ANNUAL REPORT 2013

KiwiRail Overview

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

Business Units

Freight provides rail freight services and locomotives for passenger services

Infrastructure & Engineering maintains and improves the rail network, controls the operation of trains on the network, and operates the heavy workshops that refurbish and maintain our rolling stock

Interislander operates the ferry passenger and freight services

Passenger provides urban passenger services in Wellington under contract to the Greater Wellington Regional Council through the Tranz Metro team, and the Scenic team operates the long distance passenger rail services.

Operations

Each week, train control operations manage the movement of:

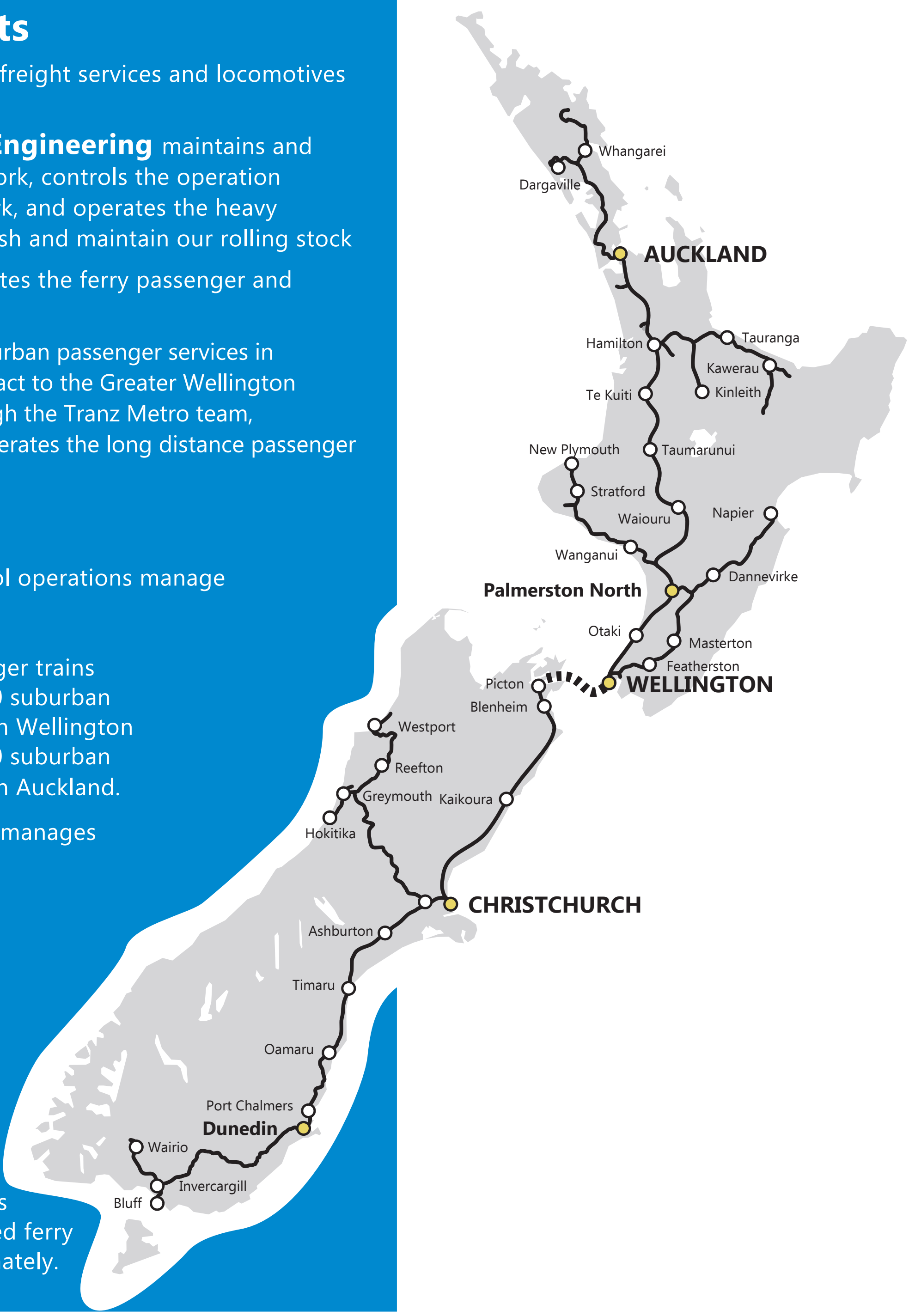
- 900 freight trains
- 44 inter-city passenger trains
- Approximately 2,200 suburban passenger services in Wellington
- Approximately 2,000 suburban passenger services in Auckland.

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

- 749,000 passengers
- 59,000 rail wagons
- 68,000 trucks
- 217,000 cars.

Assets

- 4,000 kms track
- 1,656 bridges
- 198 mainline locomotives
- 4,585 freight wagons
- 2 owned and 1 leased ferry
- 4,000 staff approximately.



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

Contents

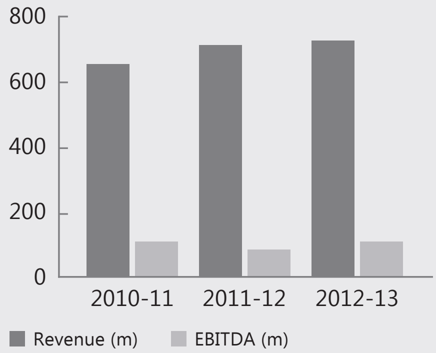
Our Results

KiwiRail Group

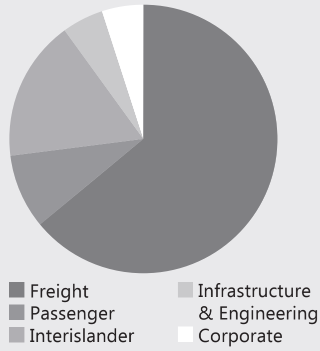
- Revenue of $727m
- Operating surplus of $108m
- Capital Expenditure of $311m*
- 4,000km rail network

* Excludes Metro projects and Metro renewals.

Revenue and EBITDA



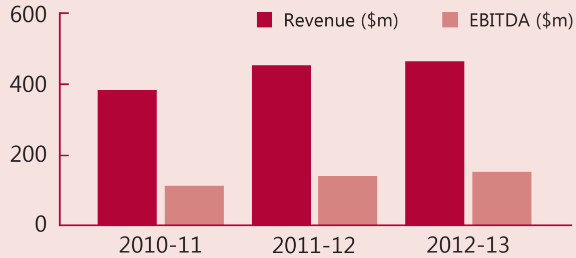
Revenue by Business Unit



Freight

- Revenue of $467m
- EBITDA of $131m
- 64% of Group revenue
- Import-Export increased revenue by over 8%
- Total assets of $345m

Revenue and EBITDA



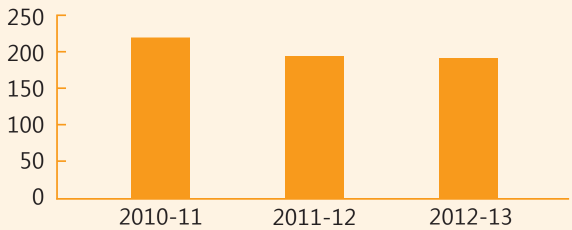
Segment Revenue

Infrastructure & Engineering

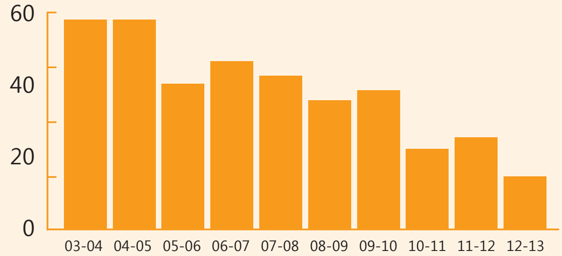
- Network investment of $196m*
- Completion of majority of Auckland network upgrade works
- Total assets of $428m

Network Investment ($m)*

* Includes Metro renewals, excludes Metro projects



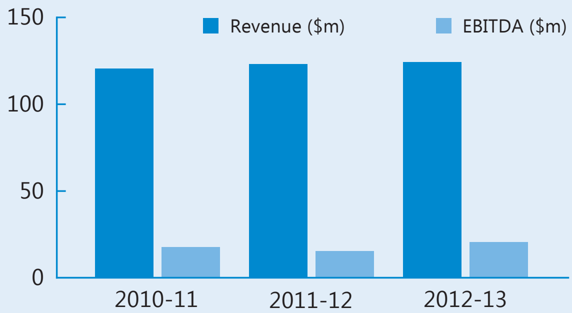
Mainline Derailments



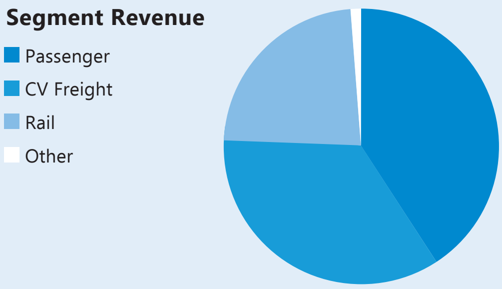
Interislander

- **Revenue of $124m**
- **EBITDA of $19m**
- **Total assets of $124m**

Revenue and EBITDA



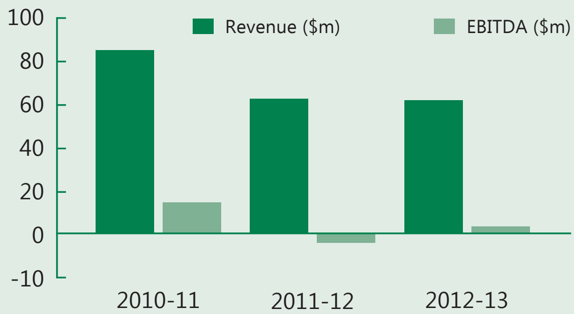
Segment Revenue



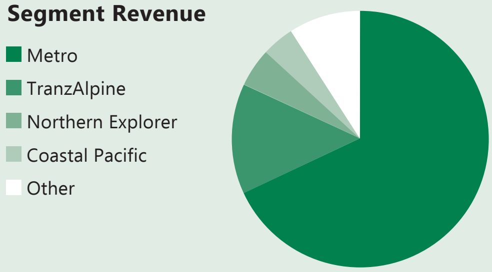
Passenger

- **Revenue of $64m**
- **Increase in Tranz Metro on-time performance to 94%**
- **Total Scenic assets of $43m**

Revenue and EBITDA



Segment Revenue



Our Progress

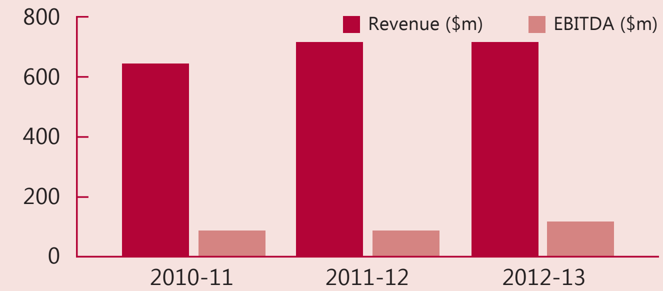
KiwiRail, with the support of our Shareholder, has been implementing a strategy to ensure the business can deliver the highest levels of service expected from our customers. As a result we have made great progress with both growing and improving the business. Freight, the cornerstone for our growth, has increased revenue and tonnage year on year. Major upgrades to the Auckland and Wellington metro networks, and the national network, are enabling the provision of safer and more reliable services. As has the introduction of new and refurbished freight and passenger rolling stock. Interislander is also increasing their business, with the Aratere extension providing much needed extra capacity.

This work continues to provide the foundation needed to improve our performance. Overall revenue growth of $11 million for 2012-13 is a commendable effort given the challenges thrown at us over the past year. Freight has again been particularly successful, growing revenue by over $100 million in three years.

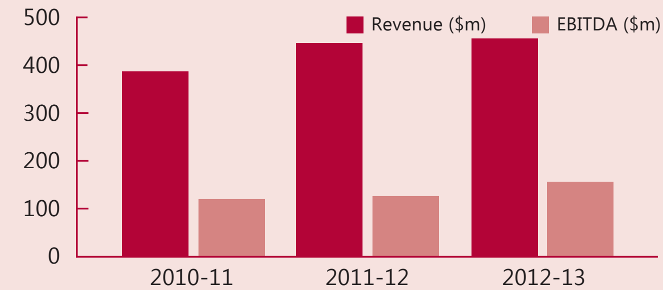
That money gets reinvested straight back into the business to continue our improvement programme and achieve our objective of financial sustainability by 2020.

Performance

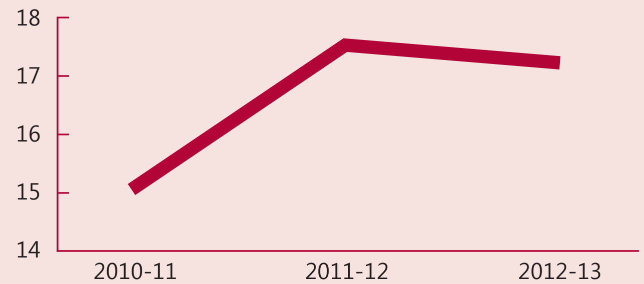
Revenue and EBITDA Growth - KiwiRail Group



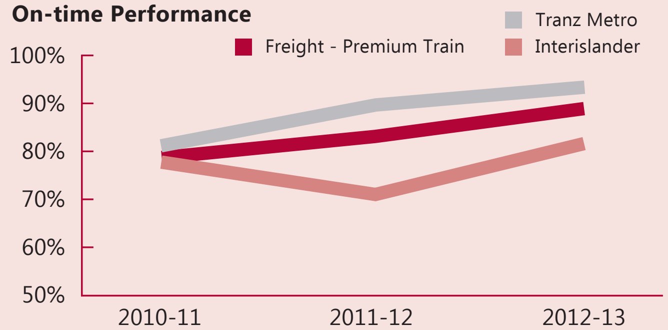
Revenue and EBITDA Growth - Freight



Freight Carried (Net Tonnes m)

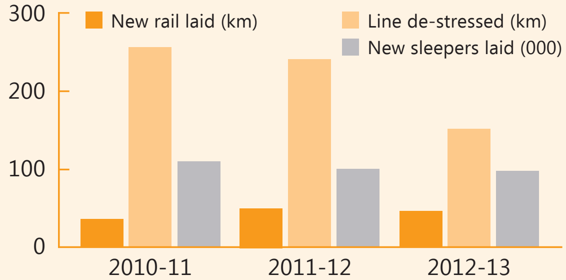


On-time Performance



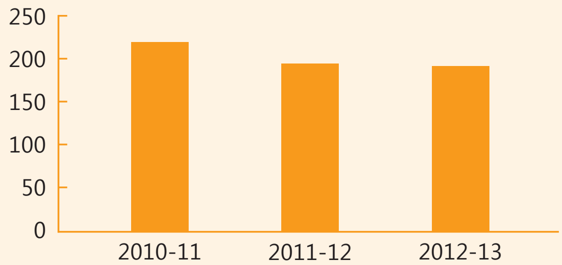
Infrastructure & Rolling Stock

Rail Line Improvements



Network Investment ($m)*

* Includes Metro renewals, excludes Metro projects



40 DL Locomotives in operation

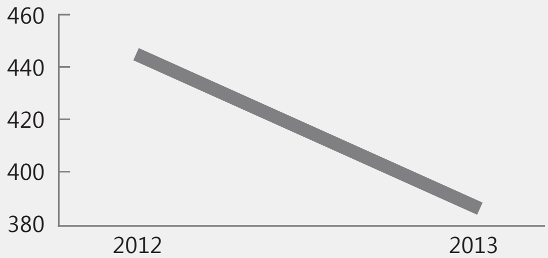
835 new wagons in three years

Supply of more and larger curtain sided wagons

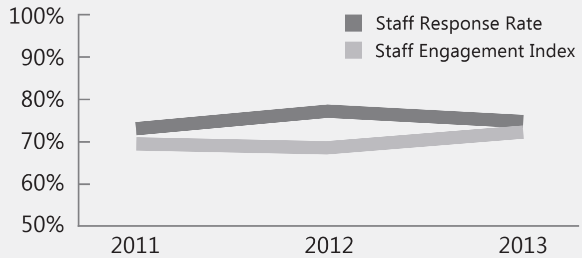
100 new coal wagons

People & Safety

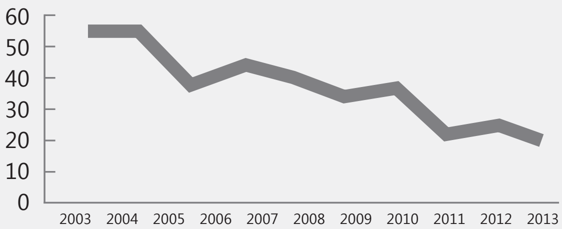
Total Harm to People



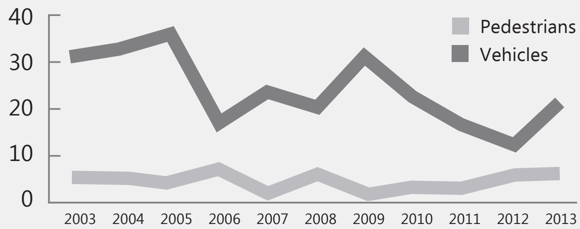
Engagement



Mainline Derailments



Level Crossing Collisions



Chair and Chief Executive's Review

Only by working together with a well-planned and common purpose will KiwiRail successfully realise its full potential.

John Spencer
Chair

Jim Quinn
Chief Executive

Financial Performance by Business Unit ($m)

Measure	Freight	I&E	Interislander	Passenger	Corporate	Group
External Revenue	466.9	38.4	124.3	63.6	33.8	727.0
Operating Surplus	131.3	(60.3)	19.4	1.4	16.3	108.2
Total Assets	344.7	428.1	124.1	41.3	71.4	1,009.6

We are pleased to report that in the last financial year we delivered another year of revenue growth, while also achieving our mid-year forecast operating surplus. This is also the first full year Annual Report following our restructuring which resulted in the assets and liabilities of the New Zealand Railway Corporation (NZRC) being transferred to a new State Owned Enterprise (SOE), KiwiRail Holdings Limited on 31 December 2012.

KiwiRail's strategy continues to provide the right framework for the organisation to achieve financial sustainability. Consistent revenue growth has been delivered alongside the implementation of an extensive and long-term upgrade programme providing a stronger foundation for this growth to continue.

This would not have been achieved without the dedication and persistence of our staff, and the commitment and support of our customers. We are now moving into a new period of change and improvement for the company, and are looking forward to embedding even further enhancements in customer service as we gain the benefits of improved productivity and reliability due to new equipment and a more robust network.

Positive Result Despite Challenges

Due to continued growth from the freight business we achieved an operating surplus of just over $108 million, compared to the mid-year forecast range of $104 to $107 million, which is an increase of $30.6 million from the previous year. Revenue increased by $11 million to $727 million, with freight revenue of $467 million a $9 million increase on the previous year. Revenue growth over the last three years has been over 25% demonstrating the resilience of our growth strategy despite the global economic slowdown and the on-going impact of the Christchurch earthquakes.

Investment in the business to further improve performance and robustness has also continued with capital expenditure of $311 million for 20 more new locomotives, 300 more wagons, and further infrastructure upgrades.

Over the last four years capital expenditure on new and upgraded rolling stock and track machines, upgrades to the Interislander fleet, new IT systems, and rail network upgrades and renewals, excluding the metro upgrade programmes in Auckland and Wellington, has exceeded $1.3 billion. This amount includes $750 million in Government equity, $283 million from earnings, and $337 million from other sources such as capital grants, and equipment and land sales.

The business has faced significant challenges and disruptions over the past year including damage from major weather events, the drought negatively affecting the milk season, threatened industrial action against Interislander, and shortfalls in volume and revenue as a result of the challenges Solid Energy is facing.

While operating revenues were only slightly (1%) below our Statement of Corporate Intent (SCI), our operating surplus was 9% below the target of $119.3 million. We have estimated that the impact of the above weather events, and the reduction in Solid Energy's coal volumes combined with their unsustainable contract prices, reduced our surplus by at least $20 million. Not meeting this SCI target is certainly disappointing, but it is encouraging to know that these effects have been somewhat offset by improved performance in other parts of the business.

Chair and Chief Executive’s Review

Business Performance

Most of the growth in rail freight has come from increases in the Import Export and Forestry sectors at 8.1 percent and 9.4 percent respectively. Domestic freight increased by over 5 percent, but Bulk freight declined by 7.4 percent due to the difficulties Solid Energy is facing and the effect of the drought on bulk milk.

Freight growth is expected to continue this year and a productive milk season would provide additional benefit. The Freight team have also been focused on controlling costs and improving productivity and safety. Several projects are underway to achieve this including the implementation of new systems to help ensure consistency in operations across all sites nationally.

The performance of other parts of the KiwiRail business has led to a degree of optimism that many of the challenges experienced over the last few years are being overcome.

The Interislander business has reported an operating surplus of over $19 million, an increase of almost $4 million from the previous year. This is due to growth in its commercial vehicle revenue and its ability to accommodate more rail freight volume. Despite the challenges of weather disruptions and threatened industrial action, they have also improved on-time performance and customer satisfaction.

Over the coming year they will continue to focus on growing their business and increasing utilisation, while looking more closely at where they can reduce costs such as fuel consumption. Their customers have received an even better service and amenities due to the recent return of the newly refurbished Kaitaki.

Due to the combination of a focus on improving customer service with the obvious advantages of the new Matangi trains in Wellington, the Tranz Metro business has improved both performance and increased fare box revenue by six percent. We are particularly pleased that they have achieved the highest level of customer satisfaction since 2001, which is now sitting at 92 percent and is a 16% increase over last year. On time performance was 94 percent, three percent higher than budgeted.

With the introduction of new carriages and a renewed marketing approach there is some confidence that the Scenic passenger business is improving. The re-launched Northern Explorer has performed better than budget with a 12 percent increase in the number of passengers per service.

While there is still some way to go for this part of the business to be profitable again, as the Christchurch economy recovers and more tourists visit the region we expect the TranzAlpine and Coastal Pacific to gain more passengers.

The Infrastructure and Engineering (I&E) business has continued delivering improvements to the national rail network, despite unplanned events providing challenges to the work programmes. The past year was also the first of a three-year capital expenditure reduction programme to bring spending in line with earnings.

Storms in June closed lines and damaged infrastructure in the Wellington region and lower South Island while during summer, flooding damaged track through the Buller Gorge. In both cases, resources in the form of staff time and money had to be diverted to make repairs and get lines open again. Our team’s response was again superb, assisting our customers to get running again as quickly as possible.

Despite these challenges, I&E maintained momentum on its core maintenance and renewal work and made good progress on a number of major projects. Their focus on cost reduction, “bread and butter” maintenance and renewal work also remained consistent with previous years.

A Renewed Focus on Safety and Culture

We have made a commitment to further improve our safety record and we have ambitious targets. But there is nothing more important to us than ensuring the safety of our people, customers and the community in which we operate.

A large area of focus over the coming year will be on increasing productivity and further embedding a safety focused culture. We are actively implementing systems and procedures to ensure we have well planned and organised worksites, sound housekeeping and standardised processes and routines. Fundamental to our position is that there is no job in this business where we can't take the time and care necessary to do it safely while delivering what is expected by our customers.

This effort is beginning to see some results. Over the past year the Total Harm to People number has been reduced by 12 percent from the previous year. But any injury is unacceptable and we are focused on achieving a zero harm work environment.

The internal staff engagement level lifted significantly this year to 72 percent. High staff engagement with the correct safety systems leads to an improved and sustainable safety culture.

Outlook

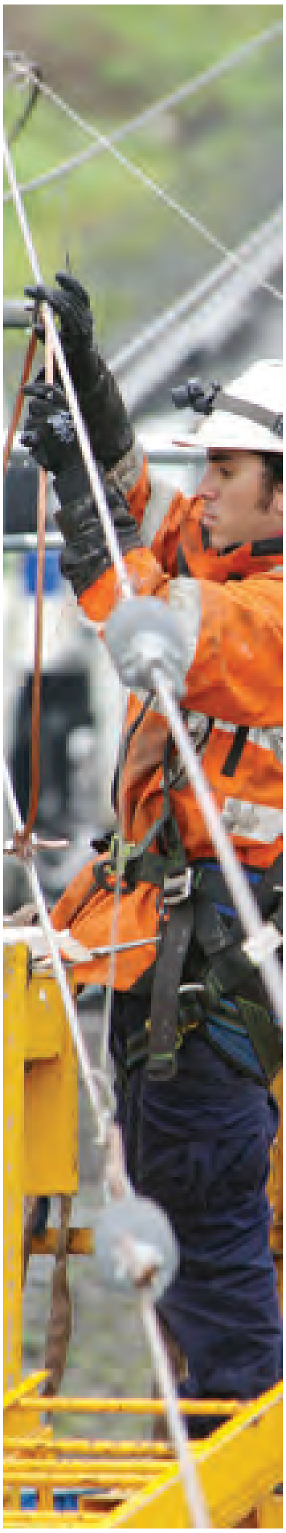
We are now three years into our plan to achieve a sustainable business which has three primary objectives – growth, maximising yield and improving productivity. Our level of growth in the freight business, despite the obstacles in our path, has been extremely encouraging with over $100 million revenue growth in three years. We also know there is more out there if we continue to improve our levels of efficiency and capability, while also very closely managing our costs.

There is risk to this growth on several fronts including the impact of changes to Solid Energy's future operations and the settling of any contract discussions to reflect their operating requirements, the potential costs of further earthquake strengthening required for both network infrastructure and buildings, and whether we get further damage from extreme weather events. We expect to have a greater understanding of the impact of the first two factors over the coming months.

We would like to thank our customers for their challenge, commitment and investment in KiwiRail. We would also like to thank our dedicated team throughout the business who are committed to continuing to deliver on our plan to enable the customer supply chains to deliver for their businesses.

Finally, thank you to our shareholder who has remained committed to our plan and continues to provide steadfast support for rail as an essential part of New Zealand's transport and economic growth infrastructure.

Only by working together with a well-planned and common purpose will KiwiRail successfully realise its full potential.



Business Reviews

Freight

KiwiRail provides freight services to customers by carrying bulk commodity products, forestry products, import-export goods and domestic freight for freight forwarders

More than **30 percent** of New Zealand's export goods travel on rail

Approximately **900 trains** move freight around the country each week

The Freight business earns **64 percent** of KiwiRail's overall revenue

Bulk products constitute the largest amount of freight carried by volume but import-export products are Freight's leading revenue earner

Business Overview

New Zealand's recovery from the global economic recession has taken time to gain traction. This reflects the slowness of economies around the world to recover and a sluggish domestic market in which the Christchurch post-earthquake rebuild is only gradually gathering momentum.

The KiwiRail freight business is based on four pillars – movement of bulk commodities such as coal and fertilizer, movement of goods to and from ports, a specialised forestry business and a domestic business which largely serves the freight-forwarding sector.

Revenue growth of $9 million for the 2012-13 year has been achieved despite a seven percent reduction in bulk business as a result of the summer drought and lower Solid Energy coal volumes.

In recent years, port consolidation and investment by freight forwarders in new depots on rail land, have helped grow rail freight business. Both trends show every indication of continuing and both have the potential to drive more business to rail.

One issue that is critical to customers is on-time delivery. It is no coincidence that the performance of the freight business has improved in tandem with improvements in on-time performance.

The all-important premium freight services extended the time-keeping gains made in the previous year. This year, performance at 89 percent on time, was nine percent better than last year.

The first batch of the 20 new Chinese-built DL locomotives have consolidated their improvement on mean distance between failure (MDBF), a measure of mechanical efficiency. The knowledge gained has been incorporated into the second 20 which are in the process of being commissioned.

Import-Export

The import-export business – movement of goods to and from ports – is the single biggest income earner for KiwiRail Freight. It's increase in earnings of just over eight percent reflects the strength of the business partnerships KiwiRail has formed with customers and the improvement in service reliability that has resulted from investment in locomotives, rolling stock and infrastructure.

The business continues to benefit from Fonterra's policy of setting up centralised cool and dry stores and its preference for using rail to ship products between these facilities and port. Revenues derived from moving Fonterra products increased by 25 percent during the year.

The new Darfield dairy factory west of Christchurch for example involves moving volumes equating to 17,000 truck movements a year and up to 90 a day in peak season.

Freight

Bulk goods

In the 12 months to June this year, bulk freight has continued to move large volumes, but at lower levels than in the past. Bulk revenues dropped seven percent from last year to $99.6 million. The financial difficulties facing coal-miner Solid Energy reduced coal volumes carried from West Coast mines.

The severe summer drought also reduced quantities of bulk milk carried by rail to destinations such as Fonterra's Whareroa plant in Taranaki. The growth of bulk milk business in the South Island and LPG traffic were not sufficient to offset the overall volume loss.

The drought initially impacted on fertilizer traffic but volumes recovered as farmers sought to revive pastures in the autumn and early winter. While bulk log traffic improved, the high dollar weakened the market for forestry products such as sawn timber.

Forestry

Movement of logs is a specialised form of bulk rail transport that has continued to grow over recent years. As a stand-alone freight category, it has benefited from rising log volumes and investment in rolling stock. It's nine percent lift in revenue is an indication of its attractiveness to customers.

Movement of logs has become a significant contributor to Freight group's revenues. A 9.4 percent increase in revenue this year reflects both increased demand as the global economy moves out of recession as well as improvements in KiwiRail's ability to service the log business. New log wagons are proving successful and more companies are recognising the benefits of using rail to haul their logs.

Domestic

Domestic freight carried on rail is highly dependent on an improving New Zealand economy and our efforts to grow market share. Growth of 5.5 percent over the year is encouraging given the sluggishness of domestic economic conditions but reflects the confidence of freight forwarders that KiwiRail can provide a reliable and timely service.

We continue to grow business with major freight forwarders who are maintaining the trend towards establishing depots on rail land at key points along the distribution chain. Improvements in on-time performance by premium freight trains and our new intermodal 25ft and 48ft curtain-sided wagons have given customers even greater confidence in our capacity to meet their needs.

Outlook

Freight growth is expected to continue in the new financial year, particularly if the dairy season is favourable.

As we continue to improve the on-time performance of our premier freight services, modernise rail infrastructure, bring into service the new locomotives, new wagons and demonstrate the capacity to act with cohesion and speed in most circumstances, we can expect our freight business to continue to be a success story.

However, we expect the economic environment to remain patchy which will limit opportunities for growth in domestic business. In these circumstances, the focus will be on restraining costs and finding ways to make better use of existing capacity.

The completion by freight forwarders of further depots and warehouses on rail land is a strong indication of the long-term commitment major logistics companies are making to including rail in their supply chain planning.

The bulk market is expected to continue to be affected by the downturn in Solid Energy coal volumes. During the coming year, the business will work with Solid Energy on their expectations for future business and to resolve the issues around their unsustainable freight contract.

Volume of Freight Carried

Measure	2010-2011	2011-2012	2012-2013
Net tonnes (000)	15,700	17,455	17,265
Net tonnes/km (m)	4,178	4,581	4,585

Performance Measures

Measure	2010-2011	2011-2012	2012-2013
Freight premium train on-time (%<30mins)	79	81	89
Freight operating cost/NTK	8.1 c	7.6 c	7.2 c
Freight labour cost/NTK	2.2 c	2.0 c	2.5 c

Financial Performance ($m)

	2010-2011	2011-2012	2012-2013
External revenue	396.7	457.6	466.9
EBITDA ($000)	117.7	129.1	131.3
Total assets ($000)	523.2	299.3*	344.7

* Reduction on prior year due to balance sheet restructure

Market Segment

	Bulk*	Import/ Export	Domestic
Net tonnes (000)	8,548	6,515	2,202
Net tonnes/km (m)	1,890	1,362	1,295

* Includes forestry

Performance Measures

	2010-2011	2011-2012	2012-2013
New wagons	535	0	300
Wagon wheel-set changes	1,360	969	887
Wagon bogie changes	637	252	262
Wagons brought back into service	15	10	33
Wagon conversions	12	7	56
New locomotives	20	0	10
Locomotive bogie changes	30	31	26
Locomotive overhauls	6	6	10
Locomotive engine overhauls	6	4	18

Infrastructure & Engineering

Responsible for the maintenance and improvement of railway infrastructure such as track, signals, bridges and tunnels

Manages the movement of trains on the rail network

Manages major infrastructure projects such as the Auckland Electrification Project

Business Overview

Infrastructure & Engineering (I&E) maintains and improves the rail asset backbone for KiwiRail and other users and controls the traffic that runs on the network.

Running a safe and efficient railway network is always a challenge. But a series of both planned and unpredicted events combined to make 2012-13 particularly challenging.

The year was the first of a three-year capital expenditure reduction programme to bring spending into line with earnings. At the same time, the partial sale and closure of Hillside Workshops in Dunedin was completed along with the mothballing of the Napier-Gisborne Line.

Nature threw two major weather events into the mix. Storms in June closed lines and damaged infrastructure in the Wellington region and lower South Island while during the summer, flooding damaged track through the Buller Gorge. In both cases, resources in the form of staff time and money had to be diverted to make repairs and get lines open again.

Despite these challenges, I&E maintained momentum on its core maintenance and renewal work and made good progress on a number of major projects. The delivery of projects and increased renewal work resulted in EBITDA for the year being 14.3 percent ahead of budget.

Despite the weather events and the focus on cost reduction, maintenance and renewal work remained consistent with earlier years. The 101,000 new sleepers laid were only slightly fewer than the 105,000 laid the previous year.

Bridge replacement has been an important element in reducing speed restrictions and improving transit times. The previous year's 524 metres replaced was a significant step forward and the 492 metres replaced in this past year, along with the 76 timber piers replaced (77 last year), has maintained that momentum.

The work done during the year exceeded the targeted amount as bridging teams completed several bridging programmes.

The 29.5 km of new rail laid and 155 km of line de-stressed were below the previous year's levels but still sufficient to continue progress. Programmes were affected by the need to divert resources to repairing storm damage while de-stressing work was part of the planned reduction in activity to bring spending into line with the business's earnings.

In the first year of a three year programme to reduce operating costs by $18 million and capital expenditure by $200 million, I&E achieved its targets without any reduction in spending on maintenance work but with a reduction in staffing levels of 158.

These reductions, while necessary, have not been taken lightly. Based on progress to date, there is no need for further staff reductions.

The closure and partial sale of Dunedin's Hillside Workshops was an important element among the cost-saving initiatives carried out.

Locomotive, engine, bogie and wheel refurbishment capability will continue to be provided to KiwiRail by the Hutt Workshops.

The Hutt Workshop's Wellington Gold Awards win recognised the electrical, maintenance and administration teams achieving 10 years of no lost time due to injury as well as the site's overall work to achieve a zero harm culture.

Infrastructure & Engineering

The moth-balling of the Napier-Gisborne Railway Line in October 2012 also helped the business reduce costs. The decision followed an extensive investigation into the line's current and potential traffic as well as consultation with stakeholders.

Many North Island lines have benefited from the decision to use a rail grinder on the New Zealand network for the first time. In October 2012, KiwiRail began deploying the grinder to extend the lifespan of track by smoothing and removing defective metal from the railhead, resulting in faster and more reliable train journeys. We will continue to move the grinder over the rest of the network in the coming years.

The East Coast Main Trunk line, which links the Port of Tauranga to Auckland via the North Island Main Trunk, is the country's busiest freight line. During the year work was completed on the construction of three passing loops which has enabled the capacity to double traffic on the line.

Work has also progressed south of Auckland on speeding the flow of traffic from the busy Westfield freight distribution centre at Otahuhu by improving the junction with the North Island Main Trunk. At the same time, staff have worked on the early stages of creating a third railway line in and out of Auckland in expectation of rising freight and urban passenger traffic volumes.

One of the consequences of improving the network and introducing newer, better maintained rolling stock, is fewer main-line derailments. Over the past seven years, derailments have tracked steadily down from a high of between 50 and 60 per year a decade ago to the current level of 20.

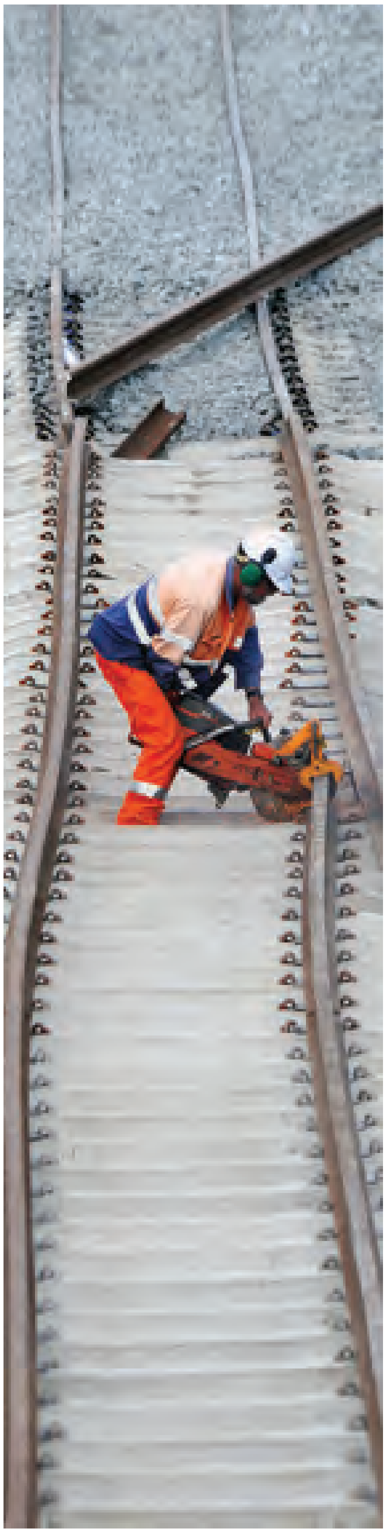
Reducing derailments delivers benefits for customers in the form of fewer frustrating delays for delivery of goods and cost to KiwiRail in terms of resources deployed to repair damage and re-open lines.

Auckland Electrification Project

The installation of overhead wires is an important element of the Auckland rail electrification project and good progress has been made. KiwiRail began installing overhead wires in October 2011, and first wires went up at Swanson station on the Western Line; wires are being progressively installed towards the city centre.

Overhead wires have also been installed along the Onehunga Branch Line, and many sections of the Southern Line. Resignalling has been completed, the wires are already up on the Onehunga line and on the western line from Swanson to Avondale. Seventy-five per cent of the mast foundations required for electrification are in place.

Over the summer the final phases of the project will be completed in time for the introduction of the new electric passenger trains in 2014.



Other projects

In past Annual Reports, KiwiRail has reported progress on the Auckland (DART) and Wellington urban rail upgrades.

Both are now substantially complete although work continues on smaller projects during the quieter Christmas and Easter holiday periods.

In Wellington, work has been carried out during the year on renewing ageing over-head wiring poles on some sections of the network and on a rail bridge over State Highway One just north of Wellington.

Level crossing upgrades

During the year, KiwiRail upgraded eight level crossing by installing either barrier arms and/or flashing lights and bell alarms.

The focus has been on provincial towns and cities. Tokomaru in the Horowhenua (North Island Main Trunk), Ashburton (Main South Line), Darfield (Midland Line), Greymouth (Midland Line) and Palmerston North (North Island Main Trunk) have been the most recent site installations.

Outlook

Apart from the challenge of meeting financial targets and reducing costs in line with the cost reduction plan, I&E will be working to improve the flexibility of work practices to make best use of the narrow windows staff have for work on the network.

As well as meeting the targets for regular activities such as rail and sleeper renewals, there will be a focus on improving rail infrastructure in yards and terminals.

Performance Measures

	2010-2011	2011-2012	2012-2013
New rail laid (Km)	21	36	30
New sleepers laid (000)	106	105	101
Line de-stressed (km)	264	242	155
Bridges replaced (m)	411	524	492
Timber piers replaced	71	77	76
Derailments	24	27	20

Financial Performance ($m)

	2010-2011	2011-2012	2012-2013
External revenue	20.0	34.2	38.4
EBITDA [1]	(58.2)	(55.1)	(60.3)
Grants	332.1	161.5	181.2
Total assets [2]	12,589.3	3,669.2	428.1
- Infrastructure & Engineering Assets (ex land)	6,949.7	411.0	428.1
- Land Assets [3]	5,639.6	3,258.2	0.0

[1] Excludes major one off items.

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

[3] Land assets were not transferred to KiwiRail from NZRC.

Interislander

Interislander contributed approximately **17 percent** of KiwiRail's overall revenue

Interislander's EBITDA result increased by almost **four million dollars**

Operates three ferry ships, two of which have dedicated freight rail decks

The business serves three separate markets – **rail freight, commercial vehicle transport** and **private passenger transport**.

Business Overview

Despite the continuation of tough economic conditions, Interislander recorded an EBITDA of $19.4 million – a $3.9 million increase from last year.

This is a pleasing result given the challenges and disruptions Interislander faced throughout the year, including threatened industrial action, flat international and domestic passenger markets, an early end to the dairy milking season due to drought, and the ongoing effects of the Christchurch earthquakes on economic recovery.

Despite a small dip in passenger numbers this year from 755,398 to 748,724, Interislander still managed to generate passenger revenue in line with last year ($59 million compared to $59.1 million in the 2011-12 financial year, which was aided by the Rugby World Cup and a generated $1.5 million for last year's passenger revenue).

There has also been a growth in the domestic passenger market share – with passenger market share increasing by 2.8 percent, and vehicles by three percent, which has resulted in a 2.5 percent increase in revenue market share.

The wholesale market is still being impacted by the weak activity in the inbound tourism markets and we are working on targeting new areas in this sector.

Interislander has grown its commercial vehicle revenue by 2.8 percent, accommodated more rail freight volume (with a four percent rail tonnage increase) and improved on-time performance and customer satisfaction while facing the challenges of the weather events and threatened industrial action – the impact of which cost the business $1.1 million in the lead-up to the peak summer season.

Interislander has continued to push its strategic agenda to drive the business towards becoming self-sustaining and more efficient. This year we have re-chartered the Kaitaki ship to give us continuity of service for the next seven years and undertaken a refurbishment of the ship to improve the service offering and encourage passenger growth.

The business has also completed a number of fuel efficiency initiatives which have seen an upgrade to the ships' generators and propellers as well as the installation of fuel monitoring equipment on all three ships.

Outlook

Interislander is forecasting growth in earnings due to a continued focus on management of fuel consumption and labour costs. The challenge going forward is to increase the business' earnings by increasing capacity utilisation.

Interislander

Ship	Age (years)	Tonnage	Ownership	Freight Vol* (lane metres)	Passenger Numbers	Crew
Arahura	29	12,735	Owned	756	539	50
Aratere	14	17,816	Owned	1,052	670	39
Kaitaki	17	22,365	Leased	1,150	1,650	60

* Effective capacity

Performance Measures

Measure	2010-2011	2011-2012	2012-2013
Passenger journeys	785,076	755,398	748,724
Commercial vehicle lane metres	1,214,681	1,184,647	1,209,237
On-time performance (%<15 minutes)	77%	75%	82%
Labour cost/revenue	30.7%	30.9%	31%

Financial Performance ($m)

	2010-2011	2011-2012	2012-2013
External revenue ($m)	122.9	123.9	124.3
Total revenue ($m)	155.3	160.4	159.6
EBITDA ($m)	19.2	15.5	19.4
Total assets ($m)	106.4	131.6	124.1

Passenger

Passenger Group contributed almost **nine percent** of KiwiRail's revenue during the year

Passenger operates three high-quality long distance passenger trains, the **TranzAlpine, Coastal Pacific** and **Northern Explorer**

Operates **metro services** on the Wellington suburban network under contract to Greater Wellington Regional Council

Difficult local and global economic conditions have impacted long-distance services

Passenger

Business Overview

The introduction of the new Scenic carriages and the introduction of the new Northern Explorer service have resulted in improvements in the business which continues to be impacted by the decline in both domestic and international tourism. The Northern Explorer completed its first full year of operation in June this year, meeting its financial targets and delivering a 12 percent increase in the number of passengers per service in comparison to its predecessor the Overlander.

The Coastal Pacific and TranzAlpine are still seeing the effects of the Christchurch recovery – the TranzAlpine recorded a two percent deficit against budgeted passenger numbers; the Coastal Pacific changed to a seasonal service to cater for demand, reduce operating losses and improve profitability. Despite passenger volumes on the TranzAlpine being 1,621 below budget, primarily due to the impact of the Christchurch earthquake, it continues to be a popular and profitable tourist service.

KiwiRail has made a decision to continue the Capital Connection service for a further two years, absorbing the losses it is making while trying to increase revenue and grow patronage. In order for KiwiRail to break even by 2015, daily patronage needs to increase by 61 passengers in each direction and there needs to be a 40 percent lift in the average ticket price. In practice that will see KiwiRail attempting to grow patronage while increasing fares about 10 percent year on year.

We are very pleased with the improved performance of the Wellington Tranz Metro business supported by focused management initiatives and the introduction of the new electric Matangi trains. On time performance and customer satisfaction have both increased and fare box revenue is up six percent on the previous year. After a huge amount of work and dedication by staff, Tranz Metro has achieved the highest level of customer satisfaction since 2001, which is now sitting at 92 percent – a 16 percent increase over last year. On time performance for the year was 94 percent, which was three percent higher than budgeted.

Overall passenger revenue recorded this year was $64 million, down from $66 million last year. Passenger as a whole recorded an EBITDA of $1.4 million. Tranz Metro contributed $3.9 million EBITDA, while Scenic's long distance passenger services recorded an EBITDA loss of $2.5 million (compared to a budgeted loss of $3.8 million).

Outlook

Passenger has made great progress in implementing improvements across their business over the past year and they want to keep this momentum going. The actions we have taken with the Scenic Journeys business give us confidence this business is slowly showing signs of improvement.

Scenic Journeys will continue to explore new opportunities, increase market share in existing markets, challenge yield and control costs. The Scenic business is looking to introduce some new elements to further grow patronage. This includes becoming ready for Chinese tourists, focusing on the conference and convention market, offering a premium service and cross selling with other tourism market suppliers such as airlines and coach companies. The new Scenic Escape packages have also added to the service offering.

For the Metro business, the focus will continue to be on improving on-time performance and customer satisfaction while also implementing Real Time Information technology – a system which will inform passengers when their train will arrive.

Rail Passenger Services

Service	No. of services	Passengers 2010-2011	Passengers 2011-2012	Passengers 2012-2013
Tranz Metro	109,102	11,242,812	11,274,139	11,355,403
Northern Explorer	310	63,376	55,059	30,683 [1]
Coastal Pacific	556	49,684	42,166	37,084 [2]
TranzAlpine	728	136,985	105,938	99,545
Capital Connection	500	170,218	158,972	145,590
Long-distance passenger total		419,963	362,135	312,902

[1] Service decreased to six services per week from 14.
[2] Ceased running during low demand winter season.

Performance Measures

Measure	2010-2011	2011-2012	2012-2013
Tranz Metro on-time performance (%<5 mins)	90%	92%	94%
Long-distance operating cost/passenger ($)	54	54	69

Financial Performance (m)

	2010-2011	2011-2012	2012-2013
External revenue	87.0	66.0	63.6
EBITDA	10.5	(0.6)	1.4
Total assets of Scenic	51.8	43.9	43.0

Our Commitment to Safety

Our commitment to ensuring the safety of our staff, passengers and the general public is paramount.

By its nature the rail and ferry industry is an unforgiving workplace. We try to counter the inherent risks and give our staff and contractors a safe working environment through the provision of training, safety equipment, and specialist safety staff.

Public safety on the other hand, often relies on the actions of individuals who are outside our control. KiwiRail attempts to encourage the right behaviour to help improve the safety of the general public when they interact with either our rail or ferry operations.

This encouragement includes providing rail safety education programmes, conducting anti-trespass initiatives, and upgrading public rail crossings.

EMPLOYEE SAFETY

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

With over 4,000 staff in many different jobs in locations across the country, KiwiRail is one of New Zealand's largest and most widely distributed transport companies. We believe our success in building an increasingly safer business can only happen with the support of our staff.

Over the past year there has been a concentrated effort to adopt a safety improvement philosophy across the business. And while we feel we still have a long road ahead to achieve zero harm, we have a solid plan and a strong commitment from all at KiwiRail.

Key improvements have been implemented and they include:

- The development of a comprehensive Improvement Plan
- The revision, approval and implementation of a single Safety Case approved by the New Zealand Transport Agency
- The implementation of a new drug and alcohol policy that includes random testing
- Improvements to the internal investigation processes and skills.

KiwiRail used to use a number of indices to measure workplace safety and health, including Lost Time Injury Frequency Rate (LTIFR) and Medical Treatment Injury Frequency Rate (MTIFR). To help ensure a more transparent scorecard system we now have one measure, which is 'Total Harm to People' and we are accounting for this as actual incident numbers to ensure a real human face is reflected in the statistics.

Over the past year the Total Harm to People number has been reduced by 12 percent from the previous year. While it is encouraging that this statistic is improving, we still have a long way to go. Our objective for this financial year is to get this figure reduced by a further 20 percent.

Another big step forward during the year was the implementation of a new 'One KiwiRail Health, Safety and Environment (HSE) team'. Having a shared services approach to HSE functions was a significant change across the business, but meant that resources and experience were able to be shared rather than some functions working in isolation. It has also meant that the overall HSE strategy can be aligned and consistently implemented across all business units.

KiwiRail's innovations to prevent falls when working on rail bridges won the Kensington Swan Best Initiative to Address a Safety Hazard category in the New Zealand Workplace Health and Safety Awards last May. "Smart thinking, collaboration and dedication to getting it right resulted in a new and innovative safety system which the northern I&E region have introduced to eliminate falls from heights on our rail corridors," said Matt Ballard, GM Safety and People. A Rail 'Trolley Anchor' and Rail 'Safety Cage' were designed, trialled and produced by KiwiRail staff, placing the organisation at the leading edge of safety design and technology.

SAFE TRAIN OPERATIONS

Train derailments

The lower frequency of train derailments was maintained during the year at 20, seven fewer than the previous financial year. This is a result of the on-going implementation of safety improvement plans, new rollingstock and further upgrades to the national rail network.

Reducing Terminal Collisions

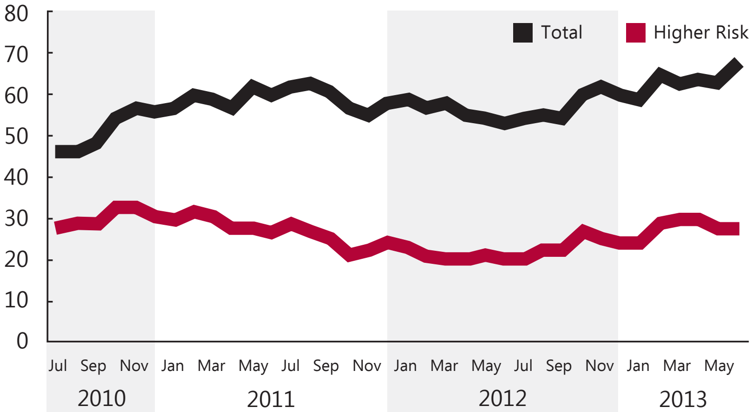
An area of focus over the past year has been to decrease the number of collisions in our freight terminals. After a series of workshops were conducted on how to address this issue, several actions have been put in place and there has already been a reduction as a result of this work. This work includes increasing the level of observations to check work practices, greater rigour around the recording of any issues, managers spending more time in the field to encourage the right behaviours, presentations to new trainees and ensuring all staff understand that safety is never at the expense of on time performance.

Signals Passed At Danger (SPADs)

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

Programmes underway to achieve this include improving training and new in-cab technology being introduced into metropolitan Auckland. While there has been a small increase in the incidents, and even one SPAD A is too many, this is due to further intensification of services and new services being introduced to the Auckland metro network. We will continue to actively address reducing the number of these incidents.

SPAD A - 12 Month Rolling Sum between July 2010 - June 2013



Our Commitment to Safety

SAFETY PROGRAMMES AND INITIATIVES

Eprotect

KiwiRail considers track-worker protection as a priority when undertaking any construction projects. During the year KiwiRail conducted a successful trial of a new system to help improve safety for Compulsory Stop Protection (CSP) worksites. This new system significantly improves operational safety at worksites by providing an automatic control system for approaching trains.

Traditionally worksites are protected using a series of caution, whistle and stop boards located from 2km prior to the site. The train must stop before reaching the stop board and radio ahead to the worksite to get authority to pass. Eprotect can detect when a train hasn't stopped before reaching the stop board or is approaching the site too fast. It then automatically activates the brakes on the train and brings it to a forced stop.

The system is state of the art and illustrates the important part new technologies and innovative thinking has to play in building a safe high performance business. KiwiRail has now begun rolling out Eprotect nationally.

Introducing Life Saving Rules

A new initiative kicked off during the year was the development of a set of clear protocols and example behaviours for our people engaged in major risk work. Consultation with unions on this safety initiative will be key to its success as it is embedded within the business.

Otira Tunnel Safety Review

In September 2012 a working party drawn from KiwiRail staff and RMTU representatives completed a review of safe working practices in the Otira Tunnel on the Midland Line. The resulting report provided a series of recommendations to further improve the safety for operations in the tunnel. In August 2013, after consultation with NZTA and the Ministry of Business, Innovation and Employment, we decided to bus TranzAlpine passengers around the tunnel until fire suppressant equipment was installed on all locomotives that are used for this service. This work is scheduled for completion in October. KiwiRail will continue to make improvements to tunnel infrastructure and the way we operate to improve the asset and the safety of people working or traveling through the tunnel.

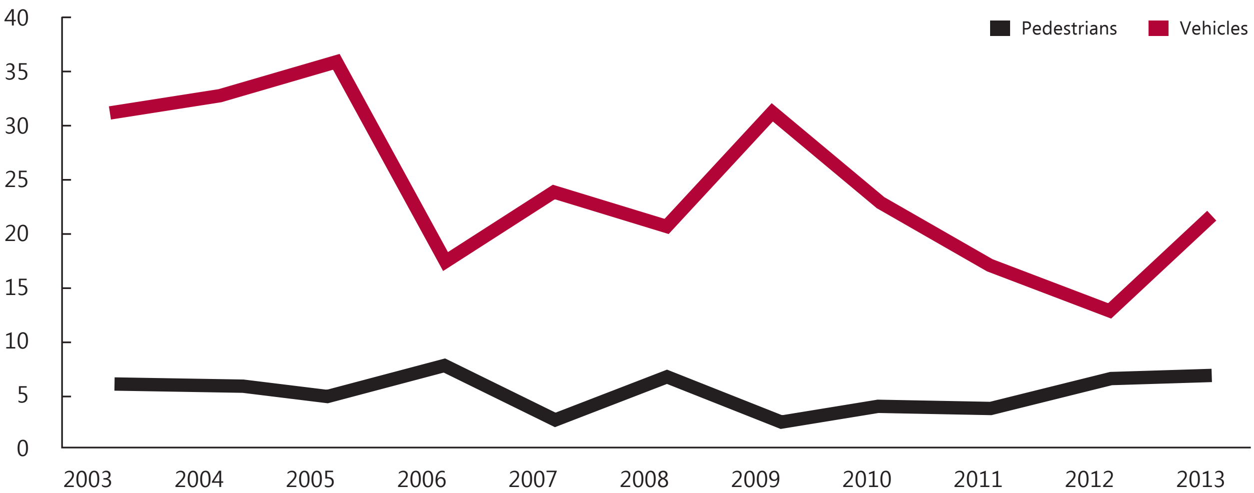
PUBLIC SAFETY

Level Crossings

There are approximately 1,400 public road level crossings in the country and 85 standalone public pedestrian crossings. Around 700 road crossings have either barrier arms or flashing lights and bells - the others are protected by stop or give way signs.

The crossings we upgrade meet an objective test based on the volume of road and rail traffic, the collision history of the crossing and any other relevant factors like visibility along the line.

In the last year 21 vehicle collisions and six pedestrian collisions were reported. A decade ago there were regularly between 30 and 40 level crossing collisions with road vehicles a year. While, in recent years this number has been decreasing, there has been an increase this year which we will closely monitor. There is also a high level of concern with the number of motorists who are still taking chances on level crossings. In the last year 159 near misses have been reported by our drivers.



Our Commitment to Safety

Since 2005 we have conducted an ongoing programme to upgrade level crossings with higher levels of risk and this progress is directly reflected in the reduction in collisions. In the last financial year we upgraded eight level crossings at a cost of almost one million dollars. Last September we also completed the work to install automatic alarm systems at road and pedestrian level crossings on the Auckland rail commuter network.

We, along with the New Zealand Transport Agency, have completed a detailed risk survey of all public and private level crossings nationally using the Australian Level Crossing Assessment Model (ALCAM). The individual risk reports for public road and pedestrian crossings have been completed and contain background information, the accident and near-miss history, ALCAM risk assessment, and photographs. These are now available to Roading Authorities on a password-protected internet site to help them better assess how spending to improve road safety can be allocated. We are also working on a strategy to better manage safety around the private level crossings across the country.

Theft

Seventy nine incidents of materials theft were reported, primarily relating to infrastructure materials. This is a reduction of almost 60 percent from the previous year and is due to security measures such as increased staff vigilance, fencing, lighting and CCTV in high activity locations around the country.

Bridge Strikes

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

Passenger Safety

There were no fatal or critical injuries to rail passengers during the year. 15 injuries were reported with the majority being slips, trips and falls that occurred on station platforms and passenger ramps or when alighting or boarding stationary trains.

There were 44 passenger injuries reported on Interislander for the year, with the majority being trips, falls and passengers falling ill on-board due to a prior medical condition.

Awareness Campaigns

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

The 2013 Rail Safety Awareness Week campaign targeted behavioural change amongst pedestrians, particularly young males and children. This year's campaign built on last year's theme of 'Use your brain, tracks are for trains' with the message 'Use your train brain around train tracks'. It featured appealing cartoon characters known as Train Brains who delivered key safety messages. The campaign made greater use of social and online media, rather than traditional press advertising as these mediums are more effective at reaching the youth market.


Only a dur brain would trespass on tracks.
9204
Rail Safety Week
Use your Train Brain.
Cross at the crossing.
Watch the Train Brain video at: www.kiwirail.co.nz and be in to win cool prizes!
Call 0800 808 400 to report trespassing or emergencies.
transdev
KiwiRail

Our People

KiwiRail employs approximately 4,000 staff in locations right around New Zealand. Our people are the core of our business and without their dedication and skills we could not have achieved the year on year improvement and growth over the last five years. We are committed to ensuring they have the tools, resources and training they need to safely deliver for our customers.

Workforce culture and capability

During the past year Kiwirail began the implementation of a new Capability and Culture Strategy titled "Building the Foundations". The strategy is built on a core foundation that leadership and human resource capability has to be well established before longer term plans can be rolled out. It has six key themes around which improvement initiatives will be assessed and implemented:

1. Attract quality candidates and career management
2. Build leadership capability
3. Productive employment relations
4. Support a culture of accountability
5. Improved communication
6. Lift employee engagement

There has been a significant amount of progress already made including the adoption of the Lominger competency model, rolling out a schedule of regular leadership forums, work on the implementation of a new accountability framework, a review of the KiwiRail Recruitment Centre and the development of a new Leadership development programme.

In the past year we also conducted a review of training delivery and organisation to assess whether current programmes were providing what the business needs and whether there were opportunities for improvement. As a result of this review a new competency framework, based on Lominger, has been introduced and a management training frameworks is currently being trialed.

Attracting skilled and competent staff is always a challenge in our competitive labour market. Over the year we have introduced a new recruitment plan using social media such as LinkedIn to further profile the range of opportunities and benefits we provide.

Also during the year 24 KiwiRail employees graduated with the National Certificate in First Line Management Level 4. This training focuses on developing self and team-management skills needed to successfully lead people and projects, which is a vital part of helping our business improve.

Staff Engagement Survey

KiwiRail's fifth annual staff engagement survey was undertaken earlier this year. This survey assesses how engaged our people are and their knowledge and opinions about the business and how it is progressing.

This year's results showed that the level of engagement across the business has increased by 5% over the past year confirming that our staff believe that the improvement initiatives being implemented are moving KiwiRail in the right direction.

The highest rated questions show that staff are satisfied with their work — they have a clear sense of direction, the flexibility to do their jobs effectively, work well with their colleagues, feel safe at work and have a sense of commitment to KiwiRail. The rating on 50% of the survey questions improved significantly.

Workplace relations

KiwiRail recognises the importance of constructive and mutually beneficial relationships with employees and their representatives. Late last year we finalised the main industrial agreement (MECA) for another two years and also agreements in the Interislander business.

Our industrial councils operate in each of the business units where participants are able to table business and productivity initiatives. These industrial councils have proven effective as a forum for our staff and managers to discuss work practices and issues at a strategic level.

Health and Wellbeing

Drug and Alcohol Policy

From the 1st of June this year the KiwiRail Drug and Alcohol programme was extended to include random testing for staff in all roles and locations. We developed a drug and alcohol policy and testing procedures during the year that sits within our Fitness for Work Programme. The random testing programme has been well received by both staff and customers.

Health e-Ticket Portal

Earlier this year we launched a new internal resource to further help improve the health and wellbeing of our staff. Named the Health e-ticket Portal staff can now access information, seek expert advice and join campaigns such as Men's Health Week. We have encouraged all staff to get involved, as the more fit and well a person is, the more likely they are to be focused and prepared for working safely. Activities such as group fitness classes, 10,000 steps and 'ask an expert' sessions have already proved very popular.

WorkWell

Last year KiwiRail joined the WorkWell wellness management programme that puts in place simple strategies for managing employee wellbeing by focusing on the impact of the working environment and organisational systems.

WorkWell at KiwiRail focuses on personal health and encourages employees to self-manage and create programmes locally that suit the needs of the WorkWell team and staff they represent in areas such as health and wellbeing, nutrition, physical activity, sun safety and smokefree. We have varying levels of engagement but it is very much staff driven for their benefit.

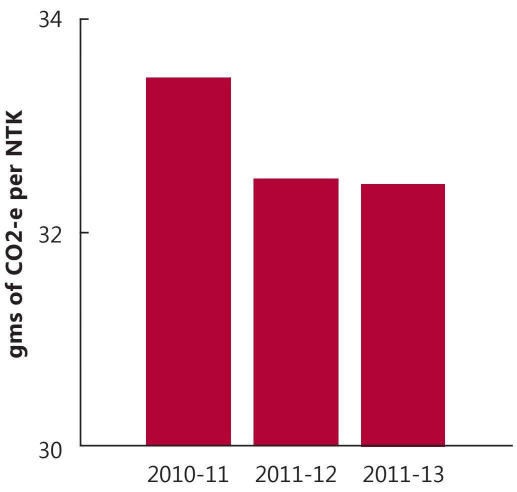
Sustainability and the Community

SUSTAINABILITY

This is the first year we are reporting on progress against our sustainability strategy. The strategy recognises the transformation the business is going through and the focus that this requires. Our priorities for the last year have been reducing carbon emissions for our customers and starting to embed sustainability practices into the business.

We engaged CarboNZero Holdings Limited to provide assurance on the methodology we were using to calculate carbon intensity for all our service types. This gives the business confidence it is providing correct information to customers and provides third party accreditation to support the benefits of rail. Using this methodology we are able to see how we have progressed since 2012 for our freight services (rail and Interislander).

Rail freight achieved a 0.6% reduction in carbon intensity – lower than expected. This is due to significant reductions in the bulk freight market – primarily milk and coal. Bulk freight is the most carbon efficient service on a per tonne km basis. However there a number of positive factors that we expect to drive down carbon intensity for rail freight going forward. The existing fleet of 20 DL locomotives are now well embedded into service, 20 more have been commissioned, new wagons have entered the fleet; and rail grinding has commenced across the network.



The single biggest influence on fuel burn and therefore carbon intensity will be from the introduction of a Driver Advice System. This technology helps to optimise fuel use on each journey by providing direct feedback to the locomotive engineer. After a successful trial in 2012 the system was purchased this year and is starting to be rolled out across the business starting with mainline locomotives.

Interislander has achieved a 15 percent reduction in the carbon emissions produced to shift one tonne of freight compared to 2012. This significant reduction can be attributed mainly to an increase in freight volumes but also from an increased focus on fuel consumption utilising the new fuel monitoring technology onboard; new scheduling that has reduced winter sailings; and modifications to the ships including new propellers.

Biofuels are still on the horizon for use in the ferries although the current supply side is some way off from being able to meet Interislander's volume requirements. In the last year we have been working on the internal business case for biofuels.

KiwiRail's approach has always been to embed sustainability within the appropriate parts of the business rather than create a separate team with this responsibility. The work in the last year has included developing sustainability material for inclusion in the business case development and project management methodology. This is expected to be rolled out in FY2014. Smart buying guidelines have also been prepared to guide internal purchasing.

The roll-out of e-learning is providing a step change in the learning and development area reducing the need for extensive staff travel, physical training materials and creating a platform that is flexible and easily updated. This will have an impact on domestic air travel and paper consumption over time.

We have seen a reduction in paper purchased across the business by 18 percent while our domestic travel is down by 20 percent from 2012. While these are promising signs we will be doing further work this coming year to understand what is driving these metrics.

Interislander were able to achieve a 15 percent decrease in waste per passenger on the ferries from 2012. Facilities have been put in place to divert more recyclables from landfill onboard the ships and food waste from the on-shore production kitchen. New biodegrable and recyclable packaging has also been introduced onboard.

Sustainability and the Community

OUR COMMUNITY

Preserving history

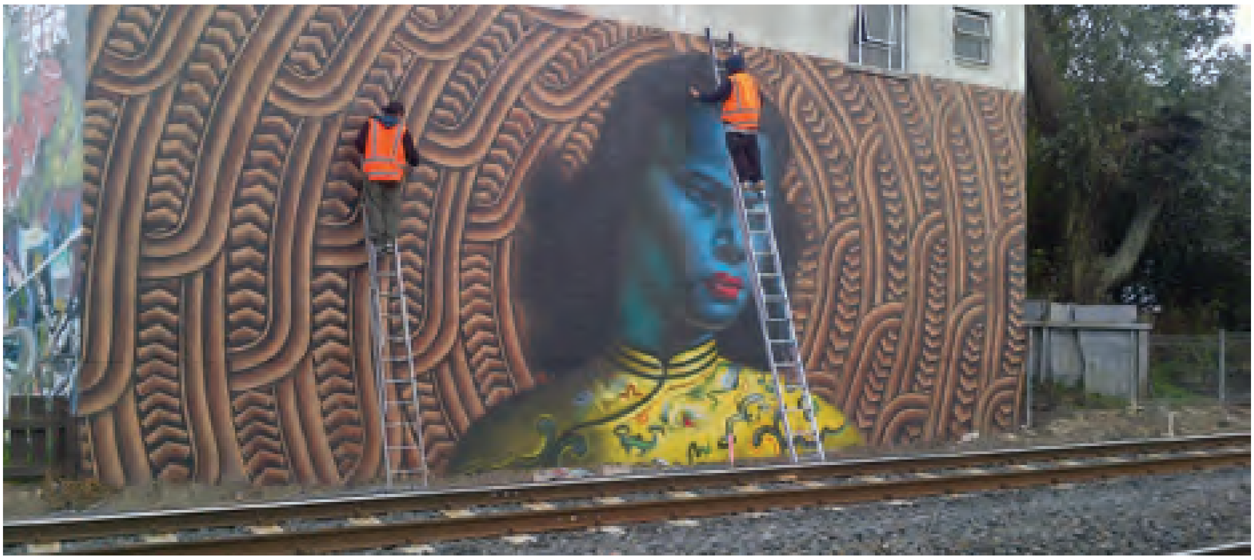
KiwiRail engages with communities via sponsorship of relevant events and activities, support of people who work for KiwiRail and the communities that interact with us. During the past year we:

- Donated a massive steel railway turntable to the National Railway Museum located at Ferrymead Heritage Park in Christchurch.
- Gifted the Wingatui Railway Station to the Rail Heritage Trust who has been restoring it and also supported them with the restoration and maintenance project for the Moana Railway Station.
- Sponsored the transportation of the last of Wellington's English electric trains to its new home in Maymorn.
- Repaired the railway station at Shantytown on the West Coast.

Graffiti eradication, planting and litter control

Managing 4,000 km of rail corridor, 4,000 wagons, 180 passenger carriages and numerous buildings across the country is a challenge. That is why KiwiRail seeks the help of many organisations and community groups to manage the appearance of these assets and land. Projects undertaken over the last financial year were:

- KiwiRail commissioned Tauranga artist Owen Dippie to paint two murals. The first was a re-creation of an iconic painting by Vladimir Tretchikoff – The Chinese Girl. This was painted on a wall at Morningside in an area heavily targeted by taggers. The second was a portrait of race car driver Bruce McLaren in West Auckland.
- The Freight team contracted the Manukau Beautification Trust to keep the new red curtain-side wagons free from graffiti. The Trust already helps KiwiRail manage graffiti along the Auckland rail corridor.



- Pomare Rail Bridge now has an eye-catching mural by Whanganui-based artist Dan Mills. KiwiRail and Hutt City Council were joint sponsors for the mural.
- Rangiriri Bridge replacement project funded planting of 1,900 native trees, plants and grasses to help restore native wetland.
- KiwiRail supported the Porirua City Council's Graffiti Reduction team in planting a lizard friendly and graffiti 'hiding' in over 600 metres of rail corridor.
- KiwiRail lent a hand to Sustainable Coastlines by transporting its 40 foot container from Auckland to Wellington return, at minimal cost. The container functions as a mobile classroom and exhibition stand. It sat for six weeks outside Te Papa and also made it to schools and other locations around Wellington.

Community engagement

As an organisation that impacts on communities nationwide it is important we respond to enquiries, issues and complaints in a professional manner and engage with the community where we can make a difference. Work that has been done includes:

- Implementation of processes and procedures to improve how we interact with the community through phone, email and online.
- In Wellington, KiwiRail apprentices provided supervised electrical wiring and installation services for Habitat for Humanity projects in the region.
- Installation of a pedestrian level crossing over the railway line near Tawa. This work provides a safer cycling route and encourages more people to get about on foot or by bike. The pathway is a project of Wellington City Council and the Tawa Porirua Stream Walkway Committee.

Governance

KiwiRail Holdings Limited is a limited liability company incorporated under the Companies Act 1993 and a state owned enterprise (SOE) under the State-Owned Enterprises Act 1986.

As an SOE, all of KiwiRail's shares are owned by the Crown. They are held in equal proportions by the Minister of Finance and the responsible Minister as appointed by the Prime Minister from time to time, currently the Minister for State Owned Enterprises.

The principal objective of every SOE is to operate as a successful business and, to this end, to be as profitable and efficient as comparable businesses that are not owned by the Crown. SOEs are also required to be good employers and to exhibit a sense of social responsibility.

Board of Directors

The Board of Directors of KiwiRail is appointed by the Shareholding Ministers and is accountable to the Shareholding Ministers for the performance of KiwiRail. The Shareholding Ministers may jointly remove directors at any time and entirely at their discretion.

The role of the KiwiRail Board is to guide the strategic direction of KiwiRail and to direct and oversee management. The Board met 11 times during the year as part of the regular meeting agenda.

Throughout the financial year ended 30 June 2013 the Board of KiwiRail consisted of John Spencer (Chair), Paula Rebstock (Deputy Chair), Rebecca Thomas, John Leuchars, Bob Field and Dr Kevin Thompson. Guy Royal joined the Board in November 2012 on the retirement of Mark Tume.

Committees

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

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

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

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

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

The members of the Infrastructure Committee were John Leuchars (Committee Chair), Kevin Thompson and Guy Royal. The Committee met four times during the year.

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

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

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

Insurance and Indemnity

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

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

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

Subsidiaries

The main trading subsidiary of KiwiRail Holdings Limited is KiwiRail Limited with Clifford Bay Limited holding farmland in the Upper South Island.

Reporting

KiwiRail, like all other SOEs, is required to produce an annual Statement of Corporate Intent and half yearly and annual reports, all of which must be presented to the House of Representatives by the relevant Shareholding Minister. Most SOEs are subject to ministerial direction in relation to the content of certain aspects of the company's Statement of Corporate Intent and the level of dividend payable to the Crown.

A comparison against the 2013 performance targets and measures, as set out in the KiwiRail 2011-2014 Statement of Corporate Intent, as required under Section 15(2) of the State Owned Enterprises Act is shown in the KPIs section of this Annual Report.

Board

Chair
John Spencer, CNZM

Deputy Chair
Paula Rebstock, CNZM

Director
Bob Field, ONZM

Director
John Leuchars

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

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

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

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

Director
Rebecca Thomas

Director
Dr Kevin Thompson

Director
Guy Royal

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

Kevin Thompson is a civil engineer who came to KiwiRail after 13 years with Opus International Consultants, including his role as Chief Executive from 2001 and Managing Director from 2007. Prior to OPUS, Dr Thompson was Chief Executive of Works Civil Construction Ltd, now known as Downer EDI Works Ltd. He is Chair of the Electricity Authority Security and Reliability Council. He is Deputy Chair of the Environmental Protection Authority and Chair of the Authority's HSNO Committee. He is an advisory member of the Defence Capability Management Board, a director of the Australian Road Research Board, and a director of Aquamax Hydroblasting Ltd. He is a Distinguished Fellow, and Deputy President of the Institution of Professional Engineers of New Zealand.

Guy Royal has a background in private equity with commercial and corporate law for over 18 years in New Zealand, Hong Kong, Vietnam and the United Kingdom. While in the UK Guy worked for CDC Capital plc, a private equity fund with over NZ$3 billion in direct investments and lending in various industries internationally. He is Managing Director of Tuia Group, a professional advisory firm with offices in NZ, PNG and Samoa. Guy sits on the boards of a number of private and public sector businesses including Crown Forest Rental Trust, Forest Emissions Unit Trust, and Film and Literature Review Board.

Executive Team

Chief Executive
Jim Quinn

General Manager
Corporate & Finance
David Walsh

General Manager
Freight
Iain Hill

General Manager
Infrastructure &
Engineering
Rick van Barneveld

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.

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

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.

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

General Manager
Safety & People
Matt Ballard

General Manager
Passenger
Dr Deborah Hume

General Manager
Interislander
Thomas Davis

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

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

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

KPIs

Statement of Corporate Intent Comparisons

	Actual 2013	Target 2013
Financial Metrics ($m)		
Total External Revenue	727.0	734.0
Operating surplus	108.2	119.3
Strategic Plan Capital Expenditure	310.6	313.8
Metro Project Capital Expenditure	149.0	124.5
Metro Renewals Capital Expenditure	26.4	24.4
Key Sales Metrics		
Freight NTK (million)	4,585	4,708
Freight average yield (c/NTK)	8.2	8.5
Key Investment Outcomes		
Rolling Stock Replacement		
Wagons (no. of new units)	360	75
Locomotives (no. of new units)	20	15
Network Renewals		
New Sleepers Laid (000)	101	108
New Rail Laid (km)	30	33
Lines Destressed (km)	155	250
Span Metres Replaced	492	461
Timber Piers Replaced	76	69
Culverts Replaced	24	20
Level Crossing Upgrades	8	10
Customer Service Performance		
Freight - Premium Train (%<30min)	89%	90%
Metro (%<5min)	94%	91%
Scenic (%<15min)	81%	87%
Interislander (%<15min)	82%	85%
Productivity Measures		
Group Labour Costs as % of Revenue	39.2%	34.0%
Freight OPEX as a % of Freight Revenue	66.4%	66.5%
Freight fuel and traction electricity as a % of Revenue	15.7%	14.0%
Freight maintenance costs as a % of Revenue	9.9%	11.0%
Interislander OPEX as a % of Revenue	84.6%	88.0%
Interislander fuel costs as a % of Revenue	20.7%	21.0%
Network operating costs % of Freight revenue	19.4%	13.0%
Health and Safety		
LTIFR (per million work hours)	5.5	5.5
MTIFR (per million work hours)	37.6	42.2

KPIs

Statement of Corporate Intent Comparisons

	Actual 2013	Target 2013
Staff Engagement		
Engagement Index	72	71
The Crown's Investment in KiwiRail ($m)		
Total Shareholders Funds (TSF)	587.4	687.0
Average Shareholders Funds (ASF)	385.8	435.6
Financial Performance Measures for SOE Portfolio		
Crown Investment in KiwiRail		
Dividend Yield	Nil	Nil
Dividend Payout	Nil	Nil
Return on Average Equity	-35.7%	-27.4%
Return on Average Equity excluding IFRS fair valuation movements and asset revaluations	-33.8%	-29.2%
Profitability/Efficiency Measures		
Return on Average Capital Employed	-16.6%	-33.8%
Operating Margin	14.9%	16.3%
Leverage/Solvency Measures		
Shareholder's Funds to Total Assets	58.2%	59.9%
Gearing Ratio (net)	27.1%	31.3%
Interest Cover	7.1	6.4
Solvency (current assets/current liabilities)	1.30	0.65

KIWIRAIL GROUP PERFORMANCE STATEMENTS

For the financial year ended 30 June 2013

This section has been included to report what the full year performance would be without the legal separation from New Zealand Railways Corporation ("NZRC") on 31 December, 2012.

On 31 December 2012 there was a restructure of the Crown's investment in rail operations. In accordance with the KiwiRail Holdings Vesting Order 2012 which took effect from 31 December 2012, the KiwiRail business was transferred from NZRC into KiwiRail Holdings Limited. All land previously held by KiwiRail together with the Wellington Railway Station and Social Hall buildings were retained by NZRC.

The Audited Annual Financial Statements presented in this Annual Report are for the KiwiRail Holdings Limited Group and Parent for the period from the restructure on 31 December 2012 to 30 June 2013. The Financial Statements only show the operations of the KiwiRail business for the second half of the financial year and do not have any comparative information.

In order to show a more comparable view of the performance of the KiwiRail business for the year ended 30 June 2013, the following Performance Statements have been prepared. They comprise the full year Statements of Financial Performance, Financial Position and Cash Flows and accompanying notes for the KiwiRail business as if there was no vesting at 31 December 2012. The land and building assets retained by NZRC in the restructure are shown in these Performance Statements as a transfer out of the KiwiRail business. These Group Performance Statements have not been audited.

UNAUDITED STATEMENT OF FINANCIAL PERFORMANCE

For the financial year ended 30 June 2013

	Note	2013	2012
		$m	$m
Operating revenues	2	727.0	715.8
Operating expenses	3	(618.8)	(638.2)
Operating surplus		**108.2**	**77.6**
Grant income	4	181.7	172.3
Depreciation and amortisation expense		(61.9)	(309.4)
Foreign exchange and commodity net gains and losses		2.7	3.1
Finance income		3.2	2.1
Finance costs		(9.3)	(42.5)
Net loss on sale of land		-	(18.1)
Impairment	7	(399.3)	(2,199.2)
Revaluation of property, plant and equipment		-	(8.1)
Gain on transfer of EMU FX contracts to Auckland Council Group		-	42.8
Cumulative foreign exchange loss on EMU FX contracts		-	(40.2)
Net deficit before taxation		**(174.7)**	**(2,319.6)**
Taxation (expense)/credit		-	14.5
Net deficit after taxation		**(174.7)**	**(2,305.1)**

UNAUDITED STATEMENT OF FINANCIAL POSITION

For the financial year ended 30 June 2013

	Note	2013	2012
		$m	$m
Current assets			
Cash and cash equivalents		64.8	36.1
Trade and other receivables		87.9	117.1
Inventories	5	54.0	57.9
Financial assets		4.1	0.5
		210.8	**211.6**
Non-current assets			
Property, plant and equipment	6	792.6	4,045.2
Investment property		5.0	5.0
Intangible assets	8	0.4	0.6
Financial assets		0.1	-
Trade and other receivables		0.7	-
		798.8	**4,050.8**
TOTAL ASSETS		**1,009.6**	**4,262.4**
Current liabilities			
Trade and other liabilities		144.7	177.1
Financial liabilities		5.5	439.2
Income taxes payable		-	-
Provisions	9	12.5	22.8
		162.7	**639.1**
Non-current liabilities			
Trade and other liabilities		37.3	39.4
Financial liabilities		218.5	120.5
Provisions	9	3.7	3.3
		259.5	**163.1**
TOTAL LIABILITIES		**422.2**	**802.2**
NET ASSETS		**587.4**	**3,460.2**
Equity			
Share capital		87.0	1,046.9
Retained earnings		442.2	(774.4)
Asset revaluation reserve		56.2	3,189.3
Cash flow hedge reserve		2.0	(1.6)
		587.4	**3,460.2**

UNAUDITED STATEMENT OF CASH FLOWS

For the financial year ended 30 June 2013

	Note	2013	2012
		$m	$m
Cash flows from operating activities			
Proceeds from:			
Receipts from customers		752.3	710.0
Interest received		3.2	2.1
Proceeds utilised for:			
Payments to suppliers and employees		(663.4)	(632.4)
Interest expense		(15.1)	(38.6)
Income tax paid		-	-
Net cash from operating activities	10	**77.0**	**41.1**
Cash flows from investing activities			
Proceeds from:			
Sale of property, plant and equipment		6.2	9.4
Capital grant receipts		181.7	172.3
Proceeds utilised for:			
Purchase of property, plant and equipment		(484.1)	(513.4)
Purchase of intangibles		(1.9)	(6.4)
Net cash used in investing activities		**(298.1)**	**(338.1)**
Cash flows from financing activities			
Proceeds from:			
Cash balance vested from NZRC		-	3.6
Crown capital investment		250.0	250.0
Finance lease		2.9	0.2
Proceeds utilised for:			
Repayment of finance lease liability		(0.2)	-
Repayment of borrowings		(2.9)	(2.3)
Net cash from financing activities		**249.8**	**251.5**
Net increase / (decrease) in cash and equivalents		**28.7**	**(45.5)**
Cash and cash equivalents at the beginning of the period		**36.1**	**81.0**
Effect of exchange rate fluctuations on cash held		-	0.5
Cash and cash equivalents at the end of the period		**64.8**	**36.1**

UNAUDITED NOTES

For the financial year ended 30 June 2013

1. Total Income

	Note	2013	2012
		$m	$m
Revenue	2	727.0	715.8
Grant income	4	181.7	172.3
Total income		**908.7**	**888.1**

2. Revenue

	2013	2012
	$m	$m
Freight	466.9	457.6
Interislander	124.3	123.9
Tranz Metro	43.6	45.7
Scenic	20.0	20.3
Property & Corporate	33.8	34.1
Infrastructure & Engineering	38.4	34.2
Total revenue	**727.0**	**715.8**

3. Operating Expenses

	2013	2012
	$m	$m
Salaries and wages	262.9	270.8
Defined contribution plan employer contributions	9.2	8.7
Employee entitlements	10.2	9.8
Other employee expenses	2.6	4.3
Total staff costs	284.9	293.6
Materials and supplies	89.5	91.7
Fuel and traction electricity	116.8	124.2
Lease and rental costs	47.1	49.2
Incidents, casualties and insurance	19.0	16.0
Contractors expenses	15.8	16.1
Fees paid to auditors:		
Audit fees	0.5	0.4
Impairment of receivables	(0.1)	0.1
Directors' fees	0.3	0.3
Loss on disposal of property, plant and equipment	(2.8)	0.6
Other expenses	47.8	46.0
Total operating expenses	**618.8**	**638.2**

UNAUDITED NOTES

For the financial year ended 30 June 2013

4. Grant Income

	2013	2012
	$m	$m
Capital grants for metro projects		
Auckland rail development	35.4	0.5
Wellington rail development	-	-
Auckland electrification project	115.0	124.6
Other capital grants		
Other	30.8	46.7
Public policy grant	0.5	0.5
Total grant income	**181.7**	**172.3**

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

5. Inventories

	2013	2012
	$m	$m
Operational Activities		
Fuel	1.9	1.2
Inventory held to maintain railway	29.1	30.4
Inventory held to maintain rolling stock and vessels	42.6	51.1
Inventory held for resale	0.7	0.7
Contracting Activities – work in progress	1.3	2.5
Gross inventory	**75.6**	**85.9**
Less obsolescence provision	**(21.6)**	**(28.0)**
Net inventory	**54.0**	**57.9**

	2013	2012
	$m	$m
Movement in provision for stock obsolescence during the year		
Opening balance	28.0	10.7
Provisions made during the year	-	21.9
Provisions utilised during the year	(6.4)	(4.6)
Closing balance	**21.6**	**28.0**

6. Property, Plant and Equipment

	Note	Land	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant and Equipment	Capital Work In Progress	Total
Cost:		$m	$m	$m	$m	$m	$m	$m	$m
Balance at 1 July 2011		5,641.2	295.8	6,611.1	527.4	60.8	111.8	609.1	13,857.1
Additions		3.2	22.5	276.6	163.1	51.7	34.5	(38.1)	513.5
Disposals		(27.0)	(0.3)	-	(1.9)	-	(0.5)	-	(29.7)
Reclassifications		-	(0.7)	0.7	-	-	-	-	-
Revaluations		(2,357.6)	12.1	-	-	-	-	-	(2,345.5)
Impairment		-	(182.7)	(6,724.0)	(445.3)	-	(23.8)	(510.6)	(7,886.4)
Balance at 30 June 2012		**3,259.8**	**146.7**	**164.4**	**243.3**	**112.5**	**122.0**	**60.4**	**4,109.1**
Assets not vested to KiwiRail		(3,256.0)	(18.8)	-	-	-	-	-	(3,274.8)
Additions		-	3.3	47.0	28.7	1.5	17.1	387.1	484.7
Disposals		(2.2)	(0.5)	-	(0.8)	-	(2.9)	(2.4)	(8.8)
Reclassifications		-	(1.0)	(2.9)	-	-	11.1	2.9	10.1
Impairment	7	-	(1.9)	(79.5)	(33.1)	-	(0.3)	(296.6)	(411.4)
Balance at 30 June 2013		**1.6**	**127.8**	**129.0**	**238.2**	**114.0**	**147.0**	**151.3**	**908.9**
Accumulated depreciation:									
Balance at 1 July 2011		-	15.8	391.9	118.4	11.5	35.2	-	572.8
Depreciation expense		-	14.5	208.7	60.2	6.1	13.3	-	302.9
Disposals		-	(0.3)	-	(1.2)	-	(0.4)	-	(1.9)
Reclassifications		-	-	-	-	-	-	-	-
Revaluations		-	(4.3)	-	-	-	-	-	(4.3)
Impairment		-	(21.3)	(600.6)	(168.6)	-	(15.2)	-	(805.7)
Balance at 30 June 2012		**-**	**4.4**	**-**	**8.9**	**17.6**	**32.9**	**-**	**63.8**
Assets not vested to KiwiRail		-	(0.7)	-	-	-	-	-	(0.7)
Depreciation expense		-	8.9	1.5	30.8	7.3	12.6	-	61.1
Disposals		-	-	-	(0.4)	-	(2.1)	-	(2.5)
Reclassifications		-	(0.2)	-	-	-	10.3		10.1
Impairment	7	-	(0.1)	(1.5)	(13.8)	-	(0.1)	-	(15.5)
Balance at 30 June 2013		**-**	**12.3**	**-**	**25.5**	**24.9**	**53.6**	**-**	**116.3**
Net book value:									
At 30 June 2012		3,259.8	142.3	164.4	234.4	94.9	89.1	60.4	4,045.2
At 30 June 2013		**1.6**	**115.5**	**129.0**	**212.7**	**89.1**	**93.4**	**151.3**	**792.6**

7. Impairment of Property, Plant & Equipment

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

	Carrying amount before impairment	Impairment recognised in Statement of Financial Performance	Impairment recognised in Asset Revaluation Reserve	Carrying amount after impairment
GROUP	$m	$m	$m	$m
Rail CGU				
Non-Leased Buildings	47.8	(1.9)	-	45.9
Railway infrastructure	207.0	(78.0)	-	129.0
Rolling stock	231.9	(19.2)	-	212.7
Plant and equipment	86.4	(0.2)	-	86.2
Assets under construction	445.1	(296.6)	-	148.5
Software	3.4	(3.4)	-	-
	1,021.6	**(399.3)**	**-**	**622.3**
Interislander CGU				
Ships	89.1	-	-	89.1
Plant and equipment	7.2	-	-	7.2
Assets under construction	2.8	-	-	2.8
Software	0.4	-	-	0.4
	99.5	**-**	**-**	**99.5**
Leased Building CGU				
Buildings	69.6	-	-	69.6
	69.6	**-**	**-**	**69.6**
Clifford Bay CGU				
Land	1.6	-	-	1.6
	1.6	**-**	**-**	**1.6**
Total	**1,192.3**	**(399.3)**	**-**	**793.0**

In note 6 Property, Plant and Equipment, the impairment is split between cost and accumulated depreciation as appropriate.

UNAUDITED NOTES

For the financial year ended 30 June 2013

8. Intangible Assets

	$m
Gross carrying amount	
Balance at 1 July 2012	29.5
Additions	6.2
Disposals	-
Impairment	(33.5)
Balance at 30 June 2012	**2.2**
Adjustments to opening balance	(0.3)
Additions	4.2
Disposals	-
Impairment	(3.9)
Balance at 30 June 2013	**2.2**
Accumulated amortisation and impairment	
Balance at 1 July 2011	14.9
Amortisation expense	6.5
Disposals	-
Impairment	(19.8)
Balance at 30 June 2012	**1.6**
Adjustments to opening balance	(0.3)
Amortisation expense	1.0
Disposals	
Impairment	(0.5)
Balance at 30 June 2013	**1.8**
Net book value	
As at 30 June 2012	0.6
As at 30 June 2013	**0.4**

9. Provisions

	2013	2012
	$m	$m
ACC partnership programme	2.8	2.2
Leased vessel costs	3.7	3.3
Transition costs	0.1	0.6
Warranty costs	0.5	0.2
Reorganisation costs	4.3	17.4
Other provisions	4.8	2.4
	16.2	**26.1**
Represented by:		
Current	12.5	22.8
Non-current	3.7	3.3
	16.2	**26.1**

UNAUDITED NOTES

For the financial year ended 30 June 2013

Movements in each class of provision are as follows:

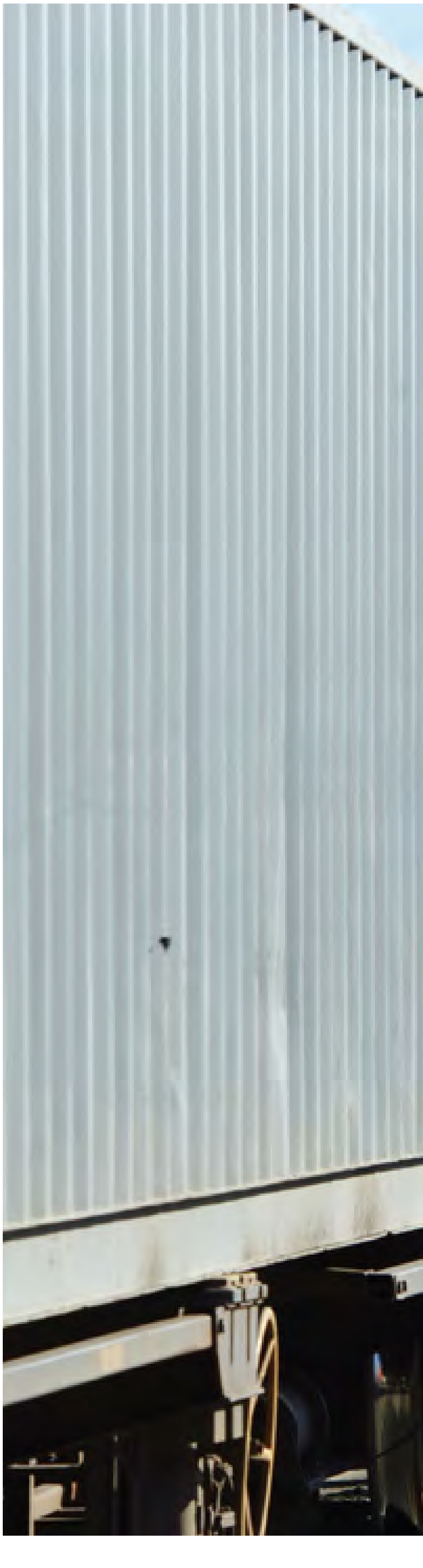
	Balance at 1 July 2012	Provisions made during the year	Provisions utilised during the year	Balance at 30 June 2013	Current	Non-Current
	$m	$m	$m	$m	$m	$m
ACC partnership programme	2.2	0.7	(0.1)	2.8	2.8	-
Leased vessel costs	3.3	1.9	(1.5)	3.7	-	3.7
Transition costs	0.6	-	(0.5)	0.1	0.1	-
Warranty costs	0.2	0.3	-	0.5	0.5	-
Reorganisation costs	17.4	2.6	(15.7)	4.3	4.3	-
Other provisions	2.4	5.1	(2.7)	4.8	4.8	-
	26.1	**10.6**	**(20.5)**	**16.2**	**12.5**	**3.7**

10. Reconciliation of Net Deficit to Net Cash Flows from Operating Activities

	2013	2012
	$m	$m
Net deficit after taxation	(174.7)	(2,305.1)
Add / (deduct) items classified as investing or financing activities		
(Gain)/loss on sale of assets	(2.7)	18.1
Fair value movement in derivatives	(13.1)	(0.7)
Capital grant receipts	(181.7)	(172.3)
	(372.2)	(2,460.0)
Add non-cash flow items		
Depreciation and amortisation expense	61.9	309.4
Movements in deferred tax and provisions	(16.4)	12.3
Effect of exchange rate changes on cash balances	-	(0.5)
Impairment of property, plant and equipment	399.3	2,199.2
Revaluation of property, plant and equipment	-	8.1
	72.6	68.5
Add/(deduct) movements in working capital		
Decrease in trade receivables	-	7.9
(Increase)/decrease in other receivables	29.0	(10.9)
(Increase)/decrease in inventories	10.4	(1.9)
Increase/(decrease) in trade payables	(21.6)	(17.9)
Increase/(decrease) in other payables	(13.4)	(4.6)
Net cash flows from operating activities	**77.0**	**41.1**

Audited Financial Statements

For the financial period ended 30 June 2013



KIWIRAIL HOLDINGS LTD

STATEMENT OF FINANCIAL PERFORMANCE

For the financial period ended 30 June 2013

	Note	Group 2013	Parent 2013
		$m	$m
Operating revenues	2	364.1	92.8
Operating expenses	3	(302.8)	(72.1)
Operating surplus		**61.3**	**20.7**
Grant income	4	80.5	80.5
Depreciation and amortisation expense	6	(31.9)	(7.1)
Foreign exchange and commodity gains and losses	7	2.4	(0.3)
Finance income	8	1.5	6.9
Finance costs	8	(3.1)	(3.3)
Impairment	16	(209.4)	(189.1)
Net loss before taxation		**(98.7)**	**(91.7)**
Taxation (expense)/credit	9	-	-
Net loss after taxation		**(98.7)**	**(91.7)**

KIWIRAIL HOLDINGS LTD

STATEMENT OF COMPREHENSIVE INCOME

For the financial period ended 30 June 2013

	Group 2013	Parent 2013
	$m	$m
Net loss after taxation	**(98.7)**	**(91.7)**
Other comprehensive (loss)/income		
Items that can be reclassified into profit or loss:		
Gains from Cash flow hedges	3.3	3.3
Items that cannot be reclassified into profit or loss:		
Vesting of assets and liabilities from NZRC	594.4	595.2
Transfer to asset carrying value from cash flow hedge reserve	1.5	1.5
Total comprehensive income	**500.5**	**508.3**

The accompanying notes form part of these financial statements.

KIWIRAIL HOLDINGS LTD

STATEMENT OF FINANCIAL POSITON

As at 30 June 2013

	Note	Group 2013	Parent 2013
		$m	$m
Current assets			
Cash and cash equivalents	10	64.8	44.9
Trade and other receivables	11	87.9	275.5
Inventories	12	54.0	18.1
Financial assets	13	4.1	169.7
		210.8	**508.2**
Non-current assets			
Property, plant and equipment	15	792.6	272.0
Investment property	14	5.0	5.0
Intangible assets	17	0.4	-
Financial assets	13	0.1	31.3
Trade and other receivables	11	0.7	0.2
Investment in subsidiary		-	89.9
		798.8	**398.4**
TOTAL ASSETS		**1,009.6**	**906.6**
Current liabilities			
Trade and other liabilities	18	144.6	73.9
Financial liabilities	13	5.5	5.1
Income taxes payable	9	-	-
Provisions	19	12.5	5.6
		162.6	**84.6**
Non-current liabilities			
Trade and other liabilities	18	37.3	8.1
Financial liabilities	13	218.5	218.6
Provisions	19	3.7	-
Deferred taxation	20	-	-
		259.5	**226.7**
TOTAL LIABILITIES		**422.1**	**311.3**
NET ASSETS		**587.5**	**595.3**
Equity			
Share capital		87.0	87.0
Retained earnings		442.3	481.0
Asset revaluation reserve		56.2	25.3
Cash flow hedge reserve		2.0	2.0
		587.5	**595.3**

John Spencer, Chair
30 August 2013

Paula Rebstock, Deputy Chair
30 August 2013

The accompanying notes form part of these financial statements.

KIWIRAIL HOLDINGS LTD

STATEMENTS OF CHANGES IN EQUITY

For the financial period ended 30 June 2013

	Equity Capital	Retained Earnings	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Total
GROUP	$m	$m	$m	$m	$m
As at 31 December 2012					
Net loss for the period	-	(98.7)	-	-	(98.7)
Other comprehensive (loss)/income					
Vested from NZRC	-	541.0	56.2	(2.8)	594.4
Gains from cash flow hedges	-	-	-	3.3	3.3
Transfer to asset carrying value from cash flow hedge reserve	-	-	-	1.5	1.5
Total comprehensive income	**-**	**442.3**	**56.2**	**2.0**	**500.5**
Transactions with owners					
Capital Investment	87.0	-	-	-	87.0
As at 30 June 2013	**87.0**	**442.3**	**56.2**	**2.0**	**587.5**

	Equity Capital	Retained Earnings	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Total
PARENT	$m	$m	$m	$m	$m
As at 31 December 2012					
Net loss for the period	-	(91.7)	-	-	(91.7)
Other comprehensive (loss)/income					
Vested from NZRC	-	572.7	25.3	(2.8)	595.2
Gains from cash flow hedges	-	-	-	3.3	3.3
Transfer to asset carrying value from cash flow hedge reserve	-	-	-	1.5	1.5
Total comprehensive income	**-**	**481.0**	**25.3**	**2.0**	**508.3**
Transactions with owners					
Capital Investment	87.0	-	-	-	87.0
As at 30 June 2013	**87.0**	**481.0**	**25.3**	**2.0**	**595.3**

The accompanying notes form part of these financial statements.

KIWIRAIL HOLDINGS LTD

STATEMENT OF CASH FLOWS

For the financial period ended 30 June 2013

	Note	Group 2013	Parent 2013
		$m	$m
Cash flows from operating activities			
Proceeds from:			
Receipts from customers		385.2	116.0
Interest received		1.5	6.8
Proceeds utilised for:			
Payments to suppliers and employees		(343.7)	(140.6)
Interest expense		(2.9)	(3.0)
Income tax paid		-	-
Net cash from operating activities	24	**40.1**	**(20.8)**
Cash flows from investing activities			
Proceeds from:			
Sale of property, plant and equipment		5.0	3.4
Capital grant receipts		80.5	80.5
Repayment of loans to subsidiaries		-	14.7
Proceeds utilised for:			
Purchase of property, plant and equipment		(262.3)	(182.4)
Purchase of intangibles		(4.0)	(1.6)
Net cash used in investing activities		**(180.8)**	**(85.4)**
Cash flows from financing activities			
Proceeds from:			
Cash balance vested from NZRC		119.4	64.9
Crown capital investment		87.0	87.0
Finance lease		0.7	0.7
Proceeds utilised for:			
Repayment of borrowings		(1.6)	(1.5)
Net cash from financing activities		**205.5**	**151.1**
Net increase in cash and equivalents		**64.8**	**44.9**
Cash and cash equivalents at the beginning of the period		**-**	**-**
Effect of exchange rate fluctuations on cash held		-	-
Cash and cash equivalents at the end of the period	10	**64.8**	**44.9**

The accompanying notes form part of these financial statements.

STATEMENT OF ACCOUNTING POLICIES

For the financial period ended 30 June 2013

REPORTING ENTITY

KiwiRail Holdings Limited ("KHL", "the Parent") is a company domiciled in New Zealand, registered under the Companies Act 1993 and is included within the First Schedule of the State Owned Enterprises Act 1986. The Group comprises KiwiRail Holdings Limited and its subsidiaries. The Parent and the Group have been designated as a Profit Oriented Entity ("POE").

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.

On 31 December 2012 there was a restructure of the Crown's investment in rail operations. In accordance with the KiwiRail Holdings Vesting Order 2012 which took effect from 31 December 2012, the KiwiRail business was transferred from the New Zealand Railways Corporation ("NZRC") into KiwiRail Holdings Limited. All land previously held by KiwiRail together with the Wellington Railway Station and Social Hall buildings were retained by NZRC.

The financial statements of the Group are for the period ended 30 June 2013 and were authorised for issue by the Board of Directors on 30 August 2013. Results in the Statement of Financial Performance, Statement of Comprehensive Income, Statement of Movements in Equity and Statement of Cashflows represent operations from the vesting date 31 December 2012 to 30 June 2013.

Kiwirail Holdings Limited was incorporated on 6 November 2012 and commenced operations with effect from 31 December 2012.

BASIS OF PREPARATION

Statement of compliance

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

The financial statements comply with International Financial Reporting Standards (IFRS).

Measurement base

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

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

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

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

Going Concern

The successful transformation of KiwiRail to a self-sustaining railway business is outlined in the long term business plan presented to the shareholder in 2010 and the latest three year business case presented to the shareholder in 2013. These plans outline the support required from the shareholder to contribute to the proposed investments that will provide the opportunity to drive long term, sustainable earnings.
The shareholder has confirmed $94m of equity funding in the 2013/14 financial year. We have completed these financial statements on a “going concern” basis based on the assumption the shareholder support will continue largely in line with those plans.

NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES

The Group carries out the following activities:

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

ESTIMATION UNCERTAINTY

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

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

Asset revaluations

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

Employee entitlements

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

STATEMENT OF ACCOUNTING POLICIES

Inventory obsolescence

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

SIGNIFICANT ACCOUNTING POLICIES

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

(a) Consolidated financial statements

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

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

(b) Revenue recognition

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

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

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

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

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

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

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

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

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

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

(x) Government funding received as reimbursements of the costs of capital projects is recognised in the same period as the expenditure to which it relates. Where the asset being funded is depreciated over its useful life, the funding is recognised as income on a straight line basis over the same life. Where the asset funded is impaired to residual value the funding is recognised as income in the same period as the impairment expense.

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

(c) Property, plant and equipment

(i) Recognition and Measurement

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

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

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

(ii) Revaluation

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

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

Other additions between revaluations are recorded at cost.

STATEMENT OF ACCOUNTING POLICIES

(iii) Disposals

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

(iv) Impairment

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

The value in use for cash-generating assets and CGUs 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 is treated as a revaluation decrease (see c(ii) above).

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

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

(v) Renewals

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

(vi) Depreciation

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

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

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

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

STATEMENT OF ACCOUNTING POLICIES

For the financial period ended 30 June 2013 (Continued)

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

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

(d) Valuation of intangible assets

Intangible assets comprises 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 the reporting period.

(e) Net Finance Costs

Borrowing costs - Interest expense on borrowings is recognised in the Statement of Financial Performance using the effective interest rate method. Where borrowing costs are incurred for the construction of a qualifying asset in accordance with IAS23 those costs are capitalised into the cost of the asset.

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

(f) Inventories

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

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

(g) Leases

Operating leases

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

Finance leases

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

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

(h) Income tax

All members of the group are taxpayers. The accounting policies applied are as follows:

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

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

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

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

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

(i) Goods and services tax (GST)

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

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

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

STATEMENT OF ACCOUNTING POLICIES

(j) Provisions

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

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

(k) ACC Partnership Programme

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

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

(l) Employee entitlements

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

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

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

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

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

(m) Contributions to superannuation plans

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

STATEMENT OF ACCOUNTING POLICIES

For the financial period ended 30 June 2013 (Continued)

(n) Joint Venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The Group is party to a joint venture arrangement with Northland Regional Council. For these jointly controlled operations the Group recognises in its financial statements the Group's share of the assets, liabilities, revenues and expenses using the proportional consolidation method.

(o) Financial assets

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

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

Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, call deposits and other investments with an initial term of less than 3 months.

Impairment of financial assets

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

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

(p) Financial liabilities

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

Payables

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

STATEMENT OF ACCOUNTING POLICIES

Borrowings

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

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

(q) Derivative financial instruments and hedging activities

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

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

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

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

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

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

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

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

Cash flow hedges

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

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

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

(r) