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New Zealand
Railways Corporation

ANNUAL REPORT 2014

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1. Chairman’s Report

I am pleased to present this annual report for the New Zealand Railways Corporation (the “Corporation”). As stated in the previous Annual Report, a restructure of the Crown's investment in rail operations and a change to the Corporation's role took effect from 31 December 2012. That restructure transferred the KiwiRail business into a new corporate group separate from the Corporation - KiwiRail Holdings Limited and its subsidiaries, leaving the Corporation holding railway land but no railway infrastructure assets. In this Annual Report, KiwiRail Holdings Limited and its subsidiaries are referred to as “KiwiRail”. KiwiRail is the State Owned Enterprise (“SOE”) responsible for the financial performance of the Crown’s investment in rail operations.

The Corporation's primary role is to make available railway land to KiwiRail, in accordance with the Corporation’s powers under the New Zealand Railways Corporation Act 1981 and other legislation, and to account for the value of the land in its financial statements. As set out in its Statement of Corporate Intent, the Corporation is not expected to derive any return from the land and is not expected to operate a rail business. It has leased the railway land to KiwiRail for a long-term and for nominal consideration, to enable KiwiRail to enjoy the commercial benefit of the land and support the Crown's investment in rail operations as a whole. In June 2014 the renewal of the lease to KiwiRail for a further term was successfully concluded.

The Corporation is also expected to undertake the usual reporting functions of a SOE, comply with its obligations and exercise its statutory powers lawfully.

To minimise its costs and avoid duplication of work with KiwiRail, the Corporation has also entered into a Management Agreement under which KiwiRail provides corporate and administrative services to the Corporation for a nominal charge.

In the period since the previous Annual Report, the Corporation has successfully performed its role in supporting the creation of a sustainable rail business in New Zealand.

John Spencer

John Spencer CNZM, Chairman

2. Board of Directors

Chair, John Spencer, CNZM

John Spencer is Chairman of KiwiRail Limited, Tertiary Education Commission, Raukawa Iwi Developments Ltd and Waikato Regional Airport. He is a Director of Tower Ltd, Mitre 10 NZ Ltd and Retirement Village Investments NZ Limited. He was the Chief Executive of the New Zealand Dairy Group prior to the formation of Fonterra and has held senior management positions in New Zealand and Australia.

Director, Rose Anne MacLeod

Rose Anne MacLeod is a Chartered Accountant who has completed an MBA with distinction from Massey (1993) and the Advanced Management Programme at Harvard Business School in 2001. She has held a number of senior financial roles, including as chief financial officer, for large public and private sector organisations in Australia and New Zealand. She now serves as Assistant Vice-Chancellor at Massey University and heads the team responsible for developing and overseeing the university's strategy, finances, IT infrastructure and commercial operations.

Director, Sharon Shea

Sharon Shea is a management consultant specialising in the fields of public sector strategy, results-based performance improvement frameworks, systems design and organisational development. Sharon works with government agencies, the NGO sector and for-profit companies. Sharon graduated from Oxford University with an MSc in Comparative Social Policy (Distinction) and she also has a Bachelor of Laws and a Bachelor of Arts from Auckland University. Sharon currently serves on the Northland District Health Board and has held a variety of board memberships for both private and public/not-for-profit organisations.

3. Governance

The Corporation is a statutory corporation constituted under the New Zealand Railways Corporation Act 1981 (“NZRC Act”) and is not a company, so it does not have shares or shareholders. It is also a state-owned-enterprise listed in Schedule 1 to the State Owned Enterprises Act 1986 (“SOE Act”). Its responsible Ministers are the Minister of Finance and the Minister for State Owned Enterprises. Those Ministers are referred to in this report as the "Shareholding Ministers", to reflect the terminology used in the State Owned Enterprises Act 1986. The Board of the Corporation is accountable to the Shareholding Ministers.

The Corporation and KiwiRail are expected to work together and communicate openly, which is assisted by the Chair of the Corporation also being the Chair of KiwiRail. This reflects the expectation of the Shareholding Ministers and the applicable legislation.

Executive management

The Corporation does not have any employees or executives. The Corporation has entered into a Management Agreement under which KiwiRail provides corporate and administrative services to the Corporation for a nominal charge.

The Corporation is required by the NZRC Act to have a General Manager. This role is performed by an employee of KiwiRail at no cost to the Corporation.

Statutory compliance

The Board oversees compliance with the Corporation's statutory obligations (with assistance from KiwiRail under the Management Agreement), including the following obligations:

- preparing financial statements and arranging for their audit by the Auditor-General;
- submitting an annual report, half-yearly report and Statement of Corporate Intent to Shareholding Ministers each year in accordance with the SOE Act;
- dealing with any requests for information made to the Corporation under the Official Information Act 1982 (though most information previously held by the Corporation has been vested in KiwiRail); and
- maintaining adequate records in accordance with the Public Records Act 2005.

General governance

The Board also:

- ensures there are 'no surprises' for the Shareholding Ministers (in accordance with the SOE Owner's Expectation Manual);
- manages any conflicts of interest;
- monitors the performance of KiwiRail under the Management Agreement;
- arranges for directors' and officers' insurance cover and directors' indemnities, in accordance with s7A of the NZRC Act; and
- holds Board meetings as it deems necessary to perform its role.

