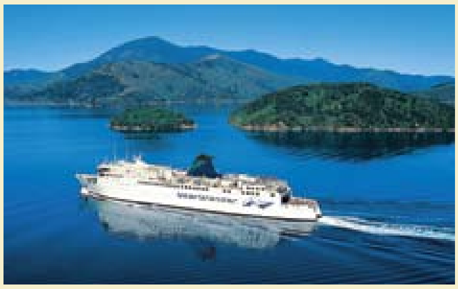
South Island-based concrete sleeper factory opened in Christchurch

Work starts on lowering of Wellington's Johnsonville Line tunnels

Chris Cairns' rail safety awareness walk ends at Rolleston

Ferry Arahura returns from $9m refit, extending her useful life by several years

New board appointed for KiwiRail. ONTRACK directors resigned



October 2008

KiwiRail and ONTRACK merge to bring the rail industry back together

KiwiRail commissions 100 new IM wagons for use between Auckland and Port of Tauranga

November 2008

Last Spike ceremony near Ohakune marks official centenary of the North Island Main Trunk Line

Fulton Hogan begin rebuilding Khyber Pass Road over bridge as part of Western Line double tracking project

Daylighting of three Manawatu Tunnels completed

December 2008

First sod turned to mark start of double-tracking and electrification on the Wellington network between Mckay's Crossing and Waikanae

Wellington remote shunter Dennis Williams sets new record of 2.5 million steps in 10,000 Steps health programme

January 2009

More than 7km of rail laid as part of major upgrade work completed during three-week shutdown of the Auckland network

February 2009

Special Auckland-Wellington commemorative train marks centenary of first scheduled passenger service on North Island Main Trunk Line

Old Hapuawhenua Viaduct walkway opened to the public

Two thousand people walk the Johnsonville Line after major work on the line completed

March 2009

Jim Quinn takes up role as Chief Executive of KiwiRail

Government confirms $115m for 20 new locomotives and 17 new passenger carriages

Mechanical services joins KiwiRail after being outsourced by TranzRail

Professional Services Group works on design for new Network ES sleeper wagons

April 2009

KiwiRail signs $90m contract with Westinghouse Rail Systems, Australia for signalling work as part of electrification of the Auckland network

May 2009

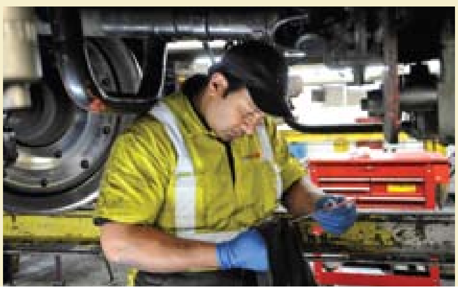
KiwiRail sets new record for bulk milk volumes carried between the Manawatu and Taranaki

KiwiRail carries off top award in Safeguard NZ Workplace Health and Safety Awards

June 2009

First sod turned at project to connect Ports of Auckland Wiri container site to rail network

New siding opens at Tangiwai to enable sawn timber to be railed from the WPI plant to Centreport

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KiwiRail

Chief Executive's report

When I arrived in March I expected the job to be both exciting and demanding. My expectation has been exceeded in the months that have followed as we've worked to mould the country's network, rail and ferry businesses into KiwiRail.

The excitement comes from the very nature of the rail industry. People are passionate about it. Staff believe in it deeply. Customers can't get enough of it and want more. Detractors clamour to get rid of it. There are no half measures with rail; you're either in or you're out – and everyone has an opinion.

Before I joined KiwiRail, I had more questions in my mind than answers. Eight months on, I can see the challenges we face, but I can also see what has been achieved and the potential that exists for the future.

Overwhelmingly, it's the customers and staff who have made the strongest impression. In a business so heavily based on infrastructure, it's easy to be pre-occupied with nuts and bolts and forget what the infrastructure is there to provide. My impression is that we do need to work harder to meet customer needs and to make sure they understand what rail can do for them.

It's been encouraging to receive a lot of positive feedback from customers about the value of rail to their businesses and their desire to see a stronger rail system. Fonterra's recent decision to consolidate its port usage came with an expression of confidence in the rail network.

Fonterra, one of rail's largest customers, has noted that rail is the logical transport provider for moving large volumes of finished goods. And the value proposition is not just about freight rates. The cooperative has pointed to the fact that rail is more environmentally friendly and more sustainable. Fonterra has indicated that the creation of KiwiRail has helped its decision-making in that it removes uncertainty around ownership.

Customers' enthusiasm for rail is partly based on the improvements they can see happening - on the network and in the upgrading of rolling stock. We still have a long way to go to overcome a decade of underinvestment, but progress is being made. It's clearly evident on busy lines such Auckland to Tauranga, the 'Milk Route' in the lower North Island and the Westport to Lyttelton 'Coal Route' in the South Island.

It's also clearly evident in Auckland and Wellington where old, urban networks are being refurbished and redeveloped in the biggest urban rail project since they were built.

My biggest concern so far has been the number of people who regard rail as a sunset industry and as old technology. They appear to know something that the Chinese, the French, the United States and a number of other European countries don't know.

The Chinese commitment to rail is inspiring. The sheer scale of their network – now approaching 100,000 kilometres – and their absolute commitment to development of rail as a means of moving freight and people is stunning. Add to that their commitment to innovation and a visitor can't escape the view that rail is critical to Chinese economic development – and a sunrise rather than a sunset industry.

The lesson for us is to believe in rail as a transport mode that is a vital part of integrated transport networks. We have plenty of work to do to get to where we want to be. Among the tasks are improving the quality of our assets and our services and successfully bringing together two distinct businesses with different cultures.

Our shareholder, the Government, has given us a clear message: it expects us to operate as a commercial business. The most significant hurdle will be to structure ourselves for the long term and improve our profitability by giving our customers the best service we possibly can.

Rail carries roughly a third of the country's exports. That makes it a big player in the development of NZ Inc. Factor in the prediction that freight volumes generally are estimated to double over the next twenty to thirty years and that demand for urban passenger rail will continue to grow - in these circumstances, we will clearly be a major player in the transport sector of the future.

The business

Recession has impacted on our business, simply because it has hit our customers. Freight volumes were down for the year by 13%. Interislander commercial vehicle traffic was down 2.2%, passenger numbers were down 6.4% and passenger vehicles down 2.9%.

The urban and long distance passenger transport businesses went against the trend. In the case of urban transport, it demonstrates the potential of commuter rail. Tranz Metro, which

Photo opposite - Mike Kilsby, Locomotive Engineer, Midland Line runs Wellington commuter rail services on contract to Greater Wellington Regional Council, carried 2.8% more passengers than last year.

The result is an operating surplus of $63.3m which becomes a loss of $186.6m when depreciation and finance charges are taken into consideration.

There have been some extremely positive developments in the freight business. We moved record volumes of bulk milk by train across the lower North Island between August last year and the end of May. More than 729m litres of milk were carried by rail along the 'Milk Route' from southern Hawkes Bay through Palmerston North for processing in South Taranaki. The previous record for milk volumes was set in the 2000-01 season when 700m litres were transported.

We were also able to confirm an order for 20 new locomotives to begin the renewal of the locomotive fleet. The new Chinese-built locomotives are due to arrive progressively from the middle of next year. They will be used on the Auckland-Tauranga and forestry routes in the Bay of Plenty and on the Milk Route in the lower North Island. Their advantage, apart from greater power and efficiency, is the fact that they have twin cabs which in a number of locations will allow us to replace two older locomotives with one of the new ones. At the same time we were able to place an order for 17 new carriages for the long-distance passenger fleet.

As the economic recession eases, we can expect a recovery in freight volumes and in the number of commercial vehicles crossing Cook Strait. Negotiations and discussions with major bulk product customers suggest increased volumes in future. Dairy industry freight is projected to increase by 85% over the next 20 years while coal volumes are projected to increase by 35% and logs and woodchips by 151%. The indications are that our capacity to carry future freight volumes may be more of an issue than the volumes themselves.

More concerning are the proposed changes to increase the weight of loads on trucks, which could affect 10% of our revenue. In addition bigger ships and port rationalisation are an unknown quantity in terms of their impact on our business.

Our assets

The 4,000 km track network is one of our biggest assets. Like the roading network, it requires constant maintenance and renewal. Much of the track formation – the foundation on which track is laid - was built between 50 and 75 years ago and was engineered for the axle loads of the time. As axle loads have increased it has put pressure on formations. A third of all railway bridges are at least 80 years old – between 10 and 20 years short of the age at which they need to be replaced. So we have work ahead of us to keep the network running efficiently and to improve it to a level that puts a smile on the face of our customers.

It's much the same story with rolling stock. The average age of locomotives is 30 years with the most modern dating back to 1988. Apart from coal wagons, most freight wagons are more than 20 years old. Arahura, the rail ferry we own is within seven years of needing to be replaced. Again, we have plenty of work to do to provide the service our customers need.

Our people

We have a staff of 4,000 spread throughout the country. A significant proportion have been in the rail industry for much of their working life and there is a loyalty and dedication to rail that is amazing and humbling.

We've increased the size of the rail family during the year by in-sourcing the mechanical maintenance team formerly operated by United Group Australia. The overall result has been the bringing together into KiwiRail of several different groups of people from different business cultures. There have been a significant number of changes in staff over the last few months and this will continue over the next few years or so as we integrate and restructure to deliver on our customers' needs.

I want to thank William Peet for his contribution in his role as Acting Chief Executive and thank all staff for supporting me from my arrival in March. There has been considerable change within the company in this time and I accept it puts additional stress on staff and resources.

Safety in the workplace was one of the major issues the rail industry faced ten years ago. Since then, a lot of work has been done to improve safety consciousness and safety standards. This work was recognised earlier in the year when KiwiRail won the overall award in the Safeguard Magazine National Safety Awards.

Our communities

As a result of our rail corridor stretching 4,000 km up and down the country, we interact with many communities, particularly those that are home to our staff or people working in industries that are our customers. It is important that we communicate with them and understand areas of common interest.

Community relations are central to the way we display a sense of social responsibility. Rail has a long history of being involved in the communities we connect with.

It’s been encouraging to receive a lot of positive feedback from customers about the value of rail to their businesses and their desire to see a stronger rail system

We support projects which enhance or encourage safety within communities. We are a sponsor of the Chris Cairns Foundation, an organisation created to promote safety at railway level crossings. There are some 1400 public railway level crossings along the rail corridor and each year there are between 20 and 30 collisions. While we have increased the rate of level crossing upgrades in recent years, we do not have the resources to be able to fix each and every one of them.

Outlook

There must be no doubt about the fact that rail has a long term future in the New Zealand economy. We are the natural mode of transport in a number of areas, in particular bulk goods, commodities moving point to point and urban transport. Changes in shipping patterns, changes in port infrastructure, fuel costs and environmental standards will all underpin this future.

There’s also that key consideration – nobody knows what the future holds. Lines that were candidates for closure fifteen years ago are today thriving because new traffic has emerged to run on them. We will keep this firmly in mind as we progress with a review of the business in conjunction with the Government.

The result will help us determine the future direction of the business, particularly in terms of where we place our investment emphasis in the future.

Understanding the impact of these issues on our business and planning for the future will be one of our biggest tasks over coming months. It’s one that management will work on with the Board and our Shareholding Ministers. It will chart a future for the rail industry that will give certainty to our customers, our staff and the communities who live and work around the rail and ferry networks.

Jim Quinn
Chief Executive

Senior Executives

Chief Executive

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 Freight

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 Interislander

Thomas Davis moved to Interislander from the KiwiRail Network (ONTRACK) business where he was the Corporate Services Manager and later Acting CEO. Prior to working for ONTRACK, Thomas had headed the Interislander and worked for predecessor rail organisations.

Chief Operating Officer, Network (ONTRACK)

William Peet heads the network infrastructure arm of the KiwiRail business. Previously, he was Chief Executive of ONTRACK. He is an engineer by profession with lengthy experience of the rail business.

General Manager, Passenger

Ross Hayward heads a passenger business that includes long distance train journeys and also Wellington suburban passenger rail. He has lengthy experience in the passenger rail business going back to predecessor rail organisations.

Chief Financial Officer

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 worked for New Zealand Milk and other Fonterra groups.

Chief Information Officer

Graeme Docherty has spent more than 20 years working in information technology mainly in the financial sector. His last position was the CIO for ING's Wholesale Branch Network based in Brussels and prior to that he was the Asia Region's CIO.

General Manager Human Resources

Nicola Brown takes up this role having filled a similar position for ONTRACK, the infrastructure arm of New Zealand Railways Corporation.

General Manager Legal & Governance

Karen Paterson has a commercial law and management background and has previously held similar roles at Genesis Power Limited and Auckland International Airport Limited.

General Manager Mechanical

Lloyd Major has 30 years experience in the rail industry.

General Manager, Health Safety and Environment

Nicole Rosie had previously been acting Group General Manager Safety and Policy. Nicole has considerable experience in the rail industry having worked in a senior capacity in health, safety and policy roles for both Toll NZ and Tranz Rail.

From left: Iain Hill, Ross Hayward, Thomas Davis, William Peet, Lloyd Major, Jim Quinn, David Walsh, Graeme Docherty, Nicola Brown, Karen Paterson (absent Nicole Rosie)

A key player in a multi-modal transport system

You only have to think about what transport in New Zealand would be like without rail to understand its contribution to the economy. Imagine 2,000 more trucks a day on the roads between Auckland and Tauranga. Imagine if every one of the 35,000 rail passengers who pass through Wellington railway station each day came into and out of the city by motor vehicle.

But rail's role in the economy is not a trucks versus rail debate. Its role is to be an integral part of a multi-modal transport system in which each mode plays to its specific strengths. To that extent, rail complements other forms of transport.

Rail is a cost-effective means of moving bulk goods long distances. It is also recognised as being up to seven times more energy efficient as a form of transport than road haulage. It is considered to be two to three times safer than heavy road transport for the same freight task.

Rail is important to New Zealand's export industries. It carries more than two million tonnes of coal a year for export as well as nearly another two million carried internally or imported.

It carries substantial quantities of dairy exports and bulk milk. Rail also carries many thousands of containers a week, both for export and import. Moving this traffic onto roads would put greater pressure on the roading network.

In Auckland and Wellington, rail plays a vital role in public transport. As road entries and exits to cities become more congested, rail is emerging as a sensible option to move people between satellite towns and the city centre.

Shipping trends

Developments in shipping and in the port sector are likely to affect the distance rail freight travels.

There is lively debate on whether there will be more 'hubbing' – consolidation of cargo at fewer ports, possibly with those ports being served by larger ships to handle the increased cargo exchanges. Several indicators point to a strong body of support for such developments among major exporters.

The Shippers' Council, representing large-volume exporters, is conducting a review of current and future supply chain infrastructure and cargo flows to assess whether larger vessels will deliver significant value to New Zealand. The Council is also considering the potential benefits for the bulk sector.

The country's largest individual exporter, Fonterra, has already done some work and is advocating larger vessels for its exports. Fundamental to the argument in favour of such change is that slot costs on larger ships reflect greater economies of scale, and New Zealand's exports will get to market at a cheaper cost.

Should larger container ships eventually come to New Zealand, then it will be essential that the country's logistics network is capable of positioning greater volumes of freight from the regions to the key ports of call.

KiwiRail's view is that rail is a leading option for performing that feeder role, both in getting the full containers from regional distribution centres to the export port, and in positioning empty containers back, ready for packing. While rail obviously cannot access every region and every pack point, significant volumes of freight can be moved on the main trunk line services to the key ports.

KiwiRail is conscious that cargo consolidation can lead to some ports gaining traffic and some ports losing it. Our approach has been to maintain good relationships with the whole port sector and to build capacity to meet customer demand.

Even without the arrival of bigger ships, the trend appears to be towards consolidation of export cargo through fewer, larger ports. The decision by Fonterra to move the majority of its export cargo that originates in Taranaki and South Canterbury through the ports of Auckland, Tauranga, Napier and Lyttelton is a significant alteration to the patterns of freight movement.

Fonterra's decision to choose rail as the principal logistics provider for these cargoes can be regarded as an endorsement of rail's ability to play a major role in the country's supply chain for the future.

Transport carbon emissions

The inevitability of the Government applying a cost to transport emissions creates opportunities for rail, albeit it could take time for these opportunities to be realised.

The underpinning belief is that putting a price on carbon will have an impact on the pricing levels in the various modes depending on their carbon emissions. KiwiRail's view is that any scheme which establishes prices for units of greenhouse gas emissions must, over time, alter the way in which the transport modes are able to compete.

Rail has an excellent case to argue. One container train can remove 50 or more trucks from the road, and rail's emissions per tonne/kilometre of travel are far less than road transport.

This is an important consideration in New Zealand's promotion of itself in a global economy that is becoming ever-more conscious of the carbon footprint

Rail excels in specialised roles:

- Carrying bulk commodities such as coal, milk, dairy products, logs and steel
- Movement of import-export goods, largely in containers, to and from ports
- Hauling long-distance freight between major cities
- Urban transport: Auckland and Wellington and between neighbouring cities
- Scenic tourism experiences

National Freight Demand Study predictions of growth over 20 years in commodity volumes that rail currently carries:

Predictions of growth

Assets	Growth
Dairy products (including milk)	85%
Meat	13%
Logs and woodchips	151%
Timber, wood products and pulp and paper	24%
Horticulture products	223%
Coal	35%
Chemicals, fertiliser and minerals	557%
Food and other manufactured products	71%

of suppliers. The Government has accepted that the world economies are becoming more demanding in terms of sustainability.

Transport pricing

One of the issues that has been debated for several years is the extent to which different transport modes pay for their cost of operations. It's not a simple matter to resolve. An earlier Ministry of Transport study suggested trucks were not paying their full share of costs, including external factors such as road accidents, a rate of return on roading investment and environmental issues.

A second Government review, called Understanding Transport Costs and Charges (UTCC), is now in progress. This aims to conduct a stock-take of the current domestic transport funding, charging and pricing arrangements and a 'gap analysis' to identify what transport costs and charges information is needed. It then intends to collect data and estimate costs and charges for the three modes.

The targeted completion date is December 2009. This should prove a significant resource for transport planners and policy makers. KiwiRail looks forward to these findings, in strengthening its case as a strong, viable partner in New Zealand's supply chain of the future.


10

Building capacity to meet customer demand

KiwiRail is investing in rail infrastructure and rolling stock to ensure it can meet demand from customers who see the company as an efficient option for moving goods and people.

Investment is being targeted to lines that carry the heaviest freight volumes and the largest numbers of urban commuters.

Improving capacity and reliability on freight lines

Freight is the cornerstone of KiwiRail's business. Nine hundred freight trains a week – almost 130 a day – operate on the network carrying a mixture of freight bound to or from ports, bulk goods such as coal, milk, steel and forest products and domestic goods being moved between cities.

Rail has the greatest ability to relieve the pressure of increased freight on roads, benefiting road users through lower congestion and avoided maintenance and capital expenditure. The public at large also benefit through reduced pollution and less carbon consumed per unit of freight.

The interisland ferries are a key element of the national rail network. Two of Interislander's three ferries have rail decks to carry rail goods across Cook Strait and all three are a major asset to New Zealand tourism.

Lifting capacity between Auckland and Tauranga

The country's busiest rail freight route is the group of lines that run between Auckland and Tauranga. KiwiRail moves containerised goods, dairy products, steel, coal and forest products between Auckland and Tauranga as well as forestry products to and from Kawerau and Kinleith.

Approximately 40% of the goods that travels to and from the Port of Tauranga, travels on rail. Up to 32 trains a day run on the line between Auckland and Tauranga and the associated forest products lines.

A series of network infrastructure and rolling stock initiatives will increase both the capacity and reliability of the route.

Two new and two extended crossing loops, built for as little as $5m, will increase line capacity from two trains an hour in each direction to four trains. One 250m extension at Motumaoho, west of Morrinsville, has already been completed. The remaining work is scheduled to be completed by the end of the first quarter of the 2011 calendar year.

Much of the base (formation) on which the railway line between Hamilton and Tauranga is built, dates back to the 1930s, the only exception being the section associated with the Kaimai tunnel. Before the end of the calendar year 2009, new ballast maintenance equipment, ordered for the New Zealand rail network, will be deployed on the line to improve its reliability.

New locomotives due to come into service next year will work in tandem with new container wagons to improve service and capacity. They will be allocated from the 20 locomotives due to arrive progressively next year from the Chinese manufacturer China CNR to help address the problem of an ageing locomotive fleet.

The youngest locomotives in the fleet of 149 were built twenty years ago and a number date back to the mid 1960s. The new locomotives will be lighter, more powerful and more fuel efficient than the models they replace. They will be fitted with a German-built engine that is approximately six tonnes lighter than those fitted on locomotives in the current fleet.

They'll enable us to make a 'two for one' replacement on many services. In other words, services that have previously required two locomotives running 'back to back' will be replaced by a single locomotive.

The average age of container flat wagons is 28 years and their advancing age has also presented challenges. At certain peak times of the year deliveries from Tauranga into Auckland have taken longer than customers wanted.

In October last year, 60 new IM container flat wagons were commissioned for use on the East Coast Main Trunk. One new wagon alone can carry over 53 tonnes and that compares to 44 tonnes currently for the average truck. One wagon can take the equivalent of either three 20-foot containers or one 40-foot container and one 20-foot container.

Currently, three trains travel daily between MetroPort Auckland and the Port of Tauranga. At the moment, each train can carry 106 twenty-foot equivalent containers (TEUs). Improvements in line capacity and wagon availability will within the next two years increase this to 150 TEUs.

Photo opposite - Log train, Port of Tauranga

Hall's Refrigerated confirms importance of rail to its business

Hall's Refrigerated Transport – one of New Zealand's largest movers of domestic perishable goods – has reaffirmed the value of rail distribution in its strategic partnership with KiwiRail.

Hall's operates a fully-refrigerated fleet of 250 trucks from depots stretching from Invercargill to Auckland, handling the distribution needs of major customers such as McCain and Goodman Fielder.

The company began its close relationship with rail when it bought the refrigerated operation of the then Toll TranzLink, at the same time becoming the strategic partner of the rail operation.

"We bought into the relationship as well as the operation," says Hall's chief executive Alan Pearson.

"We made a strategic decision to combine the strengths of road and rail to offer our customers the best of both worlds. KiwiRail is accountable for a number of key performance indicators with on-time performance very close to our heart at Hall's.

"We also have a strong environmental belief in rail. We have some major customers who want to know the amount of carbon we burn in delivering their goods, and they want to see what efforts we are making to contain that carbon footprint.

"One of our initiatives is clearly in using rail, with a diesel loco pulling wagons offering 400% more fuel efficiency than a truck."

Alan Pearson says that Hall's is keen to explore more opportunities with rail in the future.

"The basis of our strategic relationship is to grow volumes where we can. Obviously rail has some limitations and cannot take all goods everywhere.

"But the underlying principle that influences our decision-making at Hall's is to take opportunities to move goods by rail where it is possible."

Key developments on ECMT

- Building new or extending four crossing loops
- Improving track formation and ballast
- Introducing new locomotives
- Introducing new container wagons
- Deployment of new track maintenance equipment.

Volume of freight carried on the network

Measure	2004-05	2005-06	2006-07	2007-08	2008-09
NTK carried	4,321,782,019	4,311,691,732	4,329,486,671	4,555,858,408	3,962,000,000

Investment is being targeted to lines that carry the heaviest freight volumes and the largest numbers of urban commuters

Lower North Island tunnel clearances open the way for increased dairy traffic

Opening up tunnels on east-west rail routes in the lower North Island has increased the flow of rail traffic and added a new dimension to the movement of processed dairy products.

During the August to May dairy season, bulk milk is collected at Longburn and Oringi in the Manawatu and railed across the North Island to Fonterra's Whareroa dairy factory near Hawera, one of the country's largest milk processing plants. One milk train carries the equivalent load of 30 road tankers.

Processed dairy products move back from Whareroa in what is known as hi-cube containers. These have become the industry norm but they haven't previously fitted through tunnels built, in some cases, 100 years ago for much smaller wagons.

Movement of bulk milk by rail began 12 years ago. In the season just completed, KiwiRail has moved a record volume of more than 729m litres. The previous record for milk volumes was set in the 2000-01 season when 700m litres were moved.

Tunnels restricted train speeds and the type of wagons that could pass through them. KiwiRail Network (ONTRACK) set out to improve access through five rail tunnels in the Manawatu Gorge and one in South Taranaki.

Over the past three years, access in two Manawatu tunnels was improved by lowering tunnel floors. Three further tunnels were 'day-lighted' in 2008 effectively opening them up.

A one-kilometre deviation now by-passes the 100-year-old Kai Iwi tunnel west of Wanganui that was too small for modern containers and carried a permanent speed restriction which affected the efficiency of locomotives pulling up the steep grades into Taranaki.

Each project presented engineering challenges. At Kai Iwi it was moving large amounts of earth on a farm without disrupting farming operations. In the Manawatu Gorge it was extracting hard rock from narrow tunnel floors and disposing of spoil.

The projects have created the ease of movement for containers that have enabled Fonterra to export 80% of the output of Whareroa through northern or east-coast ports.

The New Zealand economy benefits because rail is a more efficient way of moving bulk goods than by road vehicle. Not only does it provide economic benefits in terms of being the most cost-effective means of moving milk but the roads through the Manawatu Gorge and into South Taranaki benefit from the absence of what would otherwise be many more trucks.

The National Freight Demand Study, completed last year for the Ministry of Transport, Ministry of Economic Development and NZ Transport Agency predicts that dairy-related freight will grow by 85% over the next 20 years.

KiwiRail is already planning for this future growth. In early July, a two-day live trial proved it is possible to carry 1m litres of milk on one train hauled by two DXB locomotives.

Improvements in locomotive technology and infrastructure have been critical to the development of the milk route. Steep grades on the east to west journey originally required banker locomotives to provide additional power to supplement the DFT locomotives.

Better traction systems and the introduction of the GE Brightstar technology eliminated the need for bankers. The introduction to the route of some of the new Chinese-built locomotives due later next year will further increase efficiency.

Key developments on Milk Route

- Introduction of Brightstar technology to locomotives.
- Improving clearance for hi-cube containers by 'daylighting', lowering and by-passing tunnels.
- Allocating new locomotives to the route.

Since the Kai Iwi deviation was completed and the Manawatu Gorge tunnels 'daylighted', speed restrictions have reduced and transit times improved.

There has been a 15% increase in net tonne kilometres across the Marton – Stratford line compared with the same period last year, driven primarily by stronger dairy volumes. There has been a 5% increase in the number of trains operating on this line section, despite an overall down-turn in freight business.

It's sobering to think that some sections of this lower North Island rail corridor were candidates for closure 20 years ago. The record milk volume set this year underlines the strategic importance of protecting and investing in our rail corridors for future needs.

Moving West Coast coal to Lyttelton

The 'Coal Route' is a combination of railway lines that move coal from north of Westport to the Port of Lyttelton for export. The lines include the Stillwater-Westport Line, Rapahoe Branch Line, Midland Line, Main South Line and Lyttelton Branch Line.

Coal currently comes mainly from Solid Energy's Stockton Mine inland from Westport and Spring Creek Mine near Greymouth. The line is also used to carry dairy products from Westland Dairy Company's plant at Hokitika as well as ore from Reefton.

The line weaves through the Southern Alps and is subject to extreme weather conditions. There are 267 bridges along the route, 253 of them on the Stillwater-Westport and Midland lines.

Many of the bridges are of timber construction. Much of the timber is between 80-130 years old. Over the entire network, 33 percent of bridges are 80 or more years old. Eighty to 100 years is the age at which bridges are normally replaced.

More than a decade of under-investment had taken its toll on 'Coal Route' bridges at a time when Solid Energy was increasing production and newly establishing Pike River has been gearing up for coal production. Ageing bridges mean speed restrictions, reducing the overall efficiency of transport.

The Coal Route was an early target for investment when the Crown re-purchased the rail infrastructure in 2004. KiwiRail Network is now closing in on its 100th bridge renewal on the route and the overall resilience and reliability of the lines has improved considerably.

The bridge replacement programme has focused on replacing and improving wooden bridges. Once a bridge renewal has been completed, speed restrictions as low as 25km/h can be lifted to 70km/h, improving transit times. In June, Red Jacks Creek bridge was the 75th to be completed in the programme which has included removing 954m of deteriorated timber spans and 136 deteriorated timber piers, at an overall cost of approximately $20m.

Much of the work is being undertaken west of Otira and is in addition to the new $25m Arahura road rail bridge being built south of Hokitika.

Measuring improvements to network infrastructure and performance

Measure*	2003-04	2004-05	2005-06	2006-07	2007- 08	2008-09
New rail laid (km)	11	25	29	32	27.2	33.4
New sleepers laid (000)	50	75	70	102	103	103
Line de-stressed (km)	130	180	180	100	107	156
Bridges replaced (m)	197	509	850**	562	555	947***
Timber spans replaced (m)	102	350	288	354	367	368
Timber piers replaced	8	33	35	35	61	132
Derailments	61	60	42	48	45	36

* includes renewals and upgrades (including DART and other projects, although these are not included in target figures).

** includes Cobden Bridge.

*** includes bridges replaced with large box or pipe culverts.

One of the longer projects is the replacement of 18 wooden piers with steel reinforced concrete piles on the bridge across the Taramakau River near Jacksons. That work started in late 2007 and is not due to be completed until the end of 2009.

Typically, bridges are being upgraded or replaced every three to four weeks although it will take many more years before all the bridge work identified as necessary is completed.

The arrival onto the network of new locomotives in the second half of 2010 will release locomotives fitted with Brightstar technology to be re-deployed from the North Island to the Coal Route.

Over the past year, KiwiRail has been experimenting with trains of up to 45 coal wagons as a means of increasing train capacity. Network has been planning crossing loop extensions and signalling improvements to further increase the flow of coal.

Key developments on Coal Route

- Replacement of wooden bridges
- Extension of passing loops
- Planned signalling upgrade
- Introduction of more powerful locomotives

Principal freight markets

Market	% of revenue
Import-export	27
Intermodal	20
Bulk	23
Forestry	9
Other (includes Hillside)	21

Market Segment

	Bulk (coal/forestry/minerals)	Export (import/export)	Domestic (retail/wholesale) (FCI / LCL)
Timeliness	Less Important	Important	Critical
Load	Wagon loads - up to full train	Containers - single to multiple	Smaller loads - consolidated as wagon or container loads
Distance	Up to 400km	Up to 400km	300 to 1200km
Total NTK (000)	1,757,255(44%)	962,044 (24%)	1,242,701 (31%)
Nett Tonnes	8,026,424 (56%)	4,420,040 (31%)	1,965,536 (14%)

New warehouse extends Westland Milk's use of rail

Westland Milk Products uses the Hokitika Branch Line and the Midland Line to rail its products to Christchurch. Westland has previously relied on road haulage to complete the final export link from an existing leased warehouse in Sydenham to Lyttelton Port of Christchurch.

Later this year, rail will be able carry Westland goods all the way to Lyttelton when a 17,000-square-metre warehouse in the Izone (Rolleston) industrial park is completed.

Westland Milk Products Deputy Chief Executive Hugh Little says the rail connection, which is being achieved by a specially-built siding and loop line off the Midland Line, was "one of the main requirements" of the Izone development.

"We are a growing business, on average our milk growth is about 4% to 6% a year, and so we have to cater for the future."

"Our move to Rolleston enables us to do that. Because the rail link from the coast comes in through Rolleston and then goes in to Christchurch or travels further south, Rolleston is an ideal switching point for us.

"About 90% of our product is currently railed from Hokitika to Christchurch for export. We have had a good relationship with rail for many years and we're sure that will continue."


3

Fluctuating petrol prices, rising central city parking rates and growing road congestion are pushing increasing numbers of commuters toward public transport

Improving urban rail transport

Fluctuating petrol prices, rising central city parking rates and growing road congestion are pushing increasing numbers of commuters toward public transport.

KiwiRail plays an important role in the provision of rail services in Wellington and Auckland. In Auckland, we maintain the network and provide locomotives and engineers for services provided by Veolia on behalf of Auckland Regional Council. In Wellington, we provide a fully integrated service on contract to Greater Wellington Regional Council.

The provision of rail commuter services in both Auckland and Wellington is a shared responsibility. In both cities the respective regional councils are responsible for the 'above rail' services – specifying services, providing rolling stock and the station facilities while KiwiRail Network provides the 'below rail' element. In Wellington, KiwiRail Metro owns much of the existing rolling stock and operates services on Greater Wellington Regional Council's behalf.

In both cities, we work closely with regional councils, and in Auckland, the Auckland Regional Transport Authority, not only on operational issues, but on helping councils develop their vision for urban transport.

A key focus for KiwiRail is to improve the capacity and reliability of the urban passenger networks in both cities. A programme to upgrade the Auckland network has been in progress for more than three years. A similar programme on the Wellington network began last year.

Both have suffered from under-investment for many years. The work being done in the two regions is the most significant in the past 50 years. It has been all the more challenging because it is being carried out while rail services continue to run, and grow. As a result, much of the work needs to be done at night, at weekends and on public holidays.

In the past financial year, more than seven million Aucklanders used rail to move around the city. The increase of 16% over the previous year is a vote of confidence in the increasing efficiency of the rail network.

Auckland

The Auckland upgrade, known as Project DART, is a $600m suite of projects that together will increase the capacity, reliability and reach of the network as well as improve safety. The goal is for six trains an hour to operate on each of the existing suburban lines and a new line from Manukau, while still providing for freight movements through the network.

The recent focus of the project has been on double-tracking the Western Line from Newmarket to Swanson and redeveloping Newmarket Junction and station. The bulk of the double tracking is now complete with work underway on the two remaining short stretches of single track. The priorities in the past year have been completing Newmarket and lowering the railway into a trench almost a kilometre long through New Lynn. Towards the end of the year work started on a spur line to Manukau City – the first extension of the rail network since the 1930s.

New Lynn has special significance because of the positive impact the rail trench will have on the community. The railway line has been responsible for dividing the community for many years. Increasing numbers of commuter trains on the Western Line has increased the problem as well as creating traffic congestion where the railway line crosses a busy road roundabout. Dropping the line into a trench will eliminate this and other railway crossings and make New Lynn a more cohesive community.

Photo opposite - Britomart, Auckland

Since the DART project was initiated, new elements have been added to the project, including rehabilitation of the Onehunga Branch Line, a new station at Grafton and extensive preparation for electrification. The region has proposed an enhanced timetable including new services from Onehunga and Helensville that have made the original objective of ten-minutes, 'clock-face' timetables more difficult to achieve without addressing issues at Britomart.

A second allocation of funding - $500m - was made to electrify the network by the end of 2013. Enabling and planning work on this project is underway. Electrification will provide passengers with greater service reliability, quieter trains and greater ability for trains to keep to time as a result of faster acceleration from stations.

The project involves such activities as building access roads and improving bridge clearances. Of the 86 bridges crossing the network, work is required to a varying extent at approximately 40 sites to ensure adequate electrical and mechanical clearances for the overhead wires. Substantial work is also being planned for the two tunnels on the core route (Parnell and Porewa).

A key element of the electrification is new signalling infrastructure for the Auckland network – a $90m contract was let in February 2009. The new equipment will be installed and commissioned progressively from early 2010 with completion by the end of 2011.

The overhead traction line design is 85% complete with the contract about to be let. Construction of the masts and wires will commence in 2010 and is expected to be complete in early 2013.

Auckland rail profile

- Number of lines – three (shortly 5)
- Number of passengers in a year - 7.65m
- Trains arriving within 10 minutes of schedule – 85.7%

Summary of the Auckland Upgrade

Component	Cost (m)	Major milestones completed	Scheduled completion date
Double tracking of Western Line between Newmarket and Swanson	$150	Swanson to Henderson Henderson to New Lynn Whau Creek bridges Direct connection Western Line to Britomart	June 2010
Lowering track into 800m trench through New Lynn	$140	Train track moved off corridor Big dig commenced	June 2010
Re-development of Newmarket Station and junction	$75	Temporary stations operational First slab track and scissors brought into use Solid-state interlocking brought into use	January 2010
Replacing out-dated signalling equipment	$10	Various CTC sites replaced with DLA Several solid state interlockings commissioned	Progressive
Rehabilitating the Onehunga branch line	$10	Track work complete Stations commenced	June 2010
Building spur line to Manukau City	$50	Resource consents received Piling commenced	October 2010
Electrification of the network:			
Overall	$500	Planning and preliminary enabling works underway	2013
Signalling	$90	Signals contract let	End 2011
Traction	at tender		Mid 2013

Wellington

Thirty-five thousand people pass through Wellington Railway Station each week day. In spite of the age of both infrastructure and rolling stock – and the susceptibility of the network to faults, most of them remain staunch advocates for rail.

Wellington has New Zealand's most developed urban passenger network. Yet age is taking its toll. Infrastructure that in some cases dates back 70 years is becoming increasingly fragile and prone to failure. While safety has not been compromised, reliability has declined.

One of the drivers of the recent infrastructure upgrades has been Greater Wellington Regional Council's decision to buy a fleet of new electric multiple units. These will replace the 50-year old English Electric Units and supplement the 25-year old Ganz Mavag units that are now overdue for refurbishment.

The new Matangi trains have imposed the need for stations and platforms to be upgraded and in some cases reconfigured. Seven tunnels on the Johnsonville Line have been lowered to accommodate modern trains and passing loops on the line extended so longer trains can use the line, increasing passenger capacity.

Associated with the work to accommodate the new trains is the renewal of old overhead wiring, signalling, and power supply systems. As well as supporting modern trains the work will improve the overall reliability of services and allow the network to carry more traffic. A quarter of traction poles that support the overhead wiring will be replaced, some of which date from the 1930s when electrification was first introduced into Wellington – removing this type of aged infrastructure will make Wellington's rail services less vulnerable to failure.

At the same time as upgrading the network, its capacity is increasing. The North Island Main Trunk currently carries urban passenger units as far north as Paraparaumu. Double tracking is being extended from McKay's Crossing and electrification from Paraparaumu to push the network's reach further north to Waikanae.

A third line is being built to reduce the bottle-neck effect of multiple lines narrowing into just two at the entrance to the Wellington rail yard, reducing congestion for trains coming into and out of Wellington railway station.

Wellington rail profile

- Number of lines - 4
- Number of passengers in a year - 11.9m
- Trains arriving within 3 minutes of schedule - 88%

Summary of the Wellington Upgrade

Component	Cost (m)	Major milestones completed	Scheduled completion date
Double-tracking and electrification – McKay's Crossing to Waikanae	$90	Pre-loading earthworks completed; Building formation for second track begun	End of 2010
Building third line into Wellington Station yard	$40	Construction underway; Replacement of overhead structures	Mid 2010
Compliance with new EMUs – including power supply and signalling systems	$60	Construction underway of 11 substations;	All elements complete mid-2011
Renewal of infrastructure – including renewal of overhead traction	$27	Replacement of traction system begun	All elements complete mid-2011
Refurbishment of Johnsonville line	$10	7 tunnels lowered; 3 crossing loops extended	Completed
Upgrade of platform infrastructure	$20	Work underway or complete at five stations	End of 2010
EMU maintenance facilities	$35	Design underway	All elements complete mid-2011
Kapiti train storage	$15	Design underway	

Managing our assets

A rail and ferry business depends heavily on its fixed assets to run its business. Trains, ships, rails, bridges, workshops are all integral elements in the business. Rail and ferry assets are expected to have a long working life. A locomotive will remain in service much longer than a truck. Similarly, a passenger carriage will be in service for longer than a bus.

KiwiRail is developing plans for the long-term management and replacement of its assets. Under-investment in the rail business for more than a decade has resulted in many assets being at, or close to, the end of their expected working life. The average age of the locomotive fleet is 30 years. The average age of wagons is 25 years.

Five percent (200 km) of rail is due for replacement Thirty three percent of bridges are over 80 years old – the normal life of a bridge is 80 – 100 years.

The ageing nature of the above and below rail infrastructure demands good asset management. The integration of the business provides both opportunities and challenges to achieve it.

Locomotives

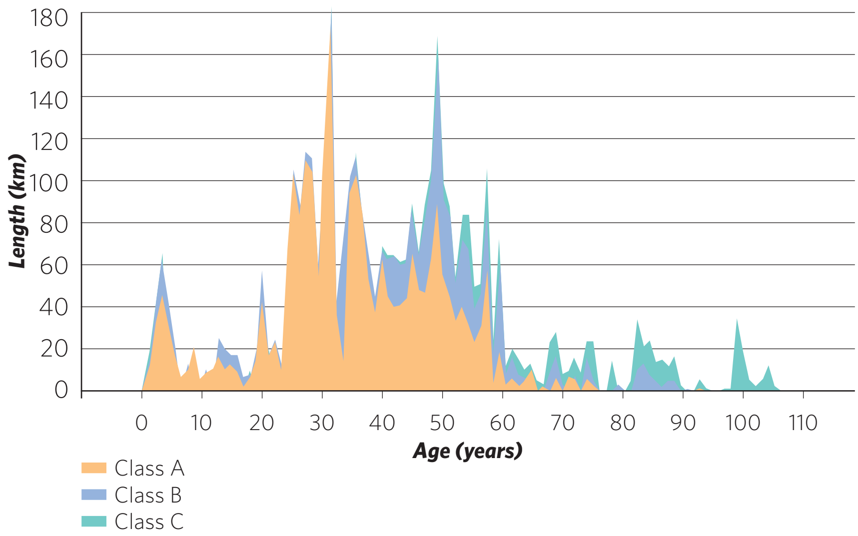
Class	Total	Power	Traction	Original Built	Rebuilt /Refurbish
EF	17	4000hp	256kN	1988	
DXR	2	3000hp	280kN	1972-1976	1993 and 2006
DXB	15	2600hp	280kN	1972-1976	2002 – 2008
DX	21	2600hp	185kN	1972-1976	
DFM - DFB	12	2450hp	240kN	1980	1998
DFT	18	2450hp	175kN	1980	1992 – 1997
DQ	4	1500hp	175kN	1968	1997
DC	54	1500hp	160kN	1965	1978 – 1983
DBR	6	950hp	85kN	1965	1980 – 1982

Rolling out an asset management plan

Previously, the National Rail Access Agreement was the vehicle for ONTRACK to charge operators for access to the network. Funding allocations are now set for the whole company which requires KiwiRail to develop new and robust prioritisation processes across all assets.

A report last year on ONTRACK by the Office of the Auditor General (OAG) has helped the company to formalise its approach to the management of its assets. The report concluded that ONTRACK had significantly more work to do on management of assets. Its systems, plans, policies and procedures

Age Profile of Installed Rail Currently in the Mainline
as at September 2009



for maintaining and renewing the rail network were not yet complete, connected and able to be used together when needed.

When ONTRACK became responsible for the network in 2004, it inherited not only a decade of under-investment in rail infrastructure, but a lack of any formalised asset planning. There was an urgent need to concentrate energy and resources on managing safety on the network rather than documenting assets, updating codes and planning for the future. Work began on the preparation of an asset management plan.

In response to the OAG report, ONTRACK noted that the new industry structure would be more conducive to a collaborative approach to asset management.

One of the OAG's main recommendations was that the organisation determine the extent of work required to prepare a long term plan, how it can be resourced, put project management disciplines in place and have senior management staff actively sponsor the work.

A provisional asset management policy was developed in February 2009 and a draft asset management plan produced later in the year, after four years of work. The policy determined that asset management would be driven by four factors:

- Customer and stakeholder user requirements.
- Sound management of the railway's assets and their associated performance.
- Management of risk and expenditure.
- Use of a whole of life approach.

The work originally carried out for ONTRACK is now being duplicated within the other business units.

Over much of the business, assets are interrelated. For example, trains need rails, bridges, tunnels and signals to operate on. Two of KiwiRail's Interislander ferries have rail decks to carry rail freight between the North and South Islands.

Arahura refit

The Interislander ferries provide freight customers, both rail and road transport, with a bridge between the North and South Islands. This link is critical to the flow of goods between Auckland and Christchurch – as well as for the movement of tourists and travelers between the two islands.

Interislander embarked on a $9m refit of the Cook Strait ferry Arahura in 2008 to ensure the ship could contine to carry passengers, cars, commercial vehicles and rail freight for several years to come. Changes were required to answer the twin demands of changing market conditions and regulations that were not anticipated when she started life as the flagship of the fleet in 1983.

Vehicles have become larger over the intervening years, from cars to camper vans as well as commercial vehicles. Proportions of vehicles to passengers has also changed dramatically, with more people taking their cars across Cook Strait.

Bringing Arahura up to the latest SOLAS safety standards for passenger operations required redesign and reconfiguration as well as fitting new systems and equipment.

Ferry details

Name	Age (years)	Tonnage	Owned/leased	Freight volume (lane metres)	Passengers	Crew
Arahura	25	12,735	Owned	380	539	48
Aratere	11	12,596	Leased	650	359	32
Kaitaki	14	22,365	Leased 2005 -2010, option for 3 years extension	1,780	1,650	69

Ferry profile

Ferry sailings - 4,588

Sailings arriving within 15 minutes of schedule - 72%

Refitting Arahura was a faster and lower cost solution than a complete new ferry, yet her operation and environment presented special challenges. She is one of only a few vehicle and passenger ferries in the world that also carries rail and her operation is a vital part of the link between the North and South Islands.

This presented unusual design and project management challenges. Rail ferry berths do not offer easy solutions to stability so another approach was required, which involved major structural work. With shipping yards at their busiest in 2008, finding a location for the refit was difficult and when one was found in Singapore, the value of the New Zealand dollar fell by 20% during the refit. The planning also took place amid the backdrop of future uncertainty, when owners Toll were in negotiations with the Government for the sale of the rail and ferry business.

Yet Arahura was completely refitted, including extra work to remove the need for some future maintenance, very close to the original budget. Within three weeks of her return she was certified as compliant with the latest passenger safety standards, vehicle and rail capacity were increased, the specially gifted pounamu was re-installed in a special ceremony and she was back in Interislander service.

Teamwork puts warmth into cold commuter trains

An early 2009 winter posed challenges which brought Wellington's Tranz Metro and Hutt Workshops together to keep the capital's commuter services running.

Cold late autumn weather put pressure on heating systems on the ageing Ganz Mavag units that make up 70% of the electric multiple unit commuter fleet. With 96% of them in service and virtually no spares, there were no alternatives to cold trains when the heating systems failed.

The problem is due to the failure of motor alternator (MA) sets in the Ganz Mavags. Wellington passenger depot maintenance engineers and Mechanical Services Hutt Workshops worked on the solution.

The MA set provides power to on-board electrical systems. One set is shared between a two-car unit. When one set fails, power can be shared with another set, giving enough power for lighting and door operations, but not for heating. The result is that one MA set failure can mean four carriages with no heating.

The Tranz Metro depot ran extra shifts to fix sets, but those that could not be fixed were sent to Hutt Workshops for rebuilding. The recent purchase by KiwiRail of the Hutt Workshops from United Group proved timely. It enabled Hutt Workshops to be sufficiently flexible to incorporate rebuilding the MA sets with other work such as locomotive traction motors.

By mid winter, the problem of cold trains was largely under control.

Protecting our assets

The appearance of the rail corridor and the plant and equipment associated with rail is one of the issues most frequently raised by members of the public.

Managing the appearance of a 4000km rail corridor, 149 mainline locomotives, 4,200 freight wagons, 141 metro passenger units and 57 carriages is a major challenge.

The Government's acquisition of the rail operating and ferry businesses and integration with ONTRACK added a new dimension to the challenge.

Ferry and passenger rail businesses have had an incentive to ensure that staff and assets look presentable because they provide services to customers who would make a commercial judgement about those services, based in part on appearances.

In the new environment, there is a greater public and stakeholder expectation that assets will meet higher standards of appearance and that steps will be taken to manage plant, equipment and clothing in a manner that maximises their useful life and represents the organisation to the public in the most positive possible manner.

Rail passenger services

Service	No of services	Passengers 2008-09	Passengers 2007-08
Tranz Metro	104,809	11,876,000	11,552,000
Tranz Scenic		492,000	487,000
Overlander	470	58,000	47,000
TranzCoastal	716	67,000	69,000
TranzAlpine	726	181,000	200,000
Capital Connection	500	185,000	172,000

In the new environment, there is a greater public and stakeholder expectation that assets will meet higher standards of appearance

A surprising number of New Zealanders believe that the rail corridor or railway land is a substitute for the local rubbish dump. Rubbish removal by Network staff has been given a 'when time permits' priority.

Network is often held responsible for graffiti that isn't on the corridor but is sprayed on adjoining fences and buildings. The response has been to create partnerships with relevant local trusts and national organisations. In Auckland, we have worked with the Manukau Beautification Society, Keep Waitakere Beautiful and the Tag Out Trust.

In Wellington, Network has a partnership agreement with Keep New Zealand Beautiful. Agreements with local trusts are based on some funding but primarily on providing either supervision or training volunteers to work safely on the corridor.

Network has been a member of the Government's advisory group which worked on the preparation of the recently launched national strategy to deal with graffiti.

Network has been spending $2m on vegetation control nationwide, carried out under contract by Treescape. In the current year, spending has been increased to approximately $3m. The policy is to spray the rail corridor twice a year and spray 'off-track' areas on an 'as required' basis, often as a result of discussion with local authorities or neighbours who adjoin the corridor.

All passenger carriages and multiple unit rolling stock are checked daily for graffiti or damage. Any carriages bearing graffiti are removed from service as soon as possible to be cleaned. This cleaning occurs on the day and the carriage is not allowed to return to service until cleaned.

Minor refurbishment and repaints are carried out as required to maintain quality and appearance.

The major issue for Tranz Metro rolling stock is the condition and appearance of the Ganz Mavag fleet. This fleet has been due for refurbishment for some time, however the decision to refurbish is one for Greater Wellington Regional Council in accordance with the terms of its contract with Tranz Metro. The first steps have now been taken, with one Ganz Mavag unit being used to test potential refurbishment for the fleet.

Freight wagons are more difficult to keep clean and graffiti-free than passenger rolling stock. Eighty percent of some types of wagons carry graffiti. It is difficult taking wagons out of service for cleaning and repainting. The advanced age of locomotives and rolling stock exacerbates the appearance problem.

Graffiti is comparatively rare on Interislander vessels and terminals. It is dealt with swiftly and, as a result, ferries are generally graffiti free.The major maintenance issue is protecting the white hulls of the ferries from rust and the effects of the marine environment. The white hull exterior accentuates 'rust bleed'. Interislander is getting better at dealing with the issue but there are still opportunities to improve.

Engineering maintenance

Wagon and locomotive servicing and engineering	2007-08	2008-09
Wagon wheelsets changes	1301	1088
Wagon bogie changes	584	467
Wagon brought back into service	32	58
Wagon conversions	25	14
New wagons	33	100
Locomotive bogie changes	28	21
Locomotive overhauls	8	9
Locomotive engine overhauls	5	6
Locomotive re-instatement	2	4

Our people

Bringing together three different entities – each with cultures of their own - into one organisation has been a big challenge. The priority for much of the year has been to encourage a 'business as usual' approach to provide the business with stability while it adapted to new circumstances.

Change inevitably brings with it new faces. Many in the business experienced management changes as a new management team was appointed and settled into their jobs.

While staff have come together from three companies, they shared a rail heritage. They also share common characteristics. The KiwiRail workforce is older than the New Zealand average. Staff outside the corporate sectors of the business are likely to have stayed in their job longer than the New Zealand average and as a result, they have seen a number of changes in ownership and management.

The challenge is to encourage them to see themselves as KiwiRail employees and to engage them in the business so that they improve productivity and the satisfaction they get from their job. During the year, we created the platform from which we can increase engagement and participation in the business. We will build on this during the current year.

A major focus has been the development of leadership skills. The best elements of leadership development programmes run by Toll NZ and ONTRACK have been incorporated into a leadership development programme for the future.

Much of the work done within the industry is physically demanding. It requires the company to have robust operating procedures that protect health and safety and to make sure that every employee understands their responsibility for creating a safe environment.

Improving health and safety in the workplace

In early May, KiwiRail won the supreme award and a category award at the 2009 Safeguard New Zealand Workplace Health and Safety Awards. The awards are considered the most significant in the health and safety field in the New Zealand calendar.

We won a category award for the best initiative to encourage engagement in health and safety by showcasing the safety culture improvement programme introduced from 2007. In addition, Tranz Metro was a finalist in the category for best initiative to address a safety hazard with its movement of rail vehicles in the Wellington depot project.

These successes are extremely important to the company. They demonstrate the progress made by the rail industry since the Ministerial Inquiry into Tranz Rail's occupational safety and health record, held in 2000. That inquiry was sparked by concern at the number of fatalities and injuries in the rail industry in the preceding 18 months.

The Safeguard Award recognised a collection of safety and wellness programmes the KiwiRail Health, Safety and Environment team have implemented over the past 18 months.

These include:

- An injury management programme which has resulted in a significant fall in lost time injuries
- An ergonomic study of musculoskeletal injuries suffered by locomotive engineers
- Development of safe work practices to prevent crush and manual handling injuries
- The 10,000 Steps Programme which promoted exercise

The safety improvement programme takes a snap-shot of staff and management perceptions of workplace safety and turns those into action plans that address key safety issues. It recognises that as well as the technical side of health and safety, there is also an important human element that contributes to workplace accidents. Creating a positive safety culture is critical to improving overall health and safety.

The programme uses the Safety Cultural Maturity Model, developed by the Keil Centre in Edinburgh. The centre's organisational psychologist Dr Hillary Bennett visited a number of KiwiRail work sites to identify their attitudes and perceptions of workplace safety. Once identified, the KiwiRail health and safety action teams have translated the findings into actions.

Photo opposite - Track gang, East Coast Main Trunk

Ten Thousand Steps programme

KiwiRail teams took to the Ten Thousand Steps Challenge with such enthusiasm that one staff member broke the New Zealand record for the most number of steps taken during the programme.

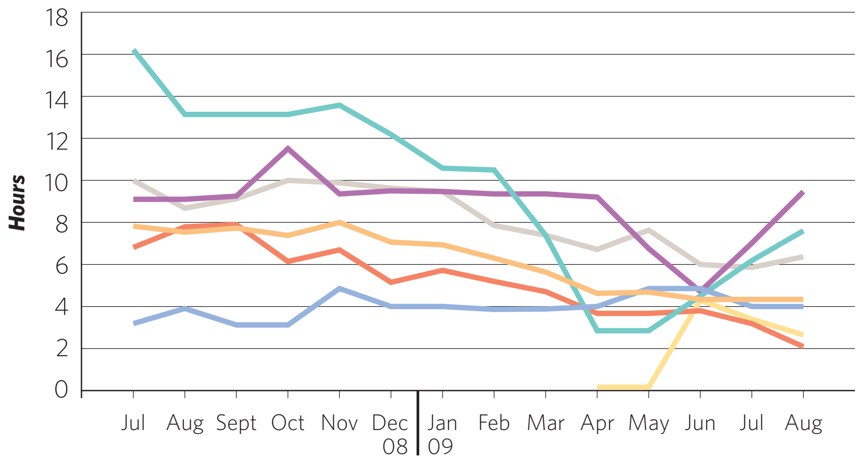
Ten Thousand Steps is a seven to ten week programme which encourages team work and physical activity among employees through daily walking using a pedometer to record the distance walked.

Wellington's Tranz Metro remote shunt controller Dennis Williams walked a staggering 2,533,410 steps in just eight weeks to smash the national record. The achievement included 372,165 steps in a single week – a new record for a week, bettering a mark set by a competitor training for an Ironman Taupo challenge.

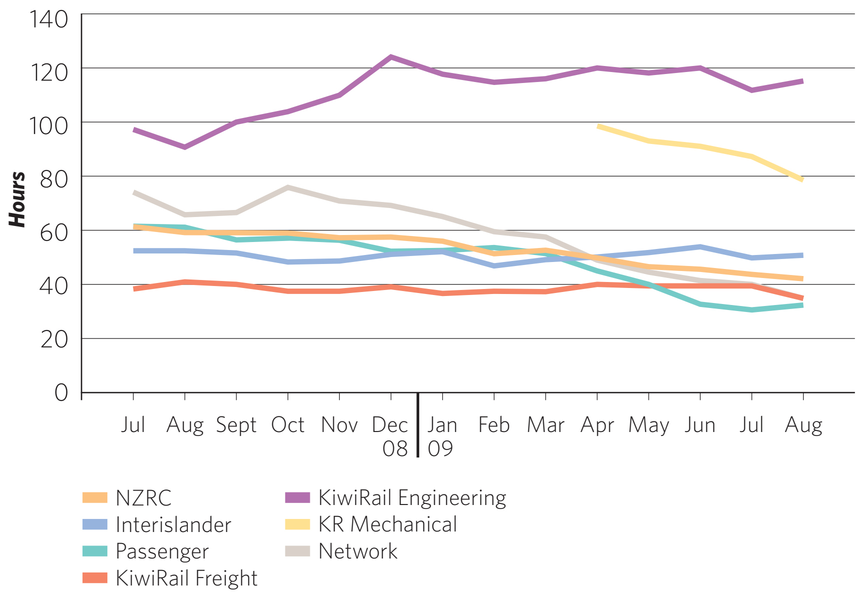
Organisers worked out that Dennis walked the equivalent of eight hours a day to achieve the feat. But he was not alone, KiwiRail staff around the country were organised into teams of 10 and given a pedometer to record their daily step count. Team weekly totals were recorded on a map so that all team members could see how far they had walked.

KiwiRail employees who participated in the programme reported that they felt greater team cohesion in their workplace (71%), would continue with the positive changes they had made to their lifestyle (65%) and would recommend participating in the programme to colleagues and friends (96%).

Lost Time Injury Frequency Rate Rolling Average
(LTI per million exposure hours)



Medical Treatment Injury Frequency Rate Rolling Average
(MTI per million exposure hours)



The best elements of leadership development programmes run by Toll NZ and ONTRACK have been incorporated into a leadership development programme for the future

Workforce profile

Business unit	Employee numbers	%	Male (%)	Female (%)	Over 45 years (%)	Over 65 years (%)	Average years of service	Median years service
Freight	1399	35%	91%	9%	63%	2%	18	14
Passenger	408	10%	78%	22%	61%	3%	12	7
Interislander	606	15%	77%	23%	55%	7%	9	5
Corporate	100	2%	69%	31%	36%	0%	7	3
Network	1053	26%	90%	10%	36%	3%	11	4
Mechanical	461	11%						
Total	**4027**		**87%**	**13%**	**55%**	**3%**	**11**	**7**

Notes to table:

- Gender is only available where it is entered in the system.
- Demographic data is not available for Mechanical Services but the relatively low headcount make it unlikely to significantly affect the totals.
- Total number over 65 is 119.

Our communities

Celebrating the centenary of the North Island Main Trunk

Last year, 2008, was the centenary of the completion of the North Island Main Trunk Line between Wellington and Auckland. When it was completed in 1908, the line changed the nature of travel within the North Island. Goods and people that had previously moved by a combination of horse or bullock drawn cart, coastal shipping or river barges could move easily up and down the country.

The line opened up the central North Island and assisted in the economic growth of the country at a time when processing plants based on the dairy and meat industries were growing. It was also the genesis for the creation of towns along the railway line that became synonymous with railways.

In August and November of last year, KiwiRail joined with communities throughout the North Island to recognise the achievements of those who built the line and celebrate the centenary. In early August, a re-creation of the first train to compete the journey, the Parliament Special, retraced the route. It took its name from a group of Parliamentarians who in 1908 wanted to travel from Wellington to Auckland to greet the visiting American 'Great White Fleet'.

Rail was the fastest and most comfortable option. The train travelled over make-shift tracks through the central North Island but completed the journey on schedule. The train consist for the re-enactment was heritage carriages from rail heritage organisations, Steam Incorporated and Mainline Steam pulled by period locomotives including two of the original locomotives used on the trip.

Passengers included current Parliamentarians, representatives of communities throughout the North Island, descendents of people who had originally worked on the line and rail heritage enthusiasts. Functions and receptions were held in a number of towns, including Taihape and Taumarunui where the town was opened up to the passengers and a choir delivered a lively rendition of 'Taumarunui on the Main Trunk Line'.

Along the route the train took, communities and school groups stood beside the railway to see the train and wave to the passengers.

In November, KiwiRail and the Ruapehu District Council worked together to mark the centenary of the moment that the last spike was driven, joining the railheads that had been advancing from north and south. KiwiRail Chairman Jim Bolger recreated the driving of the spike beside the memorial stone that marks the original event.

Communities and railway level crossings

One of the issues communities most frequently raise with us is level crossing safety. There are approximately 1,400 public road level crossings and 96 pedestrian crossings along the 4,000km rail network.

Public road level crossing collisions average between 20 and 30 a year. In the first half of 2009, there were 15 recorded collisions, four of which resulted in fatalities. It's important to put level crossing collisions in perspective. On average, there are more than 4,000 injury collisions at road intersections.

A fatality at a level crossing protected only by Stop or Give Way signs often prompts communities to advocate for flashing lights and bells and barrier arms. For them, a fatality demands a response in the form of a crossing upgrade. KiwiRail finds itself in the invidious position of having to weigh the case for an upgrade against many others.

Only 19% (270 crossings) have half-arm barriers and flashing lights and bells. Thirty-one percent are protected by flashing lights and bells. That leaves half of all crossings protected by Give Way or Stop signs.

KiwiRail has a national level crossing upgrade priority list based on data from more than 60 roading authorities. The priority list seeks to ensure that upgrades are allocated fairly and on a consistent basis. On 30 June, there were 43 crossings on the priority list with sufficient traffic to justify an upgrade from flashing lights and bells to half arm barriers. Fifty seven crossings had sufficient traffic to justify the installation of flashing lights and bells.

Decisions on which crossings to upgrade are made on the basis of the amount of traffic using the road, the amount of rail traffic passing over the crossing, the collision history of the crossing and the circumstances of the crossing itself – such as whether there is a clear view of on-coming trains.

In the year to 30 June, KiwiRail carried out seven crossing upgrades. The number of upgrades has increased considerably over the past four years. But even at this increased rate, it will be many years before the majority of railway crossings are protected by active alarms. As a result, we rely on educating road users on the hazards associated with level crossings as an important tool in protecting communities.

Over the past three years, Toll NZ and ONTRACK have supported the Chris Cairns Foundation, a charity founded by former international cricketer Chris Cairns and his mother, Sue, in memory

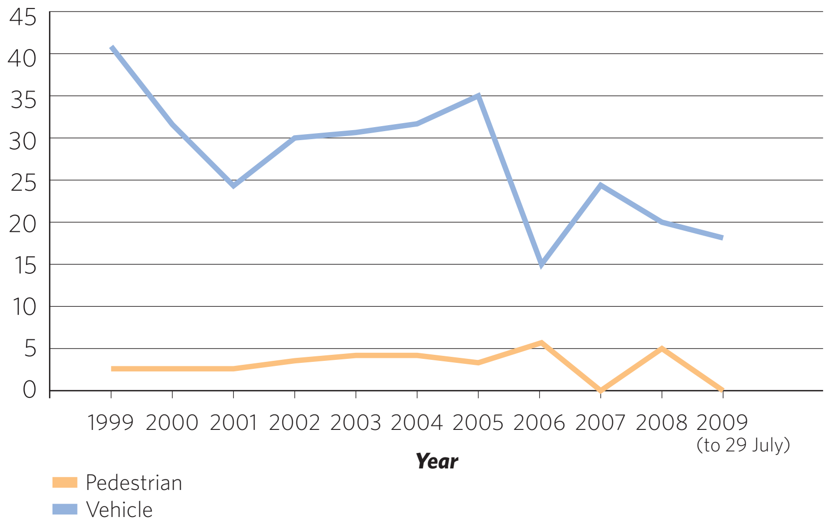
With 4000km of railway line extending throughout the country, KiwiRail has an impact on the lives of many New Zealanders. By their very nature, railway lines can be intrusive – a reason for the company to be sensitive about the way it interacts with communities

of Chris' sister and Sue's daughter Louise, killed in a level crossing collision at Rolleston in 1993.

The Foundation seeks to raise awareness of level crossing safety. In August of last year, Chris walked from Pukekohe in South Auckland to the spot at Rolleston where his sister died. On the journey, he stopped to talk to many communities about rail safety. Many employees of Toll NZ and ONTRACK joined him along the way and provided support for the walk.

Every year, KiwiRail actively participates in organising Australasian Rail Safety Awareness Week. This involves funding advertising and information material, organising community visits including schools, publicity activities, media and other events aimed at raising awareness of rail safety for pedestrians and level crossing users.

Public Level Crossing Collisions
1999 - 2009

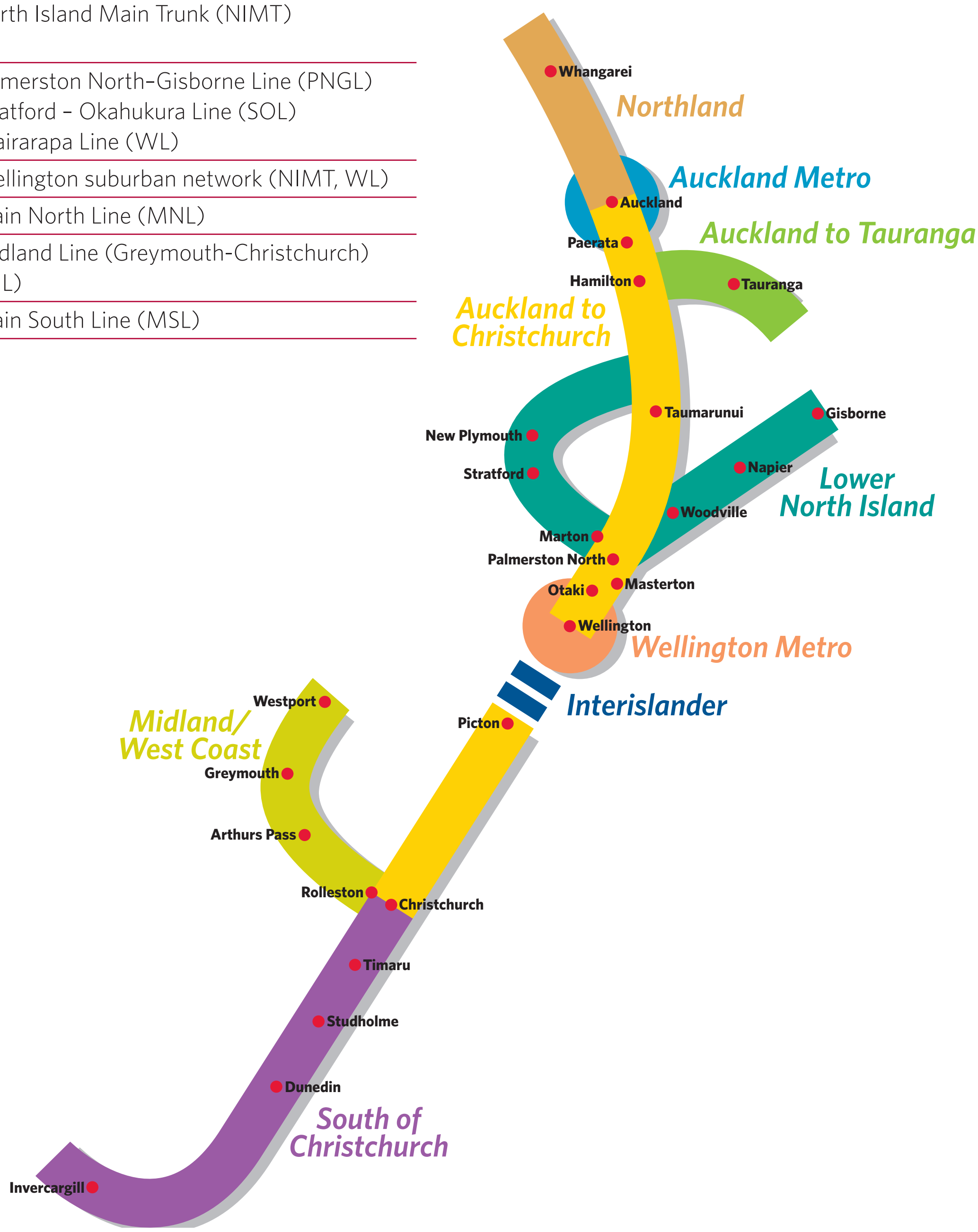


Level crossing collision and level crossing upgrades

Measure	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Level crossing collisions	29	35	27	25	19	27
Level crossing upgrades	0	5	6	7	9	7

Rail network information

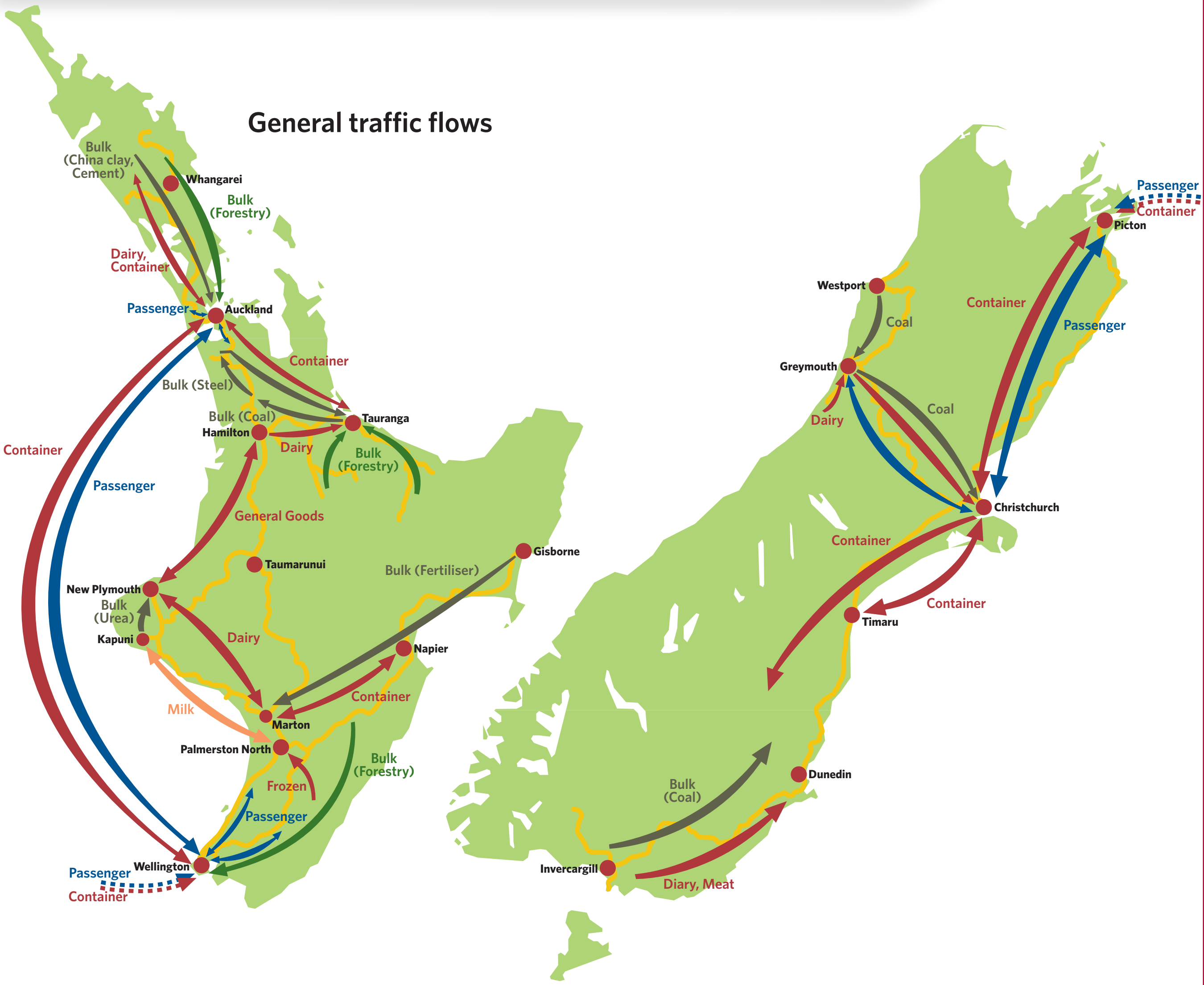
Region	Line (with Abbreviation)
Northland	North Auckland Line (NAL)
Auckland	Auckland suburban network, North Auckland Line (NAL) and North Island Main Trunk Line (NIMT
East North Island	East Coast Main Trunk (ECMT)
Auckland-Wellington	North Island Main Trunk (NIMT)
Lower North Island	Palmerston North-Gisborne Line (PNGL) Stratford – Okahukura Line (SOL) Wairarapa Line (WL)
Wellington	Wellington suburban network (NIMT, WL)
Upper South Island	Main North Line (MNL)
Central South Island	Midland Line (Greymouth-Christchurch) (ML)
Lower South Island	Main South Line (MSL)



Daily train movements by line

Line	Weekday	Weekend (daily)
North Auckland Line	4	1
Auckland Metro	290	116
East Coast Main Trunk (including Kawerau)	32	20
North Island Main Trunk	24	14
Marton-New Plymouth Line	10	4
Stratford-Okahukura Line	2	-
Palmerston North-Gisborne Line	19	6
Wellington Metro	357	108
Main North Line (Christchurch-Picton)	12	11
Midland Line	16	14
Main South Line (Christchurch-Invercargill)	20	12

General traffic flows



Governance

New Zealand Railways Corporation, now trading as KiwiRail, is a state owned enterprise. Under the State Owned Enterprises Act 1986 the principal objective of every state 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 Corporation 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.

As of 1 July 2009, rail policy is the responsibility of the Minster of Transport.

Under the Railways Act 2005, New Zealand Transport Authority 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

Our Shareholding Ministers are the Minister for State Owned Enterprises and the Minister of Finance.

Our Shareholders' expectations are that NZRC will operate as a commercial business and return a profit. NZRC is to capture efficiency gains from the integration of the former Toll NZ and ONTRACK businesses under common ownership. NZRC must improve the rail and ferry services so as to deliver on customer requirements as part of a national integrated transport strategy.

Accountability

As a State Owned Enterprise KiwiRail must keep Shareholding Ministers informed of material issues as part of the 'no surprises' policy.

Kiwirail is required to produce a Statement of Corporate Intent, an Annual Report, and a three year Business Plan.

Board

Directors are appointed by the Minister. There must be no more than seven directors and the Minister appoints the Chairperson and the Deputy Chair. Directors are selected by the Minister based on their mix of skills and experience.

When the Government purchased the shares in the former Toll NZ business on 1 July 2008, the Government appointed a new board of directors to KiwiRail Holdings Limited. The Board was chaired by Jim Bolger, with Brian Corban as Deputy Chair. Additional board members were Mark Franklin, Ross Martin, Ross Wilson, Linda Constable and Bryan Jackson ('KiwiRail Board').

In the period 1 July 2008 to 30 September 2008, the previous board of NZRC consisting of Cameron Moore (Chair), Clive Matthewson, Jon Mayson, Lex Henry, Linda Constable, and Kenneth (Mike) Williams continued in office in respect of the former ONTRACK business operated by NZRC ('ONTRACK Board').

On 30 September 2008 the ONTRACK Board resigned and the KiwiRail Board was appointed as the board of directors of NZRC.

This followed a decision by the Government on 15 September 2008 that NZRC would purchase the KiwiRail companies and that the two arms of the business would be integrated under the NZRC umbrella from 1 October 2008.

From 1 October 2008 to 30 June 2009, the KiwiRail Board continued with three changes in composition. Ross Martin resigned from his role as a director on 31 March 2009. In addition the terms of appointment for Brian Corban as Deputy Chair and Ross Wilson ended on 30 June 2009.

On 1 July 2009 three new directors were appointed to the KiwiRail Board, Paula Rebstock as Deputy Chair and Mark Tume and Bob Field as directors.

Role

The role of the Board is to guide the strategic direction of NZRC and to direct and oversee management.

The Board met ten times during the year as part of the regular meeting agenda. In addition the Board met two times to consider long term strategy.

Committees

The Board has established three board committees, the Audit, Finance and Risk Committee (AFR Committee), the Health, Safety and Environment Committee (HSE Committee) and the Remuneration Committee.

KiwiRail is required to be as profitable and efficient as comparable businesses that are not owned by the Crown

During the year the Chair of the AFR Committee was Brian Corban and the other members of the committee were Linda Constable, Mark Franklin and Ross Martin. This committee met five 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 Chair of the HSE Committee was Ross Wilson and the other member of this committee was Bryan Jackson. This committee met twice during the year. The role of the HSE Committee is to assist the board in the establishment of effective health, safety and environment policies that support the development and implementation of safe and environmentally sustainable operations and work practices.

The Chairman Jim Bolger was the Chair of the Remuneration Committee and the other members of that committee were Brian Corban and Mark Franklin. This committee met twice during the year. The role of the committee is to assist the Board in establishing remuneration strategies and policies that support an increase in productivity and the retention of staff.

Insurance and indemnity

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 has indemnified 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

KiwiRail has the following wholly owned subsidiary companies. The main subsidiaries are ONTRACK Infrastructure Limited, KiwiRail Limited and KiwiRail Mechanical Services Limited. The balance of the subsidiaries include KiwiRail Holdings Limited, KiwiRail Finance Limited, KiwiRail Freight Limited, Clifford Bay Limited, and Tranz Rail Limited.

Reporting against the 2008 -11 Statement of Corporate Intent

A comparison against the content of the New Zealand Railways Corporation 2008-11 Statement of Corporate Intent, as required under Section 15 2 (a) of the State Owned Enterprises Act has not been undertaken on the basis that such a comparison has limited value given the structural changes that have occurred in the business.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AUDITED ANNUAL FINANCIAL STATEMENTS For the Year ended 30 June 2009

CONTENTS

Photo opposite - Tranz Alpine, Midland Line

CONSOLIDATED INCOME STATEMENT
For the financial year ended 30 June 2009

	Note	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
Income					
Revenue	1	503,372	88,478	88,162	88,478
Grant and subsidy income	2	425,157	138,922	404,445	138,922
Other income	3	14,727	13,042	19,342	12,098
Total income		**943,256**	**240,442**	**511,949**	**239,498**
Operating costs					
Personnel expenses	4	170,268	44,901	19,184	15,243
Fuel and traction electricity		72,192	2,346	91	58
Contractors costs		11,782	222	64,023	49,303
Lease and rental costs		37,189	5,812	1,568	961
Depreciation and amortisation expense	5	215,868	176,200	167,387	176,176
Materials and supplies		113,346	18,541	883	7,633
Incidents, casualties and insurance		23,690	4,495	3,769	3,643
Other expenses		26,302	19,918	10,555	18,500
Total operating costs		**670,637**	**272,435**	**267,460**	**271,517**
Operating surplus/(deficit)		**272,619**	**(31,993)**	**244,489**	**(32,019)**
Finance income		4,731	5,432	6,770	5,432
Finance expense		(38,824)	(16,045)	(18,904)	(16,019)
Net finance costs	7	(34,093)	(10,613)	(12,134)	(10,587)
Surplus/(deficit) before taxation		**238,526**	**(42,606)**	**232,355**	**(42,606)**
Taxation credit	8	204	–	–	–
Surplus/(deficit) after taxation	30	**238,730**	**(42,606)**	**232,355**	**(42,606)**

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET
As at 30 June 2009

	Note	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
Current assets					
Cash and cash equivalents	9	44,451	36,114	26,311	35,908
Receivables	10	129,899	43,889	71,142	43,100
Inventory	11	71,618	22,911	94	407
Prepayments		3,367	1,056	979	1,056
Derivative financial assets	12	4,733	1,937	4,602	1,937
Total current assets		**254,068**	**105,907**	**103,128**	**82,408**
Non-current assets					
Property, plant and equipment	13	13,073,479	11,798,182	12,358,174	11,798,135
Intangible assets	14	6,642	3,416	4,091	3,416
Derivative financial assets	12	97	-	-	-
Prepayments		459	-	-	-
Investment in subsidiary	15	-	-	388,294	-
Intercompany advances		-	-	39,090	14,344
Total non-current assets		**13,080,677**	**11,801,598**	**12,789,649**	**11,815,895**
Total assets		**13,334,745**	**11,907,505**	**12,892,777**	**11,898,303**
Current liabilities					
Payables	16	156,144	47,029	64,149	36,105
Borrowings	17	171,974	500	30,500	500
Derivative financial liabilities	12	15,286	378	1,116	378
Income taxes payable		1,798	-	-	-
Employee entitlements	18	46,926	6,947	3,313	2,090
Provisions	19	4,708	2,325	2,325	2,325
Total current liabilities		**396,836**	**57,179**	**101,403**	**41,398**
Non-current liabilities					
Borrowings	17	269,917	219,500	234,000	219,500
Deferred income		1,896	-	-	-
Employee entitlements	18	36,898	3,268	700	582
Provisions	19	8,869	-	-	-
Deferred taxation	20	66,535	-	-	-
Derivative financial liabilities	12	175	-	165	-
Total non-current liabilities		**384,290**	**222,768**	**234,865**	**220,082**
Total liabilities		**781,126**	**279,947**	**336,268**	**261,480**
NET ASSETS		**12,553,619**	**11,627,558**	**12,556,509**	**11,636,823**
Equity					
Equity capital		546,946	158,652	546,946	158,652
Retained earnings		800,514	414,584	803,404	423,849
Asset valuation reserve		11,206,159	11,054,322	11,206,159	11,054,322
TOTAL EQUITY		**12,553,619**	**11,627,558**	**12,556,509**	**11,636,823**

Chair (Rt Hon James Bolger)

30 September 2009

Deputy Chair (Paula Rebstock)

30 September 2009

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the financial year ended 30 June 2009

	Note	*Equity Capital $000*	*Retained Earnings $000*	*Asset Valuation Reserve $000*	*Total $000*
GROUP					
As at 1 July 2007		**124,512**	**292,822**	**10,131,300**	**10,548,634**
Revaluation of property, plant and equipment	13	-	-	1,087,390	1,087,390
Release of revaluation reserve to retained earnings		-	164,368	(164,368)	-
Capital injection		34,140	-	-	34,140
Net deficit for the period		-	(42,606)	-	(42,606)
As at 30 June 2008		**158,652**	**414,584**	**11,054,322**	**11,627,558**
Revaluation of property, plant and equipment	13	-	-	299,037	299,037
Release of revaluation reserve to retained earnings		-	147,200	(147,200)	-
Capital injection		388,294	-	-	388,294
Net surplus for the period		-	238,730	-	238,730
As at 30 June 2009		**546,946**	**800,514**	**11,206,159**	**12,553,619**

	Note	*Equity Capital $000*	*Retained Earnings $000*	*Asset Valuation Reserve $000*	*Total $000*
PARENT					
As at 1 July 2007		**124,512**	**302,087**	**10,131,300**	**10,557,899**
Revaluation of property, plant and equipment	13	-	-	1,087,390	1,087,390
Release of revaluation reserve to retained earnings on disposal of asset		-	164,368	(164,368)	-
Capital injection		34,140	-	-	34,140
Net deficit for the period		-	(42,606)	-	(42,606)
As at 30 June 2008		**158,652**	**423,849**	**11,054,322**	**11,636,823**
Revaluation of property, plant and equipment	13	-	-	299,037	299,037
Release of revaluation reserve to retained earnings		-	147,200	(147,200)	-
Capital injection		388,294	-	-	388,294
Net surplus for the period		-	232,355	-	232,355
As at 30 June 2009		**546,946**	**803,404**	**11,206,159**	**12,556,509**

The Asset Valuation Reserve is used to record accumulated increases and decreases in the fair value of land, buildings, railway infrastructure, rolling stock, ships, containers and plant and equipment.

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the financial year ended 30 June 2009

	Note	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
Cash flows from operating activities					
Proceeds from:					
Receipts from customers		592,046	120,423	100,944	117,118
Interest received		1,652	3,037	1,282	3,037
Operating grant		70,954	-	70,954	-
Proceeds utilised for:					
Payments to suppliers and employees		(490,162)	(92,227)	(50,644)	(80,085)
Interest expense		(24,113)	(15,332)	(16,195)	(15,332)
Income tax paid		(11,752)	-	-	-
Net cash from operating activities	26	**138,625**	**15,901**	**106,341**	**24,738**
Cash flows from investing activities					
Proceeds from:					
Sale of property, plant and equipment		985	233	-	219
Grant receipts		291,454	118,797	291,454	118,797
Proceeds utilised for:					
Purchase of property, plant and equipment		(507,634)	(212,223)	(426,892)	(212,164)
Loan to subsidiaries		-	-	(25,000)	-
Investment in subsidiaries					
- KiwiRail Holdings Limited*	25	40,858	-	-	-
- United Group (NZ) Limited	25	(24,093)	-	-	-
Net cash used in investing activities		**(198,430)**	**(93,193)**	**(160,438)**	**(93,148)**
Cash flows from financing activities					
Proceeds from:					
Proceeds from long term borrowings		70,000	70,000	45,000	70,000
Net advance to subsidiary		-	-	-	(8,637)
Capital contribution		-	10,600	-	10,600
Proceeds utilised for:					
Payment of finance lease liability		(1,358)	-	-	-
Repayment of borrowings		(500)	(500)	(500)	(500)
Net cash used in financing activities		**68,142**	**80,100**	**44,500**	**71,463**
Net increase/(decrease) in cash and equivalents		**8,337**	**2,808**	**(9,597)**	**3,053**
Cash and cash equivalents at the beginning of the period		**36,114**	**33,306**	**35,908**	**32,855**
Cash and cash equivalents at the end of the period	9	**44,451**	**36,114**	**26,311**	**35,908**

*The purchase of KiwiRail Holdings Limited was a non-cash transaction with a value of $388,294,000 between the Group and the Crown. The only cash impact relating to the transaction is that the Group acquired cash balances of KiwiRail Holdings Limited of $40,858,000 at the acquisition date.

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2009

REPORTING ENTITY

New Zealand Railways Corporation ('the Parent') is a statutory corporation established pursuant to the New Zealand Railways Corporations 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 and associate company. The Group is domiciled in New Zealand. The Parent and the Group have been designated as a Public Benefit Entity.

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 2009 and were authorised for issue by the Board of directors on 28 September 2009.

BASIS OF PREPARATION

Statement of compliance

The financial statements 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, New Zealand Generally Accepted Accounting Practice and other applicable financial reporting standards as appropriate for public benefit entities.

The Parent and the Group have early adopted NZ IFRS3: Business Combinations (Revised 2008) and NZ IAS27: Consolidated and Separate Financial Statements (Amended 2008).

Measurement base

The financial statements have been prepared on the basis of historical costs, 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.

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.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Functional and presentation currency

The functional currency of the Company and the Group is New Zealand dollars. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000). Unless otherwise specified, all dollar amounts in these financial statements and accompanying notes are stated in New Zealand dollars.

Fair presentation

On 1 October 2008, the Group acquired KiwiRail Holdings Limited and its subsidiaries from the Crown, and the Group's result includes their results for nine months to 30 June 2009. The comparative figures presented in these financial statements exclude the prior year numbers of KiwiRail Holdings Limited as this subsidiary did not form part of the Group in the prior year. The comparative numbers presented are therefore not directly comparable with the current year figures, which include this acquisition. Due to the merger certain comparative numbers have been reclassified.

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 rail network
- Provide advice to the Crown on Rail infrastructure issues
- Manage land on the rail corridor
- Operate Interisland ferries
- Operate Wellington Metro and Tranz Scenic rail passenger services
- Operate rail freight transport services in New Zealand
- Carry out engineering and mechanical services to the locomotives and other rolling stock

CRITICAL JUDGEMENTS

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 ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Classification of property

The Group owns a number of properties which are maintained primarily to provide for future rail activities. The receipt of market-based rental from these properties is incidental to the holding of these properties. These properties are held for strategic objectives.

The Group currently owns unoccupied land. This land is currently classified as property, plant & equipment. The future use of this land is being assessed in accordance with the strategic objectives of the Group.

Asset revaluations

The Parent's land is held at fair value and other assets are carried at depreciable replacement cost. When assets are revalued this is done by independent valuers.

The property, plant and equipment of the newly-acquired KiwiRail Holdings Limited and its subsidiaries were valued at acquisition in accordance with the requirements of New Zealand equivalents to International Financial Reporting Standards.

Other areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed under the applicable accounting policies below, in particular:

- Note 12: Financial Instruments
- Note 13: Property, plant and equipment
- Note 14: Intangibles
- Note 18: Employee entitlements
- Note 19: Provisions
- Note 23: Contingent liabilities

SIGNIFICANT ACCOUNTING POLICIES

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

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 value 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 income statement.

The consolidated financial statements of the Group include the Group's share of the net profit or loss of associate companies on an equity accounted basis. Associate companies are entities in which the Group has significant influence, but not control, over the operating and financial policies. Investments in associate companies are stated at the Parent's share of the fair value of the net assets at acquisition plus the share of post acquisition movements in reserves.

Revenue and income

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.

Freight revenue is recognised based on the relative transit time.

Passenger revenue is recognised at the date of travel.

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.

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

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

Interest income is recognised as it accrues, using the effective interest method.

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.

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

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

Expenditure

Expenditure comprises amounts paid and payable by the Parent and the Group for goods and services provided from suppliers, and is recorded in the period in which it is incurred.

General expenditure is recognised within the financial statements in the period in which it is incurred.

Interest expense is recognised using the effective interest rate method.

Property, plant and equipment

Items of property, plant and equipment are initially recorded at cost and, except for land, depreciated. Initial cost includes the purchase consideration, or fair value in the case of subsidised assets, and those costs directly attributable to bringing the asset to the location and condition necessary for its intended use.

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 Income Statement.

Land, buildings and track assets held for use in the production or supply of goods and services, or for administrative purposes, are stated in the Balance Sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are carried out for a number of classes of property, plant and equipment to reflect the service potential and economic benefit obtained through control of the asset. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance date.

Valuations are undertaken in accordance with the standards issued by the New Zealand Property Institute with the following bases of valuation adopted:

Buildings and railway infrastructure – specialised assets valued using depreciated replacement cost

Rail corridor – land associated with the rail corridor is valued based on adjacent use, 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 track assets 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 Income Statement, in which case the increase is credited to the Income Statement 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 Income Statement to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that class of asset.

Realised gains and losses arising from the disposal of property, plant and equipment are recognised in the Income Statement in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

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 will be tested for impairment by comparing its recoverable amount to its carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset 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 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 recognised against the revaluation reserve. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the Income Statement.

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

Depreciation on revalued buildings and track assets is charged to the Income Statement. 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.

Plant and equipment, motor vehicles, leasehold improvements and equipment under finance leases are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. 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.

Track 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 as incurred.

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.

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

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	*Depreciable life*
• Tunnels and bridges	60 - 100 years
• Buildings	40 years
• Wagons and carriages	30 years
• Track and ballast	25 - 40 years
• Locomotives	23 years
• Ships	20 years
• Overhead traction	10 - 40 years
• Signals and communications	10 - 40 years
• Containers	10 years
• Plant and equipment	5 - 35 years
• Motor vehicles	5 - 10 years
• Furniture and fittings	5 years
• Office equipment	3 years

Non current assets held for sale

Non current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the net asset (or disposal group) is available for immediate sale in its present condition. The sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

Non current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

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.

Borrowing Costs

Borrowing Costs are recognised in the Income Statement in the period in which they are incurred.

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.

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 leased assets are not represented in the Consolidated Balance Sheet. Expenses relating to operating leases are charged to the Income Statement on a basis that is representative of the pattern of benefits expected to be derived from the leased asset.

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 Income Statement 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.

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 income statement 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 substantially 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 substantially 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.

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 Balance Sheet.

Commitments and contingencies are disclosed exclusive of GST.

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.

Provisions

Provisions are recognised when the Group has a present or constructive obligation as a result of past events; and 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.

ACC Partnership Programme

The subsidiary company KiwiRail Holdings Limited and its subsidiaries belong to the ACC Partnership Programme whereby it accepts the management and financial responsibility for employee work related illnesses and accidents. Under the programme KiwiRail Holdings Limited 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 ongoing claims passes to ACC.

The liability for the ACC Partnership Programme is measured 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 Government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Employee entitlements

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

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 recognised in the Income Statement when they accrue.

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 Income Statement when they are due.

Financial assets

Investments are recognised and derecognised on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment 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.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and other receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at cost using the effective interest rate method, less any provision for impairment. The effective interest method is a method of calculating the cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

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 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 Income Statement. Changes in the carrying amount of the doubtful debt provision are recognised in the Income Statement. With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Income Statement to the extent that the carrying amount of the investment at the date the impairment is reversed, does not exceed what the amortised cost would have been, had the impairment not been recognised.

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 cost 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.

Derivative financial instruments and hedging activities

The Group uses derivative financial instruments within predetermined policies and limits, in order to hedge its exposure to fluctuations in foreign exchange rates, interest rates and commodity prices. Derivative financial instruments are initially recorded at fair value and subsequently measured at fair value at each reporting date. Changes in the fair value of derivative financial instruments are charged against income. The Group does not apply hedge accounting.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the Income Statement.

The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

Foreign currency

Foreign currency transactions are translated to New Zealand currency at the exchange rates ruling at the dates of the transactions.

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 Income Statement.

Statement of cash flows

The following are the definitions of the terms used in the Statement of Cash Flows:

- cash is cash on hand and current accounts in banks, short term deposit accounts with a maturity date of less than three months net of any bank overdraft;
- investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments, and include the purchase and sale of interests in other entities;
- financing activities are those activities which result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash; and
- operating activities include all transactions and other events that are not investing or financing activities.

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:

NZIFRS 8 Operating Segments, which will become effective for accounting periods commencing on or after 1 January 2009. New Zealand Railways Corporation, as a Public Benefit Entity, is not required to comply with this accounting standard.

NZIAS 1 Presentation of Financial Statements (revised 2007) replaces NZIAS 1 Presentation of Financial Statements (issued 2004) and is effective for reporting periods beginning on or after 1 January 2009. The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a Statement of Comprehensive Income. It is not expected to have any impact on the consolidated financial results of the Group as this standard is concerned only with disclosure.

NZIAS 23 Borrowing Costs (revised 2007) replaces NZIAS 23 Borrowing Costs (issued 2004) and is effective for reporting periods beginning on or after 1 January 2009. The revised standard requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of that asset. The revised standard will also require borrowing costs to be considered when revaluing property, plant and equipment to fair value based on depreciated replacement cost. Any necessary adjustments to depreciated replacement cost carrying values will have flow on effect to depreciation expense. The potential impact on the Group's financial results has not yet been quantified. As a Public Benefit Entity, the Group has exercised its option not to apply NZIAS23. Accordingly, the Group has expensed all borrowing costs to the Income Statement as they were incurred.

1. REVENUE

	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
Freight revenue	284,504	-	-	-
Passenger revenue	108,085	-	-	-
Manufacturing revenue	38,671	-	-	-
Track access revenue	32,357	71,365	72,270	71,365
Property revenue	20,135	17,113	15,892	17,113
Maintenance revenue	19,620	-	-	-
Total revenue	**503,372**	**88,478**	**88,162**	**88,478**

2. GRANT AND SUBSIDY INCOME

	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
Crown capital (DART)	186,185	98,313	186,185	98,313
Crown capital (WRRP)	61,687	-	61,687	-
Crown capital (Auckland electrification)	36,055	-	36,055	-
Crown capital (upgrade and growth)	31,535	23,995	31,535	23,995
Crown (output agreement)	68,000	-	68,000	-
Greater Wellington Regional Council (operating)	15,240	-	-	-
Greater Wellington Regional Council (capital)	2,804	-	-	-
Auckland Rail Transport Authority	2,668	-	-	-
Public policy grant	3,776	4,070	3,776	4,070
Other grant income	17,207	12,544	17,207	12,544
Total grant and subsidy income	**425,157**	**138,922**	**404,445**	**138,922**

There are no unfulfilled conditions or other contingencies attached to the capital grants received by the Group. The Group receives subsidies from the Crown, who subsidise part of the Group costs in maintaining the railway networks and infrastructure costs. There are no unfulfilled conditions or other contingencies attached.

3. OTHER INCOME

	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
Gain on sale of property, plant and equipment	-	-	93	-
Management fees	-	-	-	2,533
Recharges of expenses	12,342	13,042	19,249	9,565
Other	2,373	-	-	-
Dividends	12	-	-	-
Total other income	**14,727**	**13,042**	**19,342**	**12,098**

4. PERSONNEL EXPENSES

	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
Salaries and wages	158,710	43,566	17,199	14,805
Defined contribution plan employer contributions	3,109	433	207	143
Increase in employee entitlements	4,022	902	572	295
Other personnel expenses	4,427	-	1,206	-
Total personnel expenses	**170,268**	**44,901**	**19,184**	**15,243**

5. DEPRECIATION AND AMORTISATION EXPENSE

	Note	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
Depreciation expense		213,407	175,031	165,944	175,008
Amortisation expense		2,461	1,169	1,443	1,168
Total depreciation and amortisation expense	13	**215,868**	**176,200**	**167,387**	**176,176**

6. OTHER DISCLOSABLE EXPENSES

The following expenses are included in the operating result:

	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
Fees paid to auditors:				
Audit fees for audit of financial statements	450	207	161	207
Audit fees for acquisition accounting	71	-	71	-
NZ IFRS transition fees	-	16	-	16
Audit related fees for assurance services*	31	-	31	-
Impairment of receivables	353	195	353	198
Directors fees	393	290	73	290
Loss on disposal of property, plant and equipment	224	139	-	152

*Review of the finance and business processes of the parent

7. NET FINANCE COSTS

	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
Finance income				
Interest income on bank deposits	1,652	2,979	909	2,979
Interest income - other	607	-	374	-
Foreign exchange gains	2,472	-	2,217	-
Net change in the fair value of derivatives	-	2,453	3,270	2,453
	4,731	5,432	6,770	5,432
Finance costs				
Interest expense on borrowings	(22,171)	(15,290)	(15,669)	(15,290)
Interest expense on finance lease	(2,376)	-	-	-
Interest expense – other	-	(42)	(13)	(42)
Foreign exchange losses	(404)	(713)	(232)	(687)
Net change in fair value of derivatives	(13,873)	-	(2,990)	-
	(38,824)	(16,045)	(18,904)	(16,019)
Net finance costs	**(34,093)**	**(10,613)**	**(12,134)**	**(10,587)**

8. TAXATION

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

	Group 2009 $000	Group 2008 $000
Components of tax expense		
Current tax expense	606	114
Adjustments to current tax relating to prior periods	(647)	-
Adjustments to deferred tax relating to prior periods	(1,621)	-
Deferred tax income relating to temporary differences	(10,624)	(92)
Deferred tax income relating to the utilisation of tax losses	8,206	(114)
Deferred tax expense relating to write-down of deferred tax asset	3,876	92
Tax benefit	**(204)**	**-**
Reconciliation between tax expense and accounting surplus		
Surplus/(deficit) before tax	238,526	42,606
Tax at 30%/33%	71,558	14,060
Tax effect of:		
Parent company income not taxable	(72,526)	(14,060)
Non-deductible expenditure	(5,270)	22
Previously unrecognised tax losses now recognised	(2,628)	92
Prior year adjustment	(856)	(114)
Tax losses – benefit	4,426	-
Other temporary differences	5,092	-
Tax benefit	**(204)**	**-**

9. CASH AND CASH EQUIVALENTS

	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
Cash on hand	90	5	2	2
Current accounts	31,025	12,596	18,488	12,393
Call deposits	1,800	-	800	-
Foreign currency accounts	11,536	3,513	7,021	3,513
Term deposits	-	20,000	-	20,000
	44,451	**36,114**	**26,311**	**35,908**

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 29.

10. RECEIVABLES

	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
Trade receivables	69,450	23,396	35,562	22,730
Accrued and other receivables:				
Construction contract receivables	8,154	-	-	-
Related party receivables	35,256	-	30,566	-
Other	18,872	20,865	5,700	20,703
Gross receivables	131,732	44,261	71,828	43,433
Less provision for impairment	(1,833)	(372)	(686)	(333)
	129,899	**43,889**	**71,142**	**43,100**

Other non-trade receivables are on normal 30 day terms.

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 (2008 $nil).

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

	2009 Gross $000	2009 Impairment $000	2009 Net $000	2008 Gross $000	2008 Impairment $000	2008 Net $000
Group						
Not past due	55,909	(61)	55,848	13,996	-	13,996
Past due 1 – 30 days	10,232	(156)	10,076	6,276	-	6,276
Past due 31 – 60 days	284	(231)	53	487	-	487
Past due 61 - 90 days	678	(129)	549	869	-	869
Past due > 91 days	2,347	(1,256)	1,091	1,768	(372)	1,396
Total	**69,450**	**(1,833)**	**67,617**	**23,396**	**(372)**	**23,024**
Parent						
Not past due	30,598	(44)	30,554	13,586	-	13,586
Past due 1 – 30 days	4,248	(51)	4,197	6,180	-	6,180
Past due 31 – 60 days	98	(31)	67	438	-	438
Past due 61 - 90 days	26	-	26	832	-	832
Past due > 91 days	592	(560)	32	1,694	(333)	1,361
Total	**35,562**	**(686)**	**34,876**	**22,730**	**(333)**	**22,397**

The provision for impairment has been calculated based on expected losses for the Group's pool of debtors. Expected losses have been determined based on review of specific debtors.

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

	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
Balance at 1 July	372	191	333	148
Amounts written off during the year	(185)	(13)	-	(13)
Amounts acquired through business combinations	1,293	-	-	-
Additional provisions made during the year	353	194	353	198
Balance at 30 June	**1,833**	**372**	**686**	**333**

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 29.

11. INVENTORY

	Group 2009 $000	*Group 2008 $000*	*Parent 2009 $000*	*Parent 2008 $000*
Operational activities				
Fuel	1,200	-		-
Inventory held to maintain railway	41,795	26,763	94	407
Inventory held to maintain rolling stock and vessels	41,173	-	-	-
Inventory held for resale	322	-	-	-
Contracting activities – work in progress	6,303	-	-	-
Gross inventory	**90,793**	**26,763**	**94**	**407**
Less obsolescence provision	(19,175)	(3,852)	-	-
Net inventory	**71,618**	**22,911**	**94**	**407**

Movement in provision for stock obsolescence during the year

	Group 2009 $000	*Group 2008 $000*	*Parent 2009 $000*	*Parent 2008 $000*
Opening balance	3,852	-	-	-
Provisions made during the year	-	3,852	-	-
Provisions acquired through business combinations	15,323	-	-	-
Closing balance	**19,175**	**3,852**	**-**	**-**

No inventories are pledged as security for liabilities. (2008: nil).

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

The write-down of inventories held because of a loss in service potential amounted to nil (2008 nil). There have been no reversals of write-downs. All write-downs or reversals of write-downs of inventories are recognised in the expense line, Materials and Supplies, in the period the loss or reversal occurs.

12. DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
Current assets				
Commodity forward contracts	-	485	-	485
Foreign currency forward contracts	754	1,439	623	1,439
Foreign curency options	3,979	13	3,979	13
Total current asset portion	4,733	1,937	4,602	1,937
Non current assets				
Interest rate swaps	97	-	-	-
Total non current asset portion	97	-	-	-
Total derivative financial instrument assets	**4,830**	**1,937**	**4,602**	**1,937**
Current liabilities				
Commodity forward contracts	807	-	672	-
Foreign currency forward contracts	14,479	378	444	378
Total current liability portion	15,286	378	1,116	378
Non current liabilities				
Foreign currency forward contracts	175	-	165	-
Total derivative financial instrument liabilities	**15,461**	**378**	**1,281**	**378**

Fair value

The fair values of all derivative financial instruments have been determined based on the market value of similar financial instruments with similar risk and maturity profiles at the balance date.

Commodity forward contracts

The group is party to a number of commodity forward contracts for copper and oil. The notional principal amount of outstanding forward contracts in copper is $2,348,000 (2008: $1,887,000) and the notional principal amount of the outstanding forward contracts in oil is $6,626,000 at 30 June 2009 (2008: $Nil).

Foreign currency forward contracts

The notional principal amounts of outstanding forward foreign exchange contracts were $176,171,000 (2008: $37,690,000).

Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts for the Group were $25,000,000 (2008: $9,000,000). At 30 June 2009, the fixed interest rates of cash flow hedge swaps vary from 4.751% to 5.481% (2008: 8.28%).

Financial assets that have been pledged as collateral for liabilities total $nil (2008: $nil).

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Note	Land ($000)	Buildings ($000)	Railway Infrastructure ($000)	Rolling stock ($000)	Ships ($000)	Plant and equipment ($000)	Capital work in progress ($000)	Total ($000)
Cost									
Balance at 30 June 2007		4,962,650	52,881	5,609,399	-	-	32,183	149,024	10,806,137
Additions		22,734	33,558	217,549	-	-	31,244	(65,695)	239,390
Disposals		(62)	-	(8,287)	-	-	(1,539)	-	(9,888)
Revaluations		1,030,458	42,271	19,960	-	-	(5,299)	-	1,087,390
Balance at 30 June 2008		6,015,780	128,710	5,838,621	-	-	56,589	83,329	12,123,029
Acquisitions through business combination	25	1,762	156,581	-	453,556	50,227	15,065	5,887	683,078
Additions		193	5,360	160,947	42,268	9,871	3,825	285,170	507,634
Disposals		-	-	(4,194)	(1,192)	-	(912)	-	(6,298)
Revaluations		-	-	(157,179)	-	-	(17,861)	-	(175,040)
Balance at 30 June 2009		**6,017,735**	**290,651**	**5,838,195**	**494,632**	**60,098**	**56,706**	**374,386**	**13,132,403**
Accumulated depreciation									
Balance at 30 June 2007		-	1,316	152,126	-	-	6,033	-	159,475
Depreciation expense	6	-	(1,316)	168,917	-	-	7,430	-	175,031
Disposals		-	-	(8,225)	-	-	(1,434)	-	(9,659)
Balance at 30 June 2008		-	-	312,818	-	-	12,029	-	324,847
Depreciation expense	6	-	10,449	159,659	32,991	3,073	7,235	-	213,407
Disposals		-	-	(4,194)	(115)	-	(890)	-	(5,199)
Revaluations		-	-	(463,817)	-	-	(10,314)	-	(474,131)
Balance at 30 June 2009		**-**	**10,449**	**4,466**	**32,876**	**3,073**	**8,060**	**-**	**58,924**
Net book value									
At 30 June 2008		6,015,780	128,710	5,525,803	-	-	44,560	83,329	11,798,182
At 30 June 2009		**6,017,735**	**280,202**	**5,833,729**	**461,756**	**57,025**	**48,646**	**374,386**	**13,073,479**

Parent

	Note	Land ($000)	Buildings ($000)	Railway Infrastructure ($000)	Rolling stock ($000)	Ships ($000)	Plant and equipment ($000)	Capital work in progress ($000)	Total ($000)
Cost									
Balance at 30 June 2007		4,962,650	52,881	5,609,399	-	-	31,242	149,024	10,805,196
Additions		22,734	33,558	217,549	-	-	31,244	(65,695)	239,390
Disposals		(62)	-	(8,287)	-	-	(1,491)	-	(9,840)
Revaluations		1,030,458	42,271	19,960	-	-	(5,299)	-	1,087,390
Balance at 30 June 2008		6,015,780	128,710	5,838,621	-	-	55,696	83,329	12,122,136
Additions		193	3,768	160,947	-	-	2,368	259,616	426,892
Disposals		-	-	(4,194)	-	-	(880)	-	(5,074)
Revaluations		-	-	(157,179)	-	-	(17,861)	-	(175,040)
Balance at 30 June 2009		**6,015,973**	**132,478**	**5,838,195**	**-**	**-**	**39,323**	**342,945**	**12,368,914**
Accumulated depreciation									
Balance at 30 June 2007		-	1,316	152,126	-	-	5,163	-	158,605
Depreciation expense	6	-	(1,316)	168,917	-	-	7,407	-	175,008
Disposals		-	-	(8,225)	-	-	(1,387)	-	(9,612)
Balance at 30 June 2008		-	-	312,818	-	-	11,183	-	324,001
Depreciation expense	6	-	3,460	156,699	-	-	5,785	-	165,944
Disposals		-	-	(4,194)	-	-	(880)	-	(5,074)
Revaluations		-	-	(463,817)	-	-	(10,314)	-	(474,131)
Balance at 30 June 2009		**-**	**3,460**	**1,506**	**-**	**-**	**5,774**	**-**	**10,740**
Net book value									
At 30 June 2008		6,015,780	128,710	5,525,803	-	-	44,513	83,329	11,798,135
At 30 June 2009		**6,015,973**	**129,018**	**5,836,689**	**-**	**-**	**33,549**	**342,945**	**12,358,174**

Valuation

Property, plant and equipment values have been reviewed by management and the carrying value is considered to approximate fair value. In June 2008 DTZ Limited, an independent valuer, conducted a valuation of land with a fair value $6,016,000,000, based on the fair value method. In June 2009 DTZ conducted a valuation of railway infrastructure assets with a fair value of $5,835,000,000 based on the 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 property, plant and equipment of KiwiRail Holdings and its subsidiaries were revalued on acquisition and consequently it was not deemed necessary to revalue these assets at 30 June 2009.

Impairment

Impairment losses of $nil (2008: $nil) are included in the income statement in the line item 'other expenses'.

Leasing

A vessel classified under the ships asset class is held under a finance lease and has a carrying amount of $45,286,000 (2008: nil).

No property, plant and equipment are pledged as security for liabilities during the reporting period (2008: nil)

14. INTANGIBLE ASSETS

	Group Software $000	*Parent Software $000*
Gross carrying amount		
Balance at 1 July 2007	3,308	3,180
Additions	2,764	2,764
Disposals	(842)	(714)
Balance at 30 June 2008	5,230	5,230
Additions through normal course of business	2,313	2,118
Additions through business combination	3,374	-
Balance at 30 June 2009	**10,917**	**7,348**
Accumulated amortisation and impairment		
Balance at 1 July 2007	1,337	1,210
Disposals	(693)	(565)
Expense	1,170	1,169
Balance at 30 June 2008	1,814	1,814
Amortisation expense	2,461	1,443
Balance at 30 June 2009	**4,275**	**3,257**
Net book value		
As at 30 June 2008	3,416	3,416
As at 30 June 2009	**6,642**	**4,091**

Amortisation expense is included in the line item 'depreciation and amortisation expense' in the Income Statement. Impairment losses of $nil (2008: $nil) are included in the income statement in the line item 'other expenses'. No software is pledged as security for liabilities at the balance date (2008: $nil) and there are no restrictions on titles.

The Parent and the Group have no internally generated intangible assets.

15. INVESTMENT IN SUBSIDIARIES

The significant subsidiaries of the Parent and their activities are as follows:

	% holding 2009	*% holding 2008*	*Incorporation*	*Balance date*	*Nature of activities*
KiwiRail Holdings Limited	100%	0%	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

16. PAYABLES

	Group 2009 $000	*Group 2008 $000*	*Parent 2009 $000*	*Parent 2008 $000*
Trade payables	57,930	11,731	10,705	8,761
Goods and services tax (GST) payable	1,116	(1,823)	(964)	(1,823)
Accrued interest	2,926	3,336	2,508	3,336
Unearned revenue	21,190	7,199	15,964	7,199
Amounts payable to related parties – other	8,086	-	6,787	-
Other payables and accruals	64,896	26,586	29,149	18,632
Total payables	**156,144**	**47,029**	**64,149**	**36,105**

Trade payables and other payables are normally settled on 30 day terms, therefore the carrying value of trade payables and other payables approximate their fair value.

Exposure to credit and currency risks and impairment losses are disclosed in note 29.

17. BORROWINGS

	Group 2009 $000	*Group 2008 $000*	*Parent 2009 $000*	*Parent 2008 $000*
Current borrowings				
Unsecured loans	170,500	500	30,500	500
Finance leases	1,474	-	-	-
Total current borrowings	**171,974**	**500**	**30,500**	**500**
Non current borrowings				
Unsecured loans	234,000	219,500	234,000	219,500
Finance leases	35,917	-		-
Total non current borrowings	269,917	219,500	234,000	219,500
Total borrowings	**441,891**	**220,000**	**264,500**	**220,000**

Unsecured loans

The New Zealand Debt Management Office (DMO) Cobden Bridge loan for $13,500,000 was established on 22 December 2004, carries a fixed interest rate of 7.17% and matures on 15 April 2015. Principal repayments of $250,000 commenced on 15 October 2006, and six monthly until maturity on 15 April 2015 when the remaining principal will be repaid. The loan is unsecured.

The DMO General Loan facility for ONTRACK was established on 5 December 2005. Interest rates, which are either fixed or floating, and maturity dates are set upon draw down. The total draw downs may not exceed the ONTRACK loan appropriations in each year. The facility is unsecured. Current draw downs are:

20 December 2005	$36 million at 7.2707% maturing on 15 December 2017
21 March 2006	$20 million at 7.07% maturing on 15 December 2017
26 September 2006	$30 million floating rate at BKBM + 30bp maturing on 15 November 2011

20 March 2007	$50 million floating rate at BKBM + 30bp maturing on 15 April 2013
27 September 2007	$30 million at 8.343% maturing on 15 July 2009
13 March 2008	$40 million floating rate at BKBM + 80bp maturing on 15 November 2011
15 April 2009	$25 million at 5.18% maturing on 15 April 2013
5 June 2009	$10 million at 4.4724% maturing on 15 November 2011
30 June 2009	$10 million at 4.6448% on 15 April 2013

The DMO General Loan facility for KiwiRail was established on 22 August 2008 and matures on 30 September 2009. Interest rates, which are either fixed or floating, and maturity dates are set upon draw down. The facility is secured by negative pledge over the assets of the Group. Current draw downs are:

29 May 2009	$115 million at 4.09% maturing on 29 August 2009
17 June 2009	$25 million at 4.17% maturing on 17 September 2009

Fair values of non current borrowings

	Carrying amount		*Fair value*	
	2009 $000	***2008 $000***	***2009 $000***	***2008 $000***
Unsecured loans	234,000	219,500	256,597	218,185
Total borrowings	**234,000**	**219,500**	**256,597**	**218,185**

The fair values are based on cash flows discounted using the government bond yield of the appropriate maturity ranging from 3.82% for 1 year to 5.96% for 10 years (2008: 6.98% to 6.35%). The carrying amounts of borrowings repayable within one year approximate their fair value, as the impact of discounting is not significant.

Analysis of finance leases

	Group 2009 $000	***Group 2008 $000***
Total minimum lease payments due:		
Not later than one year	4,625	-
Later than one year but not later than five years	18,501	-
Later than five years	33,250	-
Total minimum lease payments	56,376	-
Future lease finance charges	(18,985)	-
Present value of minimum lease payments	**37,391**	**-**

Present value of minimum lease payments payable

	Group 2009 $000	***Group 2008 $000***
Not later than one year	1,474	-
Later than one year but not later than five years	7,276	-
Later than five years	28,641	-
Total present value of minimum lease payments	**37,391**	**-**
Represented by:		
Current	1,474	-
Non-current	35,917	-
Total finance leases	**37,391**	**-**

Aratere sub-charter with Toll Group (NZ) Limited

On 29 June 2007, Toll Group (NZ) Limited entered into a sub-charter with KiwiRail Holdings Limited, a subsidiary acquired by the Group on 1 October 2008, in terms of which the Aratere ship would be leased from the Commonwealth Bank of Australia by Toll Group (NZ) Limited and then sub-leased to the Group, for a period of nine years, expiring on 29 June 2016. The loan is secured by negative pledge over the assets of the Group. Interest is paid at a margin of 0.25% above the rate charged by the Commonwealth Bank of Australia.

The fair value of this lease at 30 June 2009 is $36,231,000, based on the net present value of future cash flows discounted at a rate of 9.109%. The discount rate used was obtained from the Commonwealth Bank of Australia as the current interest rate that would be charged on a similar lease transaction.

18. EMPLOYEE ENTITLEMENTS

	Group 2009 $000	*Group 2008 $000*	*Parent 2009 $000*	*Parent 2008 $000*
Current portion				
Accrued pay	9,640	-	667	-
Annual leave	36,483	6,470	2,541	1,989
Sick leave	48	-	11	-
Retirement and long service leave	755	477	94	101
Total current portion	**46,926**	**6,947**	**3,313**	**2,090**
Non current portion				
Retirement and long service leave	36,898	3,268	700	582
Total non current portion	36,898	3,268	700	582
Total employee entitlements	**83,824**	**10,215**	**4,013**	**2,672**

The present value of the retirement and long service 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 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 3.5% per annum and a discount rate of 6% per annum. The discount rate is the yield on 10 year government bonds as at 30 June 2009, 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.

19. PROVISIONS

	Group 2009 $000	*Group 2008 $000*	*Parent 2009 $000*	*Parent 2008 $000*
ACC partnership programme	2,722	-	-	-
Leased vessel redelivery cost accrual	4,847	-	-	-
Warranty and repairs	485	-	-	-
Customer loyalty programme	385	-	-	-
Reclamation costs	3,625	2,325	2,325	2,325
Transition costs	1,513	-	-	-
	13,577	**2,325**	**2,325**	**2,325**
Represented by:				
Current	4,708	2,325	2,325	2,325
Non current	8,869	-	-	-
	13,577	**2,325**	**2,325**	**2,325**

Movements in each class of provision

	ACC Partnership programme $000	Leased vessel costs $000	Warranty provision $000	Customer loyalty programme $000	Reclamation costs $000	Transition costs $000
Balance at 1 July 2008	-	-	-	-	-	-
Provisions acquired through acquisition	828	3,550	-	-	-	-
Provisions made during year	1,894	1,297	485	385	3,625	1,513
Balance at 30 June 2009	**2,722**	**4,847**	**485**	**385**	**3,625**	**1,513**
Represented by:						
Current	-	-	485	385	2,325	1,513
Non current	2,722	4,847	-	-	1,300	-
	2,722	**4,847**	**485**	**385**	**3,625**	**1,513**

ACC partnership programme

During 2009 the Group purchased KiwiRail Holdings Limited. This company is a member of the ACC partnership scheme.

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 average assumed rate of inflation of 2.7% for 30 June 2010 and 2.9% for 30 June 2011 to reflect cost of living adjustments;
- A weighted average discount factor of 6.8% for 30 June 2010 and 6.95% for 30 June 2011 that has been applied to future payment streams; and
- Claim inception rates are based on analysis of historical claim experience of the relevant subsidiary. It is assumed that 5% of claims will result in no payment, 80% will result in medical claims, and 15% will result in an element of time off work.

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.

The weighted average term of claims included in the outstanding claims liability is calculated as 85 days.

Leased vessel cost

Redelivery costs: The Group has entered into a charter agreement with Toll Group (NZ) Limited for the roll-on-roll-off ferry, Kaitaki (formerly Stena Challenger), for a period of five years expiring 30 June 2010, with a right of renewal for a further period of three years (refer Note 22). 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 $2,021,000.

Drydock costs: The Group provides for the costs of scheduled maintenance costs for the Kaitaki ferry over the period between scheduled drydock dates. At balance date the provision for drydock costs totalled $2,826,000.

Warranty costs

The provisions covers the estimated costs of warranties provided to customers by the Group relating to the manufacturing of certain rolling stock equipment for external customers. The key assumption in determining this provision is that future error rates will be similar to historical error rates in comparable projects.

Customer loyalty

The provision covers the estimated costs of providing services accruing to customers as a result of customer loyalty programmes. This provision is calculated based on the number of outstanding loyalty programme points at the balance date.

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.

Reclamation costs

The provision covers the expected costs of returning properties occupied by the Group under lease agreements to the original condition of the properties at the expiry of the lease.

20. DEFERRED TAXATION

The deferred taxation liability of the Group at balance date comprise:

	Assets		Liabilities		Net	
	2009 $000	*2008 $000*	*2009 $000*	*2008 $000*	*2009 $000*	*2008 $000*
Property, plant and equipment	29	-	(114,855)	-	(114,826)	-
Intangible assets	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-
Inventory	5,674	-	-	-	5,674	-
Borrowings	74	-	-	-	74	-
Employee entitlements	23,699	-	-	-	23,699	-
Provisions	5,557	-	-	-	5,557	-
Other items	13,634	-	(347)	-	13,287	-
Tax (assets) / liabilities	48,667	-	(115,202)	-	(66,535)	-
Set off of tax	-	-	-	-	-	-
Net tax (assets) / liabilities	**48,667**	**-**	**(115,202)**	**-**	**(66,535)**	**-**

The Group has an unrecognised deferred tax asset of nil (2008: $321,000) arising from tax losses on ONTRACK Infrastructure Limited amounting to nil (2008: $1,069,000).

Movements in the deferred tax liability during the year comprise:

	Balance 1 July 2008 $000	*Recognised in profit or (loss) $000*	*Recognised in equity $000*	*Acquired in business combinations $000*	*Balance 30 June 2009 $000*
Property, plant and equipment	-	6,996	-	(121,822)	(114,826)
Intangible assets	-	-	-	-	-
Derivatives	-	-	-	-	-
Inventory	-	883	-	4,791	5,674
Borrowings	-	144	-	(69)	75
Employee entitlements	-	4,703	-	18,995	23,698
Provisions	-	(6,724)	-	12,281	5,557
Other items	-	(1,413)	-	14,700	13,287
Tax loss carry forward	-	(4,426)	-	4,426	-
	-	**163**	**-**	**(66,698)**	**(66,535)**

21. OPERATING LEASE COMMITMENTS

Operating leases 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 (formerly Stena Challenger). The Kaitaki vessel has a non-cancellable term of three years, expiring on 30 June 2010. The Group decided to exercise its option to renew this lease for a further period of 3 years to 30 June 2013, on 20 March 2009. Motor vehicle leases generally have a non-cancellable term of three years and truck leases five 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 future aggregate minimum lease payments payable under non-cancellable operating leases as follows:

Total minimum lease payments due	*Group 2009 $000*	*Group 2008 $000*	*Parent 2009 $000*	*Parent 2008 $000*
Not later than one year	29,982	5,087	10,057	5,087
Later than one year but not later than five years	62,911	11,438	13,476	11,438
Later than five years	14,885	-	220	-
	107,778	**16,525**	**23,753**	**16,525**

The total minimum future sublease payments expected to be received under non-cancelable subleases at balance date is $Nil (2008: $Nil).

Exposure to currency risks are disclosed in Note 29.

Operating leases as lessor

The Group has certain non-cancellable property leases. The majority of these property leases is made up of a large number of small leases with different terms. The only significant lease is with Toll Networks (NZ) Limited and has a term of 5 years. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

Total minimum lease payments receivable	*Group 2009 $000*	*Group 2008 $000*	*Parent 2009 $000*	*Parent 2008 $000*
Not later than one year	17,874	10,390	9,354	10,390
Later than one year but not later than five years	49,268	27,272	22,747	27,272
Later than five years	14,589	17,255	12,913	17,255
	81,731	**54,917**	**45,014**	**54,917**

22. 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.

Capital expenditure commitments	*Group 2009 $000*	*Group 2008 $000*	*Parent 2009 $000*	*Parent 2008 $000*
Not later than one year	240,892	55,625	110,916	55,625
Later than one year but not later than five years	72,606	5,453	72,606	5,453
Later than five years	-	-	-	-
	313,498	**61,078**	**183,522**	**61,078**

23. 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 will 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 its 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 the financial effect is not practicable.

(c) Option to purchase Wellington Railway Station

Included in the Waitangi Treaty Settlement signed by the Crown, Taranaki Whanui Ki Te Upoko O Te Ika and The Port Nicholson Block Settlement Trust, dated 19 August 2008, is an option to purchase the Wellington Railway Station and surrounding land. To date the option has not been exercised.

(d) Letter of credit faciliaties

The Group has purchasing card credit facilities with the BNZ to a maximum of $1,300,000 as at 30 June 2009 (2008: $1,300,000)

(e) 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.

(f) Credit guarantees

The Group has credit guarantees for the value of AUD 1,055,086 for the purchase of equipment as at 30 June 2009.

(g) Conditional ground lease agreement

The Group has a conditional agreement with Newtownard Holdings Limited for the grant of a long term ground lease of premises owned by the Group in Cambridge.

(h) Contingent Assets

The Group is pursuing one or more claims relating to the acquisition activity during the 2009 financial year. The outcome of these claims is uncertain at this stage and an estimate of financial effect is not practicable.

24. CONSTRUCTION CONTRACTS

	Group 2009 $000	*Group 2008 $000*
Construction work in progress	65,112	-
Recognised profits	16,116	-
Sub total	81,228	-
Progress billings	(73,074)	-
Retentions	-	-
Amounts due (to)/from customers	**8,154**	**-**
From customers under construction contracts – current (note 10)	8,154	-
To customers under construction contracts – current (note 17)	-	-
	8,154	**-**

Hillside Engineering is a division of the KiwiRail Group carrying out mechanical maintenance on rolling stock for external clients. All the construction work in progress recognised at 30 June 2009 relates to Hillside construction contracts.

KiwiRail Mechanical Services Limited, a wholly owned subsidiary of KiwiRail Limited, carries out mechanical maintenance on rolling stock for the Group and all internal charges are eliminated on consolidation.

25. ACQUISITION OF SUBSIDIARY

Acquisition of KiwiRail Holdings Limited

On 1 July 2008 the Crown acquired 100% of the share capital of KiwiRail Holdings Limited from Toll Holdings in order to integrate the rail infrastructure of New Zealand for the social benefit of the citizens of New Zealand. As the primary provider of rail services in New Zealand on behalf of the Crown, the Group acquired 100% of the share capital of KiwiRail Holdings Limited from the Crown on 1 October 2008 at the fair value of these assets and liabilities of $388,294,000. The Crown had undertaken an exercise to determine the fair value of assets and liabilities. No acquisition costs were incurred.

KiwiRail Holdings Limited operate a nationwide rail freight business; the InterIsland ferry service between Wellington and Picton; the Wellington Metro passenger rail service; and the Tranz Scenic passenger rail service.

The following table sets out the fair values of KiwiRail Holdings Limited's assets and liabilities on acquisition.

	$000
Investment in associate	-
Property, plant and equipment	681,478
Intangible assets	3,374
Inventories	33,236
Trade and other receivables	65,853
Cash and cash equivalents	40,855
Total Assets	**824,796**
Loans and borrowings	(153,420)
Deferred tax liabilities	(69,650)
Income tax payable	(11,751)
Trade and other payables	(201,681)
Total Liabilities	**(436,502)**
Net identifiable assets and liabilities	**388,294**

Pre-acquisition carrying amounts were determined based on applicable International Financial Reporting Standards immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

In the 9 months to 30 June 2009, the subsidiary earned revenue of $356,034,000 and incurred a deficit of $13,195,000 after tax. If the acquisition had occurred on 1 July 2008, management estimates that consolidated revenue for the period would have been $764,056,000 and consolidated surplus for the period would have been $220,166,000 (excluding adjustments relating to acquisition accounting made in the accounts of KiwiRail Holdings Limited). In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 July 2008.

At the acquisition date KiwiRail Holdings Limited had gross receivables of $50,735,000. The Group estimated that an amount of $1,293,000 could not be expected to be collected and adjusted the provision for impairments of receivables to this level at acquisition.

In terms of the sale and purchase agreement between the Group and the Crown, the Group have received an additional capital injection from the Crown, equal to the final acquisition value. The capital injection of $388,294,000 is disclosed as equity capital of the parent and the group.

Acquisition of United Group Limited

On 23 March 2009 the Group acquired 100% of the share capital of United Group NZ Limited at the fair value of the assets and liabilities in order to in-source its rolling stock maintenance operations. At balance date this amount was provisionally calculated as $24,093,000. United Group NZ Limited was renamed to KiwiRail Mechanical Services Limited on 26 March 2009. KiwiRail Mechanical Services Limited operate a rolling stock maintenance and repairs business with major workshops in Auckland and Wellington.

Preliminary calculations show that the acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Pre-acquisition carrying amounts $000	*Fair value adjustments $000*	*Recognised values on acquisition $000*
Other non current assets	1,606	5	1,611
Property, plant and equipment	677	923	1,600
Intangible assets	11	(11)	-
Prepayments	2,247	25	2,272
Inventories	26,763	25	26,788
Trade and other receivables	5,847	79	5,926
Cash and cash equivalents	3	-	3
Total assets	**37,154**	**1,046**	**38,200**
Provision for taxation	925	-	925
Trade and other payables	13,163	19	13,182
Total liabilities	**14,088**	**19**	**14,107**
Net identifiable assets and liabilities	**23,066**	**1,027**	**24,093**

Pre-acquisition carrying amounts were determined based on applicable International Financial Reporting Standards immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values. Initial accounting for the acquisition is provisional as final valuations for all assets and liabilities have not yet been finalised at 30 June 2009.

In the 3 months to 30 June 2009, the costs of KiwiRail Mechanical Services matched revenue as the company deals only with Group companies and all internal charges have been eliminated upon consolidation. If the acquisition had occurred on 1 July 2008, management estimates that the contribution of KiwiRail Mechanical Services Limited to the consolidated revenue for the period would have been $3,865,000 and its contribution to consolidated surplus for the period would have been $5,040,000 after tax (excluding adjustments relating to acquisition accounting made in the accounts of KiwiRail Mechanical Services Limited). In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 July 2008.

On 23 March 2009 the Group paid $24,997,000 in cash for the estimated values of assets and liabilities of the United Group NZ Limited. The difference between the initial payment of $24,997,000 and subsequent adjustments to the fair value of net assets acquired of $24,093,000 amounts to $904,000. The Group is effecting recovery of this amount from United Group.

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

	Group 2009 $000	*Group 2008 $000*	*Parent 2009 $000*	*Parent 2008 $000*
Net surplus/(deficit) after tax	238,730	(42,606)	232,355	(42,606)
Add / (deduct) items classified as investing or financing activities				
Loss/(gain) on sale of assets	224	139	(93)	152
Fair Value movement in Derivatives	13,683	(2,452)	(1,384)	(2,452)
Grant receipts	(291,454)	(118,797)	(291,454)	(118,797)
	(38,817)	(163,716)	(60,576)	(163,703)
Add / (deduct) non-cash flow items				
Depreciation and amortisation expense	215,868	176,200	167,387	176,177
Amortisation of deferred revenue	1,757	-	-	-
	178,808	12,484	106,811	12,474
Add / (deduct) movements in working capital				
(Increase) in receivables	(15,836)	(4,921)	(27,790)	(4,754)
(Increase)/decrease in other receivables	(4,539)	719	76	365
(Increase)/decrease in inventories	(13,462)	(6,131)	313	34
Increase/(decrease) in payables	(6,808)	12,917	26,242	16,331
Increase/(decrease) in provisions	462	833	689	288
Net cash flows from operating activities	**138,625**	**15,901**	**106,341**	**24,738**

27. CAPITAL MANAGEMENT

The New Zealand Railways Corporation's capital is its equity, which comprise retained earnings, reserves and general equity

New Zealand Railways Corporation is subject to the financial management and accountability provisions of the State-Owned Enterprises Act 1986 and the New Zealand Railways Corporation Act 1981 which imposes restrictions in relation to borrowings, and the issuing of equity.

The State-Owned Enterprises Act 1986 requires the Board to manage the New Zealand Railway Corporation as a profitable and efficient organisation that is comparable to businesses that are not owned by the Crown.

The New Zealand Railways Corporation manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure the New Zealand Railways Corporation effectively achieves its objectives and purpose.

28. RELATED PARTY TRANSACTIONS

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

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.

Transactions with key management personnel

Some directors 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:

	Sales		*Purchases*		*Receivable*		*Payable*	
	2009 $000	*2008 $000*	*2009 $000*	*2008 $000*	*2009 $000*	*2008 $000*	*2009 $000*	*2008 $000*
Linda Constable								
Orion	-	4	-	-	-	1	-	-
Ngai Tahu Property Co	-	10	-	-	-	1	-	-
	-	**14**	**-**	**-**	**-**	**2**	**-**	**-**
Mike Williams								
Tranzit NZ	-	7,171	-	1	-	4,827	1	-
Genesis Energy	-	-	-	9	-	-	-	-
Auckland Regional Transport Authority	3,491	9,165	-	525	1,037	-	-	-
	3,491	**16,336**	**-**	**535**	**1,037**	**4,827**	**1**	**-**
Jonathan Mayson								
Ports of Napier	-	1,051	-	-	-	1	-	-
	-	**1,051**	**-**	**-**	**-**	**1**	**-**	**-**
Brian Corban								
Corban Consultants Limited	-	-	67	-	-	-	-	-
Genesis Energy Limited	-	-	43	-	-	-	-	-
Genesis Power Limited	6,774	-	5	-	708	-	-	-
	6,774	**-**	**115**	**-**	**708**	**-**	**-**	**-**
James Bolger								
Express Couriers Limited	1,819	-	128	-	95	-	12	-
NZ Post	2,372	-	60	-	257	-	3	-
	4,191	**-**	**188**	**-**	**352**	**-**	**15**	**-**
Bryan Jackson								
Jaclan Holdings Limited	-	-	54	-	-	-	-	
Nees Hardware and Building Supplies Limited	-	-	2	-	-	-	-	-
New Zealand Transport Agency	13,459	-	579	-	607	-	1	-
	13,459	**-**	**635**	**-**	**607**	**-**	**1**	**-**
Ross Wilson								
Workforce Development Limited	-	-	3	-	-	-	-	-
	-	**-**	**3**	**-**	**-**	**-**	**-**	**-**
Lex Henry								
Solid Energy	408	-	-	-	136	-	-	-
	408	**-**	**-**	**-**	**136**	**-**	**-**	**-**
TOTALS	**28,323**	**17,401**	**941**	**535**	**2,840**	**4,830**	**17**	**-**

There are close family members of key management personnel employed by the Group. The terms and conditions of those arrangements are no more favourable than would have been adopted if there were no relationship to key management personnel.

The compensation of the Directors and executives, being the key management personnel of the Group, was as follows:

Key Management Personnel Compensation	*Group 2009 $000*	*Group 2008 $000*	*Parent 2009 $000*	*Parent 2008 $000*
Short term employee benefits	3,879	964	2,530	964
Termination benefits	111	144	-	144
Post employment benefits	42	-	15	-
Balance at end of year	**4,032**	**1,108**	**2,545**	**1,108**

All transactions with related parties are carried out at arm's length and are to be settled on normal credit terms, which are generally within 30 days. None of the balances are secured.

The Group has a relationship with the Rail Heritage Trust, which receives an annual grant of $75,000. A key management staff member of the Group is related to the Chairman of the Rail Heritage Trust.

The Parent has operated an intercompany account with its subsidiary, ONTRACK Infrastructure Limited, in the ordinary course of business. As at 30 June 2009 the balance of the inter company balance was $14,090,000 (2008: $14,300,000) and no debt has been forgiven. Total revenue received from ONTRACK Infrastructure Limited during the year was $3,713,000 (2008: $2,500,000) and total expenditure paid $172,978,000 (2008: $128,700,000).

The Parent has provided a loan to its subsidiary KiwiRail Holdings Limited to facilitate the purchase of KiwiRail Mechanical Services Limited on 23 March 2009. As at 30 June 2009 the outstanding balance of the loan amounted to $25,000,000 (2008: nil). Interest on the loan is charged at the 3 month BKBM rate plus a margin of 0.25%. Interest on the loan during the year amounted to $372,000 (2008: nil).

During the year since the acquisition of this subsidiary on 1 October 2008, the Parent received revenue from KiwiRail Holdings Limited amounting to $62,667,000 (2008: nil) and paid expenses amounting to $7,076,000 (2008: nil).

Employees' remuneration

Total remuneration and benefits in $000	*Group 2009*	*Group 2008*	*Parent 2009*	*Parent 2008*
100 - 110	54	17	11	5
110 - 120	22	7	7	3
120 - 130	28	10	4	6
130 - 140	18	5	6	3
140 - 150	16	4	2	2
150 - 160	14	1	2	1
160 - 170	4	3	2	2
170 - 180	12	1	1	1
180 - 190	9	2	2	2
190 - 200	4	1	3	1
200 - 210	1	-	-	-
210 - 220	2	-	1	-
220 - 230	2	-	-	-
230 - 240	1	-	-	-
240 - 250*	-	1	1	1
260 - 270	-	1	1	1
290 - 300	1	-	-	-
300 - 310	2	-	-	-
340 - 350	1	-	-	-
350 - 360	-	-	1	1
360 - 370	1	-	-	-
400 - 410	-	1	-	1
620 - 630*	1	-	1	-
	193	**54**	**45**	**30**

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

The Directors earned the following fees during the year:

	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
James Bolger	80	-	-	-
Brian Corban	50	-	-	-
Ross Martin	30	-	-	-
James Ross Wilson	40	-	-	-
Mark Franklin	40	-	-	-
Bryan Jackson	40	-	-	-
Cameron Moore	20	80	20	80
Lex Henry	13	50	13	50
Linda Constable	50	40	10	40
Mike Williams	10	40	10	40
Clive Matthewson	10	40	10	40
Jonathan Mayson	10	40	10	40
	393	**290**	**73**	**290**

The table below details the movements in Directorships for the New Zealand Railways Corporation during the reporting period.

Directors holding position for full year	***Appointment Date***	***Retirement Date***
James BOLGER	1 October 2008	
Bryan JACKSON	1 October 2008	
Mark FRANKLIN	1 October 2008	
Linda CONSTABLE	1 October 2008	
Retirements		
Lex HENRY		30 September 2008
Mike WILLIAMS		30 September 2008
Hon DR Clive MATTHEWSON		30 September 2008
Jonathan MAYSON		30 September 2008
Cameron MOORE		30 September 2008
Ross MARTIN	1 October 2008	31 March 2009
James Ross WILSON	1 October 2008	30 June 2009
Brian CORBAN	1 October 2008	30 June 2009
Appointments		
Paula REBSTOCK	1 July 2009	
Bob FIELD	1 July 2009	
Mark TUME	1 July 2009	

29. FINANCIAL INSTRUMENTS

29A Financial instrument categories

The accounting policies for financial instruments have been applied to the line items below:

	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
Financial assets				
Fair value through profit and loss				
Derivative financial instruments	4,830	1,937	4,602	1,937
Loans and receivables				
Cash and cash equivalents	44,451	36,114	26,311	35,908
Debtors and other receivables	124,385	43,889	71,142	43,100
Other financial assets				
Prepayments	9,340	1,056	979	1,056
Loans to related parties	-	-	39,090	14,344
	178,176	**81,059**	**137,522**	**94,408**
Total financial assets	**183,006**	**82,996**	**142,124**	**96,345**
Financial liabilities				
Fair value through profit and loss				
Derivative financial instruments	15,461	378	1,281	378
Financial liabilities at amortised cost				
Creditors and other payables	149,071	47,029	57,076	36,105
Borrowings	441,891	220,000	264,500	220,000
	590,962	**267,029**	**321,576**	**256,105**
Total financial liabilities	**606,423**	**267,407**	**322,857**	**256,483**

29B Financial instrument risks

The Group's Corporate Treasury function manages the financial risks relating to the operations of the Group. The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives.

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 such as credit and liquidity risk.

(a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has international leases and purchases capital equipment internationally and is exposed to currency risks arising from various currency exposures.

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

(b) Interest rate risk

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Borrowings issued at fixed rate of interest expose the Group to fair value interest rate risk. The risk is managed by the Group according to its treasury policy which outlines the level of borrowing that is to be secured using fixed rate instruments according to its maturity profile. The Group uses a combination of swaps and options to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt.

Cash flow 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.

The Group's treasury policy requires it to have 50% of its borrowings at fixed rates and 50% at variable rates. The Group enters into interest rate swap agreements as necessary to ensure that this policy is complied with. Under the interest rate swaps, the Group agrees with other parties to exchange, at specific intervals, the difference in interest amounts between the fixed contracts and variable contracts calculated by reference to the agreed notional principle amounts.

(c) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. Financial instruments which potentially subject the Group to credit risk consists primarily of cash at bank, accounts receivable, forward exchange contracts, loans extended and bank guarantees issued. The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Group's maximum exposure to risk.

While the Group may be subjected to losses up to the contract value of the instruments in the event of non-performance by its counterparties, it does not expect such losses to occur. Ongoing 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 to 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 because the counterparties are high quality financial institutions. The credit risk relating to cash at bank and short term investments is insured by the Government deposit guarantee scheme up to a maximum of $1,000,000.

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 2009 $000	*Group 2008 $000*	*Parent 2009 $000*	*Parent 2008 $000*
Cash at bank and term deposits	44,451	36,114	26,311	35,908
Debtors and other receivables	124,385	43,889	71,142	43,100
Derivative instrument assets	4,830	1,937	4,602	1,937
Prepayments	9,340	1,056	979	1,056
Loans to subsidiaries	-	-	39,090	14,344
Total credit risk	**183,006**	**82,996**	**142,124**	**96,345**

(d) 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.

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 hedge against volatility in fuel prices by fixing prices in United States currency.

Electricity price risk

The Group is exposed to movements in the electricity price for the supply of traction electricity to part of the North Island Main Trunk Line, and the supply of electricity to its operational and administrative sites. The Group entered into a three year contract for the supply of electricity that contained a mix of spot and fixed rate pricing for the supply of electricity to all time-of-use sites, which covers the substantial majority of the Group's exposure to electricity price risk. The contract expires on 31 July 2009. As well as managing electricity price risk through supply contracts, the Group's policy allows for commodity swap and option contracts to be entered into to hedge against volatility in electricity prices.

The authority to hedge commodity price exposures lies with the Group's Chief Financial Officer and Group Financial Controller. No derivative commodity price hedging contracts were entered into during the 2009 or 2008 financial years.

(e) Liquidity risk

Liquidity risk is the risk that the Group will have difficulty raising liquid funds to meet 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 has a maximum draw down facility with the Debt Management Office of $140,000,000. In addition the Group obtains funding from the Crown for specified capital projects as well as certain operating subsidies.

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 payment on floating rate debt is based on the floating rate on the instrument at the balance date. The amounts disclosed are the contractual undiscounted cash flows.

FINANCIAL LIABILITIES

	Carrying amount $000	*Contractual cash flows $000*	*Less than 1 year $000*	*1 - 2 years $000*	*2 - 5 years $000*	*More than 5 years $000*
Group 2009						
Creditors and other payables	149,071	149,071	149,071	-	-	-
Net settled derivative liabilities	15,461	15,461	15,286	175	-	-
Borrowings	404,500	459,436	184,639	13,537	188,373	72,887
Finance leases	37,391	56,376	4,625	4,625	13,876	33,250
Total	**606,423**	**680,344**	**353,621**	**18,337**	**202,249**	**106,137**
Parent 2009						
Creditors and other payables	57,076	57,076	57,076	-	-	-
Net settled derivative liabilities	1,281	1,281	1,116	165	-	-
Borrowings	264,500	318,437	43,640	13,537	188,373	72,887
Finance leases	-	-	-	-	-	-
Total	**322,857**	**376,794**	**101,832**	**13,702**	**188,373**	**72,887**

	Carrying amount $000	Contractual cash flows $000	Less than 1 year $000	1 - 2 years $000	2 - 5 years $000	More than 5 years $000
Group 2008						
Creditors and other payables	47,029	47,029	47,029	-	-	-
Net settled derivative liabilities	378	378	378	-	-	-
Borrowings	220,000	285,328	45,034	12,634	149,213	78,447
Finance leases	-	-	-	-	-	-
Total	**267,407**	**332,735**	**92,441**	**12,634**	**149,213**	**78,447**
Parent 2008						
Creditors and other payables	36,105	36,105	36,105	-	-	-
Net settled derivative liabilities	378	378	378	-	-	-
Borrowings	220,000	285,328	45,034	12,634	149,213	78,447
Finance leases	-	-	-	-	-	-
Total	**256,483**	**321,811**	**81,517**	**12,634**	**149,213**	**78,447**

The following table 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.

DERIVATIVE FINANCIAL INSTRUMENTS

	Carrying amount $000	Contractual cash flows $000	Less than 1 year $000	1 - 2 years $000	2 - 5 years $000	More than 5 years $000
Group 2009						
Forward exchange contracts:						
outflow	176,170	176,170	174,800	1,370	-	-
inflow	166,249	166,249	165,054	1,195	-	-
Total	**(9,921)**	**(9,921)**	**(9,746)**	**(175)**	**-**	**-**
Parent 2009						
Forward exchange contracts:						
outflow	74,369	74,369	73,349	1,020	-	-
inflow	78,362	78,362	77,507	855	-	-
Total	**3,993**	**3,993**	**4,158**	**(165)**	**-**	**-**
Group 2008						
Forward exchange contracts:						
outflow	73,341	73,341	73,341	-	-	-
inflow	74,415	74,415	74,415	-	-	-
Total	**1,074**	**1,074**	**1,074**	**-**	**-**	**-**
Parent 2008						
Forward exchange contracts:						
outflow	73,341	73,341	73,341	-	-	-
inflow	74,415	74,415	74,415	-	-	-
Total	**1,074**	**1,074**	**1,074**	**-**	**-**	**-**

The table below analyses the Group's financial assets into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date.

FINANCIAL ASSETS

	Carrying amount $000	*Contractual cash flows $000*	*Less than 1 year $000*	*1 - 2 years $000*	*2 - 5 years $000*	*More than 5 years $000*
Group 2009						
Cash and cash equivalents	44,451	44,451	44,451	-	-	-
Debtors and other receivables	124,385	124,385	124,385	-	-	-
Net settled derivative assets	4,830	4,830	4,733	97	-	-
Investments in subsidiaries	-	-	-	-	-	
Other financial assets:						
prepayments	9,340	9,340	8,881	459	-	-
related party loans	-	-	-	-	-	-
Total	**183,006**	**183,006**	**182,450**	**556**	**-**	**-**
Parent 2009						
Cash and cash equivalents	26,311	26,311	26,311	-	-	-
Debtors and other receivables	71,142	71,142	71,142	-	-	-
Net settled derivative assets	4,602	4,602	4,602	-	-	-
Investments in subsidiaries	388,294	388,294	-	-	-	388,294
Other financial assets:						
prepayments	979	979	979	-	-	-
related party loans	39,090	39,090	39,090	-	-	-
Total	**530,418**	**530,418**	**142,124**	**-**	**-**	**388,294**
Group 2008						
Cash and cash equivalents	36,114	36,114	36,114	-	-	-
Debtors and other receivables	43,889	43,889	43,889	-	-	-
Net settled derivative assets	1,937	1,937	1,937	-	-	-
Other financial assets:						
prepayments	1,056	1,056	1,056	-	-	-
related party loans	-	-	-	-	-	-
Total	**82,996**	**82,996**	**82,996**	**-**	**-**	**-**
Parent 2008						
Cash and cash equivalents	35,908	35,908	35,908	-	-	-
Debtors and other receivables	43,100	43,100	43,100	-	-	-
Net settled derivative assets	1,937	1,937	1,937	-	-	-
Other financial assets:						
prepayments	1,056	1,056	1,056	-	-	-
related party loans	14,344	14,344	14,344	-	-	-
Total	**96,345**	**96,345**	**96,345**	**-**	**-**	**-**

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts (expressed in NZD):

	2009				2008			
	USD $000	EURO $000	AUD $000	Other $000	USD $000	EURO $000	AUD $000	Other $000
Trade receivables	148	-	205	-	1,324	207	1,070	-
Trade payables	(230)	(29)	(1,757)	(8)	87	(242)	(1,808)	(9)
Gross balance sheet exposure	(82)	(29)	(1,552)	(8)	1,411	(35)	(738)	(9)
Estimated forecast sales	100	-	205	-				
Estimated forecast purchases	(95,617)	(36,190)	(40,404)	(3,959)				
Gross exposure	(95,517)	(36,190)	(40,199)	(3,959)				
Forward exchange contracts	95,617	36,190	40,404	3,959				
Net exposure	100	-	205	-				

The following significant exchange rates applied during the year:

	Average rate		Spot rate at 30 June	
	2009	2008	2009	2008
USD	0.6095	0.7326	0.6510	0.7607
EURO	0.4426	0.5275	0.4610	0.4888
AUD	0.8119	0.8449	0.8041	0.7997
GBP	0.3768	0.3771	0.3913	0.3870

Sensitivity Analysis

The following table sets out the impact on the profit of the Group if interest rates, currency rates or commodity prices change. The sensitivity analyses shown below are hypothetical and should not be considered predictive of future performance. It only includes financial instruments (derivative and non-derivative) and does not include the future forecast hedged transactions. As the sensitivities are only on financial instruments the sensitivities ignore the offsetting impact on future forecast transactions which many of the derivatives are hedging. Changes in fair value can generally not be extrapolated because the relationship of change in assumption to change in fair value may not be linear. In addition, for the purposes of the below analyses, the effect of a variation in a particular assumption is calculated independently of any change in another assumption. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities. Furthermore, sensitivities to specific events or circumstances will be counteracted as far as possible through strategic management actions. The estimated fair values as disclosed should not be considered indicative of future earnings on these contracts.

GROUP

INTEREST RATE RISK	*2009* -100 bps $000	*2009* +100 bps $000	*2008* -100 bps $000	*2008* +100 bps $000
Financial assets				
Derivatives through profit and loss	(604)	604	(394)	394
Financial liabilities				
Borrowings	4,108	(4,108)	5,308	(5,308)
Total sensitivity to interest rate risk	**3,504**	**(3,504)**	**4,914**	**(4,914)**

CURRENCY RISK	*- 10%*	*+ 10%*	*-10%*	*+10%*
Financial assets				
Cash	1,268	(1,038)	389	(318)
Receivables	39	(32)	-	-
Derivatives through profit and loss	6,007	(4,915)	-	-
Financial liabilities				
Derivatives through profit and loss	11,462	(9,377)	4,234	(3,464)
Creditors and other payables	225	(184)	81	(66)
Total sensitivity to foreign exchange risk	**19,001**	**(15,546)**	**4,704**	**(3,848)**

COMMODITY PRICE RISK	*-30%*	*+30%*	*-30%*	*+30%*
Fuel price risk				
Financial liabilities				
Derivatives through profit and loss	(2,003)	2,003	-	-
	-5%	*+ 5%*	*- 5%*	*+ 5%*
Copper price risk				
Financial assets				
Derivatives through profit and loss	(76)	76	-	-
Total sensitivity to commodity prices	**(2,079)**	**2,079**	**-**	**-**

PARENT

INTEREST RATE RISK	*2009* -100 bps $000	*2009* +100 bps $000	*2008* -100 bps $000	*2008* +100 bps $000
Financial assets				
Derivatives through profit and loss	-	-	(394)	394
Financial liabilities				
Borrowings	4,108	(4,108)	5,308	(5,308)
Total sensitivity to interest rate risk	**4,108**	**(4,108)**	**4,914**	**(4,914)**

CURRENCY RISK	*- 10%*	*+ 10%*	*-10%*	*+10%*
Financial assets				
Cash	780	(638)	389	(318)
Derivatives through profit and loss	5,243	(4,290)	-	-
Financial liabilities				
Derivatives through profit and loss	2,551	(2,086)	4,234	(3,464)
Creditors and other payables	-	-	81	(66)
Total sensitivity to foreign exchange risk	**8,574**	**(7,014)**	**4,704**	**(3,848)**

COMMODITY PRICE RISK	2009 -5% $000	2009 + 5% $000	2008 - 5% $000	2008 + 5% $000
Copper price risk				
Financial assets				
Derivatives through profit and loss	(76)	76	(72)	72
Total sensitivity to commodity prices	**(76)**	**76**	**(72**	**72**

30. UNDERLYING SURPLUS

Certain capital projects of the Group and the Parent are funded through government grants. New Zealand equivalents of International Financial Reporting Standards require that these grants are disclosed in the income statement, thus distorting the underlying result of the Group and the Parent. The following schedule reconciles the reported surplus of the Group and the Parent to underlying profitability.

	Note	Group 2009 $000	Group 2008 $000	Parent 2009 $000	Parent 2008 $000
Reported surplus		238,730	(42,606)	232,355	(42,606)
Reverse grant and subsidy income	2	(425,157)	(138,922)	(404,445)	(138,922)
Underlying deficit		**(186,427)**	**(181,528)**	**(172,090)**	**(181,528)**

31. EVENTS SUBSEQUENT TO BALANCE DATE

Change in directors

On 30 June 2009 two directors, namely James Ross Wilson and Brian Corban resigned from the Board. On 1 July 2009 three new directors were appointed to the Board, namely Paula Rebstock, Bob Field and Mark Tume.

Renewal of loan facilities

On 6 July 2009 the DMO general loan facility for KiwiRail of $140,000,000 was extended from the previous expiry date of 30 September 2009 to 30 June 2010. Other terms of the facility remained unchanged.

32. STATEMENT OF GOING CONCERN

The going concern principle has been adopted in the preparation of these financial statements. The Board, after making enquiries, has a reasonable expectation that the Group has adequate resources to continue operations for the forseeable future. The Board has reached this conclusion having regard to circumstances which it considers likely to affect the Group during the period of one year from the date of signing the financial statements, and to circumstances which it knows will occur after the date which could affect the validity of the going concern assumption (as set out in its current statement of corporate intent). The key considerations are set out below.

Letter of Comfort

The Board has received a letter of comfort, dated 10 September 2009, from the Ministers of Transport and Finance.

Operating and cash flow forecasts

The Board has considered forecast information relating to operational viability and cash flow requirements. The Board is satisfied that subject to deficit support, there will be sufficient cash flows generated from operating activities to meet the investing and financing cash flow requirements of the Group as set out in its current statement of corporate intent. The Board is confident that the equity injections in the 2010/11 year related to operating cash flows will eventuate.

Borrowing covenants and forecast borrowing requirements

The forecasts for the next 3 years prepared by the Board show that the peak borrowing requirement will not exceed the available borrowing facilities. Furthermore, the forecast borrowing requirements can be met without breaching covenants or other borrowing restrictions.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

AUDIT REPORT
TO THE READERS OF
NEW ZEALAND RAILWAYS CORPORATION AND GROUP'S
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

The Auditor-General is the auditor of New Zealand Railways Corporation (the Corporation) and group. The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the company and group for the year ended 30 June 2009.

Unqualified Opinion

In our opinion:

The financial statements of the company and group on pages 46 to 86:

- comply with generally accepted accounting practice in New Zealand;
- comply with New Zealand International Financial Reporting Standards; and
- give a true and fair view of:
  - the Corporation and group's financial position as at 30 June 2009; and
  - the results of operations and cash flows for the year ended on that date.

Based on our examination the company and group kept proper accounting records.

The audit was completed on 30 September 2009, and 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 the Auditor, and explain our independence.

Basis of Opinion

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

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

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

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

Audit procedures generally include:

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

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

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

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the company and group as at 30 June 2009 and the results of operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the State-owned Enterprises Act 1986 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 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 Institute of Chartered Accountants of New Zealand.

In addition to the audit we have carried out an assurance review over New Zealand Railways Corporation's finance and business processes during the reporting period. This assignment is compatible with these independence requirements. Other than the audit and this assignment, we have no relationship with or interests in the Group.

John O'Connell

John O' Connell

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 for the year ended 30 June 2009 included on the New Zealand Railways Corporation's website. The New Zealand Railway Corporation's Board of Directors is responsible for the maintenance and integrity of the New Zealand Railway Corporation's website. We have not been engaged to report on the integrity of the New Zealand Railway 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 30 September 2009 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

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