In view of the limited activities of the Corporation:

- there are no standing sub-committees of the Board; and
- the Board meets quarterly, or with such greater frequency as it may determine from time to time.

4. Activities of the Corporation

Railway land

The Corporation's only significant asset is railway land. That railway land is leased to KiwiRail on terms that give KiwiRail comprehensive rights to enjoy the land and primary responsibility for managing the land. The Corporation therefore has a minimal on-going role in managing the land (as the Crown's agent). The Corporation continues to have responsibility to include the value of railway land in its financial statements.

In this annual report "railway land" refers to all Crown land held for railway purposes except that which is administered by Land Information New Zealand and is no longer needed for railway purposes.

Under the lease KiwiRail can undertake many activities in relation to the land without requiring the consent or involvement of the Corporation. KiwiRail also carries the legal risks associated with use of the land.

KiwiRail is able to sub-lease railway land for periods of time within the term of the lease. The Corporation expects that KiwiRail will undertake sub-leasing activity that meets KiwiRail's business interests and which complies with the Corporations' statutory obligations regarding railway land.

If KiwiRail requires additional land to conduct its business, it may purchase land in its own name or may require the Corporation to acquire new land. KiwiRail may arrange for the Corporation to purchase new land and lease it to KiwiRail on the same terms as the existing lease. KiwiRail may also request the Corporation to exercise its powers to compulsorily acquire additional land and lease it to KiwiRail. Whenever KiwiRail does exercise such powers under the lease to require the Corporation to purchase additional land:

- the purchase cost of the land (including associated expenses) is funded by way of a grant from KiwiRail to the Corporation (or a grant from another interested party on behalf of KiwiRail); and
- the Corporation is required to lease to KiwiRail any land that is acquired on the same terms as the existing lease.

KiwiRail may also identify railway land that should be sold and request the Corporation to sell it, surrender it from the lease and provide the sale proceeds to KiwiRail. When KiwiRail requests that the Corporation sell land, the Corporation:

- relies on KiwiRail to find a prospective buyer and negotiate sale terms conditional on satisfaction of all requisite statutory approvals and clearances for sale (and the Corporation is not expected to evaluate the value of the proposal against any alternatives);
- seeks a report from KiwiRail on the effect of the proposal on the future development of the railway;
- complies with applicable statutory obligations, including obtaining the consent of the Minister responsible for the NZRC Act;

- seeks confirmation from KiwiRail that all requisite statutory approvals and clearances for sale have been met;
- consider how such a sale would impact upon the Corporation's functions contained in s12 of the NZRC Act, in particular, its function to arrange for safe and efficient rail freight and passenger transport services in New Zealand; and
- complies with its obligation under the lease to provide to KiwiRail proceeds from the sale of land surrendered from the lease.

The Shareholding Ministers expect that the proceeds from selling any railway land should go to KiwiRail to support its business as the SOE responsible for the financial performance of the Crown's investment in rail operations. The Shareholding Ministers are aware that, as a result of the reduction in the Corporation's asset base, the Corporation may incur an accounting loss following a sale of railway land.

The Corporation is not expected to consider acquiring or selling railway land when it is not requested by KiwiRail.

Wellington Station Building

The Corporation is also the current legal owner of the Wellington Railway Station and social hall building. The building is subject to an option to purchase by the Port Nicholson Settlement Trust under its Treaty of Waitangi settlement with the Crown. That option meant that the building could not be transferred to KiwiRail in the restructure.

The building is currently leased to KiwiRail, and KiwiRail has been vested with all of the Corporation's rights to receive any payments under that lease. KiwiRail and the Port Nicholson Settlement Trust are currently in negotiations about the possible sale of the building to the Trust under the Trust's option to purchase. KiwiRail has been vested with all of the Corporation's rights to receive any consideration in the event that the building is sold.

The Corporation expects that, in the event the Trust does not exercise its purchase option, then the land will become part of the demise under the lease to KiwiRail and ownership of the buildings will be transferred to KiwiRail, for no or nominal consideration.

5. Performance and Comparative Information

Section 15(2) of the SOE Act requires that the annual report include a comparison of the performance of the Corporation with its Statement of Corporate Intent.

The following matters are set out in the Corporation's Statement of Corporate Intent as relevant to measuring the performance of the Corporation:

- the Shareholding Ministers do not expect the Corporation to make an operating surplus, make any return on capital, or return a dividend;
- when the Corporation sells land and the sale proceeds of land surrendered from the lease are provided to KiwiRail, the Corporation may make an accounting loss;
- the Corporation is to comply with its obligations under the lease, the SOE Act, the NZRC Act and other relevant legislation; and
- The Corporation is to only incur expenditure which it will be able to meet.

By way of comparison to these measures:

- no dividend will be paid to the Crown in respect of the financial year ended 30 June 2014;
- for the financial year ended 30 June 2014 all costs incurred by the Corporation were covered by the management fee from KiwiRail, resulting in no surplus or loss;
- the Corporation has complied with its obligations under the lease and relevant legislation in all material respects; and
- the Corporation has not incurred expenditure that it has been unable to meet when due.

6. Additional Information

Director Remuneration

Refer to note 18 to the financial statements for the total remuneration paid to directors during the financial year to 30 June 2014.

The Corporation has effected directors' and officers' liability insurance to cover the Corporation's directors.

The Corporation indemnifies the directors and liabilities for acts or omission made in their capacity as directors, to the extent permitted by s7A of the NZRC Act.

Employee Remuneration

As at 30 June 2014 the Corporation does not have any employees.

7. Audited Financial Statements and Auditor's Report

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NEW ZEALAND RAILWAYS CORPORATION
Statement of Financial Performance
For the financial year ended 30 June 2014

	Note	2014 $000	2013 $000
Operating revenues	2	62	89,145
Operating expenses	3	(62)	(70,337)
Operating surplus		**-**	**18,808**
Grant income	4	-	100,871
Depreciation and amortisation expense	6	(1,452)	(5,585)
Foreign exchange and commodity net gains and losses	7	-	466
Finance income	8	-	7,367
Finance costs	8	-	(8,091)
Net gain/(loss) on sale/derecognition of land	5	(444)	46
Impairment losses	11	-	(185,669)
Net loss		**(1,896)**	**(71,787)**

The accompanying notes form part of these financial statements

	2014 $000	2013 $000
Net loss	**(1,896)**	**(71,787)**
Other comprehensive (loss)/income		
Gains/(Losses) from Cash flow hedges	-	800
Transfer to asset carrying value from cash flow hedge reserve	-	(2,000)
Vesting of assets and liabilities to KiwiRail Holdings Limited	-	(595,217)
Total comprehensive loss	**(1,896)**	**(668,204)**

The accompanying notes form part of these financial statements.

NEW ZEALAND RAILWAYS CORPORATION
Statement of Financial Position
As at 30 June 2014

	Note	2014	2013
		$000	$000
Current assets			
Cash and cash equivalents	9	1	1
		1	**1**
Non-current assets			
Property, plant and equipment	10	3,271,554	3,273,450
		3,271,554	**3,273,450**
TOTAL ASSETS		**3,271,555**	**3,273,451**
Current liabilities			
Goods and services tax payable	13	1	1
		1	**1**
TOTAL LIABILITIES		**1**	**1**
NET ASSETS		**3,271,554**	**3,273,450**
Equity			
Equity capital		1,532,446	1,532,446
Retained earnings		(1,396,640)	(1,395,026)
Asset revaluation reserve		3,135,748	3,136,030
TOTAL EQUITY		**3,271,554**	**3,273,450**

John Spencer
Chairman
16 September 2014

Rose Anne MacLeod
Director
16 September 2014

The accompanying notes form part of these financial statements.

	Equity Capital	Retained Earnings	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Total
	$000	$000	$000	$000	$000
As at 1 July 2012	**1,046,946**	**(753,474)**	**3,164,310**	**(1,628)**	**3,456,154**
Net loss for the period	-	(71,787)	-	-	(71,787)
Other comprehensive income					
Release of revaluation reserve to retained earnings	-	1,300	(1,300)	-	-
Gains/(Losses) from cash flow hedges	-	-	-	(2,000)	(2,000)
Transfer to asset carrying value from cash flow hedge reserve	-	-	-	800	800
Vesting of assets and liabilities to KiwiRail Holdings Limited	-	(571,065)	(26,980)	2,828	(595,217)
Total comprehensive income	**-**	**(641,552)**	**(28,280)**	**1,628**	**(668,204)**
Transactions with owners					
Capital investment	163,000	-	-	-	163,000
Conversion of debt to equity	322,500	-	-	-	322,500
As at 30 June 2013	**1,532,446**	**(1,395,026)**	**3,136,030**	**-**	**3,273,450**
Net loss for the period	-	(1,896)	-	-	(1,896)
Other comprehensive (loss)/income					
Release of revaluation reserve to retained earnings	-	282	(282)	-	-
Total comprehensive (loss)/income	**-**	**(1,614)**	**(282)**	**-**	**(1,896)**
Transactions with owners					
Capital investment	-	-	-	-	-
As at 30 June 2014	**1,532,446**	**(1,396,640)**	**3,135,748**	**-**	**3,271,554**

The accompanying notes form part of these financial statements.

NEW ZEALAND RAILWAYS CORPORATION
Statement of Cash Flows
For the financial year ended 30 June 2014

	Note	2014	2013
		$000	$000
Cash flows from operating activities			
Proceeds from:			
Receipts from customers		62	103,857
Interest received		-	7,367
Proceeds utilised for:			
Payments to suppliers and employees		(62)	(164,404)
Interest expense		-	(12,067)
Net cash from operating activities	17	**-**	**(65,247)**
Cash flows from investing activities			
Proceeds from:			
Sale of property, plant and equipment		-	2,188
Capital grant receipts		-	100,871
Repayment of loan from subsidiary		-	44,198
Proceeds utilised for:			
Purchase of property, plant and equipment		-	(190,182)
Vesting of cash balance to KiwiRail Holdings Limited		-	(64,936)
Net cash used in investing activities		**-**	**(107,861)**
Cash flows from financing activities			
Proceeds from:			
Crown capital investment		-	163,000
Finance lease		-	2,046
Proceeds utilised for:			
Repayment of borrowings		-	(1,448)
Net cash from financing activities		**-**	**163,598**
Net increase/(decrease) in cash and equivalents			**(9,510)**
Cash and cash equivalents at the beginning of the period		**1**	**9,512**
Effect of exchange rate fluctuations on cash held		-	(1)
Cash and cash equivalents at the end of the period	9	**1**	**1**

The accompanying notes form part of these financial statements.

REPORTING ENTITY

New Zealand Railways Corporation ("NZRC" or "the Corporation") is a statutory corporation established pursuant to the New Zealand Railways Corporation Act 1981 and is included within the First Schedule of the State Owned Enterprises Act 1986. The Corporation is domiciled in New Zealand. The Corporation is designated as a Public Benefit Entity ("PBE") defined as "a reporting entity whose primary objective is to provide goods and services for community or social benefit and where equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders".

On 31 December 2012, there was a restructure of the Crown's investment in rail operation. The KiwiRail Holdings Limited Vesting Order 2012 (Vesting Order) which took effect from 31 December 2012 transferred the KiwiRail business into a new corporate group separate from the Corporation, leaving the Corporation holding railway land and the Wellington Railway Station building but no railway infrastructure assets. After 31 December 2012 NZRC was no longer parent of the KiwiRail Group.

The financial statements of NZRC are for the year ended 30 June 2014 and were authorised for issue by the Board of Directors on 16 September 2014.

Primary Objective

The primary objective of the Corporation changed on 31 December 2012.

Prior to 31 December 2012, the Corporation's primary objective was 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.

Since 31 December 2012 its primary objective is to make available approximately 18,000 hectares of railway land to KiwiRail Holdings Group to enjoy the commercial benefit of the land for nominal consideration.

ESTIMATION UNCERTAINTY

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

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

Useful lives of property, plant and equipment

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

CRITICAL JUDGEMENTS

Asset revaluations

The Corporation's land and buildings are carried at fair value. Assets are revalued on a cyclical basis by independent valuers. The valuation of land is based on "across the fence" methodology whilst the valuation of specialised buildings is undertaken using the depreciated replacement cost method. Non-specialised land and buildings which could be sold with relative ease are valued using market value. For further details please refer to Note 10.

BASIS OF PREPARATION

Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice being New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for PBEs. They also comply with the New Zealand Railways Corporations Act 1981, the State-Owned Enterprises Act of 1986 and the Financial Reporting Act 2013.

Measurement base

The financial statements have been prepared on the basis of historical cost, modified by the revaluation of certain non-financial assets.

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

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

Unless otherwise specified, all dollar amounts in these financial statements and accompanying notes are stated in New Zealand dollars and all values are expressed in thousands of dollars ($000). The functional and presentation currency is New Zealand dollars.

Changes in accounting policies

The Corporation previously owned and operated the KiwiRail business. The Crown has restructured its investment in rail operations and the Vesting Order vested the majority of the Corporation's assets and liabilities in KiwiRail Holdings Limited on 31 December 2012. There has been no change in the accounting policies of the Corporation as a result of the restructure.

SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable by the Corporation to the extent it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. It 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.

During the year, the revenue derived from the Corporation activities relate to reimbursement of expenses incurred by the Corporation on-charged to Kiwirail Holdings Limited ("KHL") in the form of management fees. This type of revenue is recognised in the period it becomes receivable.

The following represents the accounting policies for revenue relevant to prior year operations:

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

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

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

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

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

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

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

(b) Property, plant and equipment

(i) Recognition and Measurement

Property, plant and equipment asset classes consist of land and buildings.

Property, plant and equipment is recognised on purchase or construction at cost or valuation and is subsequently revalued on a class basis to fair value. Items of property, plant and equipment in the course of construction are classified as capital work in progress. Cost includes expenditure that is directly attributable to the acquisition of the asset.

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

(ii) Revaluation

Land and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. Fair value is determined from market-based evidence by an external, independent valuer. Valuations are undertaken in accordance with the standards issued by the New Zealand Property Institute and with NZ IAS 16 *Property, Plant and Equipment* with the following bases of valuation adopted:

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

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

Other additions between revaluations are recorded at cost.

(iii) Derecognition

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

(iv) Impairment.

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

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

The value in use for cash-generating assets and cash-generating units is the present value of expected future cash flows. Following the restructure on 31 December 2012 the Corporation holds no cash-generating assets.

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

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

(v) Depreciation

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

Depreciation is provided on buildings with useful life of 55 years. Land is not depreciated.

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

(c) Net Finance Costs

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

For the purposes of prior year comparative numbers, other finance costs include interest expense on finance leases and the net change in fair value of derivative financial instruments.

The Corporation does not capitalise borrowing costs on capital projects.

(d) Leases

Operating leases

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

Finance leases

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

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

(e) Income tax

The Corporation is exempt from income tax as a public authority.

(f) 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 ("IR") is included as part of receivables or payables in the Statement of Financial Position.

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

(g) Financial assets

Financial assets in the scope of NZ IAS 39 *Financial Instruments: Recognition and Measurement* are categorised as either loans and receivables or at fair value through profit or loss unless designated as a hedged item therefore hedge accounted for. The classification depends and the purpose for which the financial assets were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on classifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and derecognition
All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Corporation commits to purchase the asset. Regular way purchases or sale are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the Corporation transfers substantially all of the risks and rewards of the financial assets. If the Corporation neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the assets.

Subsequent measurement
Financial assets comprising cash and cash equivalents and trade receivables are those non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date which are classified as non-current.

The relevant specific accounting policy for each financial asset is set out below:

(i) Cash and cash equivalents
Cash and cash equivalents comprise current accounts and other investments with an initial term of 3 months or less that are readily convertible to known amounts of cash and are subject to insignificant risks of changes in value.

(ii) Trade receivables
Trade receivables are classified as loans and receivables and are carried at amortised cost using the effective interest method. Trade receivables are not discounted due to their short-term nature.

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 financial asset has been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

(h) Financial liabilities

Financial liabilities are classified at amortised cost.

Payables
Payables are recognised when the Corporation 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. Due to the short-term nature of payables, they are not discounted.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

There were no new standards and interpretations adopted during the financial year ended 30 June 2014.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

In May 2012, the Accounting Standards Review Board and the Financial Reporting Standards Board agreed on a 'position statement' that all NZ IFRSs with a mandatory effective date for annual periods beginning on or after 1 January 2012 will be applicable to profit-oriented entities only.

On September 2011, the Government announced changes to the financial reporting framework. Following this announcement, the External Reporting Board ("XRB") released an accounting standards framework document regarding the establishment of a set of NZ PBE standards based on the International Public Sector Accounting Standards ("IPSAS") modified as appropriate for New Zealand circumstances. This set of standards referred to as the NZ PBE standards will be the required accounting standard for PBEs as New Zealand moves to the adoption of a multi-standards approach. When the adoption of the NZ PBE standards for public sector becomes mandatory, the prior year balances before the adoption date will be restated so that comparative financial statements are both presented under the same accounting standards.

The Corporation will adopt NZ PBE standards beginning 1 July 2014. The Corporation's initial assessment reveals there are no material impacts on measurement and recognition from the accounting policies that the Corporation currently adopts. The majority of the impacts will be presentation only.

1. TOTAL INCOME

	Note	2014	2013
		$000	$000
Revenue	2	62	89,145
Grant income	4	-	100,871
Total income		**62**	**190,016**

2. REVENUE

	2014	2013
	$000	$000
Property & Corporate	62	73,255
Infrastructure & Engineering	-	15,890
Total revenue	**62**	**89,145**

Current year revenue represents reimbursements received from KHL in the form of management fees. These reimbursements relate to expenses incurred by the Corporation during the current financial year.

3. OPERATING EXPENSES

	2014	2013
	$000	$000
Salaries and w ages	-	17,615
Defined contribution plan employer contributions	-	442
Employee entitlements	-	1,848
Other employee expenses	-	352
Total staff costs	-	20,257
Materials and supplies	-	5,494
Fuel and traction electricity	-	26
Lease and rental costs	2	4,360
Incidents, casualties and insurance	22	4,295
Contractors expenses	-	26,450
Fees paid to auditors: Audit fees	16	126
Impairment of receivables	-	(132)
Directors' fees	18	171
Other expenses	4	9,290
Total operating expenses	**62**	**70,337**

4. GRANT INCOME

	2014 $000	2013 $000
Capital grants for metro projects		
Auckland rail development	-	23,110
Auckland electrification project	-	63,972
Other capital grants		
Other	-	13,469
Public policy grant	-	320
Total grant income	**-**	**100,871**

Prior to 31 December 2012 the Corporation received operating grants from the Crown for the purpose of maintaining the railway networks and infrastructure costs. There are no unfulfilled conditions or other contingencies attached. After 31 December 2012 the operating grants are received by KHL.

5. NET LOSS ON SALE/DERECOGNITION OF LAND

From time to time the Corporation may sell parcels of railway land. Under the lease agreement with KHL entered into on 31 December 2012, KHL may identify railway land that should be sold and request the Corporation to sell it or surrender it from the lease. The sale proceeds are provided to KHL to support its business as the SOE responsible for the financial performance of the Crown's investment in rail operations. The Corporation may incur an accounting loss following a sale of railway land because the value of the land is in the Corporation's asset base whilst KHL receives the sale proceeds.

NZRC received the proceeds on any land sales prior to 31 December 2012. Where land has previously been revalued any gain or loss is based on the valuation and any revaluation reserve relating to the land sold is released to retained earnings.

	2014 $000	2013 $000
Carrying value of land sold/derecognised	(444)	(2,136)
Proceeds received	-	2,182
Net loss on sale of land recognised in Statement of Financial Performance	**(444)**	**46**
Release of revaluation reserve	282	2,066
Net gain/(loss) on original cost	**(162)**	**2,112**

6. DEPRECIATION AND AMORTISATION EXPENSE

	2014 $000	2013 $000
Depreciation expense	1,452	5,219
Amortisation expense	-	366
Total depreciation and amortisation expense	**1,452**	**5,585**

7. FOREIGN EXCHANGE AND COMMODITY GAINS AND LOSSES

	2014	2013
	$000	$000
Net realised foreign exchange and commodity gains/(losses)	-	(116)
Net change in the fair value of derivatives not designated as cash flow hedges	-	582
Total foreign exchange gains and (losses)	**-**	**466**

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

8. NET FINANCE COSTS

	2014	2013
	$000	$000
Finance income		
Interest income on bank deposits	-	761
Interest income other	-	6,606
Total finance income	**-**	**7,367**
Less Finance costs		
Interest expense on borrowings	-	(7,337)
Interest expense – other	-	(4,060)
Net change in fair value of derivatives	-	3,306
Total finance costs	**-**	**(8,091)**
Net finance costs	**-**	**(724)**

9. CASH AND CASH EQUIVALENTS

	2014	2013
	$000	$000
Current accounts	1	1
Total cash and cash equivalents	**1**	**1**

The carrying value of cash and cash equivalents with original maturity of 3 months or less approximates their fair value.

The Corporation's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 19.

10. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Railway Infrastructure	Plant and equipment	Capital work in progress	Total
Cost:	$000	$000	$000	$000	$000
Balance at 1 July 2012	3,310,883	164,393	85,763	19,314	3,580,353
Additions	-	-	1,654	189,326	190,980
Disposals	(2,664)	-	(35)	-	(2,699)
Reclassifications	-	(2,860)	7,198	2,860	7,198
Impairment	(46)	-	(263)	(185,384)	(185,693)
Vested to KiwiRail Holdings Limited	(33,341)	(161,533)	(94,317)	(26,116)	(315,307)
Balance at 30 June 2013	**3,274,832**	**-**	**-**	**-**	**3,274,832**
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Reclassifications / Other movements	(444)	-	-	-	(444)
Balance at 30 June 2014	**3,274,388**	**-**	**-**	**-**	**3,274,388**
Accumulated depreciation:					
Balance at 1 July 2012	559	-	18,795	-	19,354
Depreciation expense	1,946	385	3,736	-	6,067
Retired depreciation (disposals)	(13)	-	(35)	-	(48)
Reclassifications	-	-	7,198	-	7,198
Impairment	(1)	-	(63)	-	(64)
Vested to KiwiRail Holdings Limited	(1,109)	(385)	(29,631)	-	(31,125)
Balance at 30 June 2013	**1,382**	**-**	**-**	**-**	**1,382**
Depreciation expense	1,452	-	-	-	1,452
Balance at 30 June 2014	**2,834**	**-**	**-**	**-**	**2,834**
Net book value:					
At 30 June 2013	3,273,450	-	-	-	3,273,450
At 30 June 2014	**3,271,554**	**-**	**-**	**-**	**3,271,554**

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

Vesting of Assets

On 31 December 2012 the majority of the property, plant and equipment previously held by NZRC was vested to KHL. The only remaining assets in NZRC are rail corridor land and the Wellington Railway Station and Social Hall buildings.

Valuation of Assets

Land and building values have been reviewed by management and the carrying value is considered to approximate fair value.

In June 2012 Darroch Limited conducted a valuation of land and buildings. Darroch Limited who are independent valuers hold recognised and relevant professional qualifications.

Valuation of specialised land is based on the market values of neighbouring land. The valuation of specialised buildings is calculated on the optimised depreciated replacement cost. Notional replacement cost estimates were supplied to the valuers by internal engineering staff. Non-specialised land and buildings, being severable and stand-alone properties, were valued at market value.

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

Impairment

Details of impairments for the year are provided in Note 11.

11. IMPAIRMENT OF PROPERTY, PLANT & EQUIPMENT

Reconciliation of Impairment Movements to Statement of Financial Performance

	Impairment recognised in Statement of Financial Performance	
	2014	**2013**
	$000	$000
Impairment of Cash Generating Units (below)	-	(185,669)
Impairment losses in Statement of Financial Performance	**-**	**(185,669)**

Information for prior year balances

At 31 December 2012 the assets were tested for impairment before vesting and were therefore transferred at their impaired value to KHL. An impairment of $185.7m was recognised in the Statement of Financial Performance for the year ended 30 June 2013.

12. INTANGIBLE ASSETS

	Software
	$000
Gross carrying amount	
Balance at 1 July 2012	-
Additions	507
Disposals	-
Impairment	(507)
Vesting	-
Balance at 30 June 2013	-
Accumulated amortisation and impairment	
Balance at 1 July 2012	-
Amortisation expense	366
Disposals	-
Impairment	(366)
Vesting	-
Balance at 30 June 2013	-
Net book value as at 30 June 2013	-

There are no movements of intangible assets for the year ended 30 June 2014. The Corporation does not have intangible assets as at 30 June 2014.

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

Impairment losses of $366k were recorded at 31 December 2012 before the vesting. These are included in the impairment loss in the Statement of Financial Performance for the year ended 30 June 2013.

13. TRADE AND OTHER LIABILITIES

	2014	2013
	$000	$000
GST payable	1	1
Total trade and other liabilities - current	**1**	**1**

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

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

Exposure to liquidity risk is disclosed in Note 19.

14. PROVISIONS

The Corporation does not have a provision balance as at 30 June 2014 (2013: nil). Also there were no movements in provision during the current financial year.

Employee entitlements

There are no employees in NZRC at 30 June 2014. All employment contracts were vested to KHL at 31 December 2012.

Information for comparatives

ACC partnership programme

NZRC has been approved primary status of the ACC partnership scheme from 1 May 2011.

From 31 December 2012 the Corporation no longer has any employees; all liabilities under the ACC partnership programme were vested to KiwiRail Holdings Ltd.

For the purposes of disclosing comparative information, the following represents movements in each class of provision from prior year.

2013	Balance at 1 July 2012	Provisions made during the year	Provisions utilised during the year	Provisions vested to KiwiRail Holdings Ltd	Balance at 30 June 2013
	$000	$000	$000	$000	$000
ACC partnership programme	400	-	(300)	(100)	-
Other provisions	600	-	(600)	-	-
	1,000	-	(900)	(100)	-

15. LEASE COMMITMENTS

(a) Finance lease commitments

There are no finance lease commitments in NZRC at 30 June 2014 (2013: nil).

All finance lease agreements were vested to KHL on 31 December 2012.

(b) Operating lease commitments as lessee

Information for current year

NZRC does not have any operating lease commitments as lessee at 30 June 2014 (2013: nil).

All operating lease agreements were vested to KHL on 31 December 2012.

(c) Operating lease commitments as lessor

The Corporation has, along with the Crown, granted a long-term lease to KHL for nominal consideration, under which KHL can enjoy the commercial benefit of the land. KiwiRail Holdings Ltd has primary responsibility for administering the land. Under the lease it can undertake many activities in relation to the land without requiring the consent or involvement of NZRC.

NZRC does not have any other operating lease commitments as lessor at 30 June 2014. All other lease agreements were vested to KHL on 31 December 2012.

16. CAPITAL AND OTHER COMMITMENTS

The Corporation has no commitments for capital purchases at 30 June 2014 (2013: nil).

17. RECONCILIATION OF NET LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2014	2013
	$000	$000
Net loss	(1,896)	(71,787)
Add / (deduct) items classified as investing or financing activities		
Loss on sale/derecognition of assets	444	(37)
Fair value movement in derivatives	-	(3,900)
Capital grant receipts	-	(100,871)
	(1,452)	(176,595)
Add non-cash flow items		
Depreciation and amortisation expense	1,452	5,585
Movements in provisions	-	(955)
Effect of exchange rate changes on cash balances	-	(1)
Impairment of property, plant and equipment	-	185,669
	-	13,703
Add / (deduct) movements in working capital		
Decrease in trade receivables	-	327
Increase in other receivables	-	(90,305)
Increase in trade payables	-	7,240
Increase/(decrease) in other payables	-	3,788
Net cash flows from operating activities	-	(65,247)

18. RELATED PARTY TRANSACTIONS

Significant transactions with government-related entities

There were no capital and grant funds received during the current financial year. Up to 31 December 2012 the Corporation has been provided with equity and capital grant funding from the Crown. Equity funding of $163m has been received together with capital grant funding of $93.4m for the year ended 30 June 2013.

The Corporation has received $62,000 management fee from KHL representing reimbursement of the Corporation's expenses for financial year ended 30 June 2014.

Collectively but not individually significant transactions with government-related entities

For the year ended 30 June 2014, the Corporation had no significant transactions, individually or collectively, with government-related entities.

Prior year disclosure
Prior to 31 December 2012 the Corporation was required to pay various taxes and levies (such as GST, FBT, PAYE and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies is based on the standard terms and conditions that apply to all tax and levy payers.

Prior to 31 December 2012 the Corporation also purchased goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. These purchases included the following for the year ended 30 June 2013:

- Purchase of electricity from Transpower of $1.0m
- Purchase of electricity from Meridian Energy $0.3m
- Air travel from Air New Zealand $0.8m
- Telecoms services from Kordia $0.4m
- Transport services from NZTA $0.1m.

Transactions with key management personnel

Key management personnel is defined as directors, the Chief Executive Officer and all executive level direct reports of the Chief Executive Officer. The directors of NZRC changed on 31 December 2012. Both prior directors and current directors are included for the purposes of this note. Key management personnel of the Corporation may be directors or officers of other companies or organisations with whom the Corporation may transact. Such transactions are all carried out independently on an arms' length basis. The following transactions were carried out with related parties:

	Statement of Financial Performance		Statement of Financial Position	
	Sales 2014	**Purchases 2014**	**Receivable 2014**	**Payable 2014**
	$000	$000	$000	$000
John Spencer				
	-	-	-	-
	-	**-**	**-**	**-**
Rose Anne MacLeod				
	-	-	-	-
	-	**-**	**-**	**-**
Sharon Shea				
	-	-	-	-
	-	**-**	**-**	**-**
TOTAL 2014	**-**	**-**	**-**	**-**

	Statement of Financial Performance		Statement of Financial Position	
	Sales 2013	**Purchases 2013**	**Receivable 2013**	**Payable 2013**
	$000	$000	$000	$000
Paula Rebstock (appointment ceased 31 Dec 2012)				
ACC	-	559	-	-
	-	**559**	**-**	**-**
Kevin Thompson (appointment ceased 31 Dec 2012)				
Opus International Consultants Limited	-	831	-	-
	-	**831**	**-**	**-**
John Leuchars (appointment ceased 31 Dec 2012)				
Genesis Energy	-	2	-	-
	-	**2**	**-**	**-**
TOTALS 2013	**-**	**1,392**	**-**	**-**

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

Prior to 31 December 2012, NZRC operated an intercompany account with its subsidiary, Ontrack Infrastructure Limited in the ordinary course of business. As at 31 December 2012 the net balance payable by NZRC of $32.4m was vested to KHL. No debt has been forgiven. For the 6 months to 31 December 2012 Ontrack Infrastructure Limited received $86.7m in payments from the NZRC for services provided.

Prior to 31 December 2012 NZRC provided loans to its subsidiary KiwiRail Limited. As at 31 December 2012 the outstanding balance of the loans of $212.2m was vested to KHL. Interest on the loans is charged at the cost of funds to the Parent plus a margin of 0.25%. Interest on the loans for the 6 months to 31 December 2012 amounted to $6.1m.

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

	2014	2013
	$000	$000
Key Management Personnel Compensation		
Short term employee benefits	-	1,243
Termination benefits	-	-
Post-employment benefits	-	-
Total Key Management Personnel Compensation	-	1,243

Employees' remuneration
Following the restructure of the KiwiRail business at 31 December 2012 the Corporation does not have any employees. The employment contracts of employees previously employed by the Corporation were vested to KHL on that date.

The Directors earned the following fees during the year:

	2014	2013
	$000	$000
John Spencer	6	43
Rose Anne MacLeod (commenced 1 January 2013)	6	3
Sharon Shea (commenced 1 January 2013)	6	3
Paula Rebstock (appointment ceased on 31 December 2012)	-	25
Robert Field (appointment ceased on 31 December 2012)	-	20
John Leuchars (appointment ceased on 31 December 2012)	-	20
Rebecca Thomas (appointment ceased on 31 December 2012)	-	20
Kevin Thompson (appointment ceased on 31 December 2012)	-	20
Mark Tume (retired on 1 November 2012)	-	13
Guy Royal (commenced 1 November 2012 and ceased on 31 December 2012)	-	7
Total Directors' fees	18	174

19. FINANCIAL INSTRUMENTS

With the exception of minimal cash balance in cash and cash equivalents, the Corporation does not have any financial instruments at 30 June 2014 (2013: nil). They were vested to KiwiRail Holdings Ltd at 31 December 2012.

a. Market Risk

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

The Corporation's exposure to market risk is minimal.

b. Credit Risk

Credit risk is the potential loss from a transaction in the event of default by a counterparty during the term of the transaction or on settlement of the transaction. Financial instruments which potentially subject the Company to credit risk consists primarily of cash and cash equivalents.

While the Corporation may be subjected to losses up to the contract value of the instruments in the event of default by its counterparties, it does not expect such losses to occur. On-going credit evaluation is performed on the financial condition of accounts receivable and customers' compliance with credit terms. The Corporation's policy does not require collateral support for financial instruments subject to credit risk, although personal guarantees may be obtained in support of the financial performance of certain customers. As at 30 June 2014, the Corporation does not have receivable from counterparties therefore the Corporation does not have exposure to credit risk arising from debts not yet collected.

The credit risk on cash and cash equivalents is limited as the Corporation has minimal cash balance as at balance date.

The carrying amount of cash and cash equivalents of $1k (2013: $1k) represents the Corporation's maximum exposure to credit risk.

c. Liquidity Risk

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

d. Capital Risk Management

The Corporation manages its capital structure to ensure it is able to continue as a going concern. The State Owned Enterprises Act (1986) requires the Board to manage the Corporation as a profitable and efficient organisation that is comparable to businesses that are not owned by the Crown.

The capital structure of the Corporation consists of cash and cash equivalents (as outlined in Note 9) and equity. Equity comprises of a capital contribution from the Crown as permitted by the New Zealand Railways Corporation Act (1981), retained earnings and reserves.

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

e. Financial Instrument Fair Values and Classification

The classification of each category of financial instruments is set out below:

	2014	2013
	$000	$000
Loans and receivables		
Cash and cash equivalents	1	1

The fair value of financial asset approximates its carrying value.

20. CONTINGENT LIABILITIES

(a) 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 Corporation, have not been recognised in these financial statements. Since 1 July 1993 such claims are considered to be the responsibility of the Crow n rather than that of the Corporation and administered by the Office of Treaty Settlements, Ministry of Justice. The outcome of these claims is uncertain at this stage and an estimate of financial effect is not practicable.

(b) Option to purchase Wellington Railw ay Station

A seismic review of the buildings w as carried out in financial year 2014. Follow ing the review , a significant amount of w ork relevant to seismic strengthening of the buildings is required and w ork has commenced. Follow ing completion of the seismic upgrade w orks, valuation discussions w ill continue w ith the Taranaki Whanui Ki Te Upoko O Te Ika and the Port Nicholson Block Settlement Trust (PNBST), w hich has an option to purchase the Wellington Railw ay Station building footprint and the social hall building and has other rights in respect of the surrounding land as set out in the Waitangi Treaty Settlement signed by the Crow n dated 19 August 2008. The process is expected to be finalised in the next financial year.

Independent Auditor's Report

To the readers of the New Zealand Railways Corporation's financial statements for the year ended 30 June 2014

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

We have audited the financial statements of the Corporation on pages 13 to 37, that comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion

In our opinion the financial statements of the Corporation on pages 13 to 37:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect the Corporation's:
    - financial position as at 30 June 2014; and
    - financial performance and cash flows for the year ended on that date.

Our audit was completed on 16 September 2014. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

An audit also involves evaluating:

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

- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also we did not evaluate the security and controls over the electronic publication of the financial statements.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

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

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

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

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

Responsibilities of the Auditor

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

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Corporation.

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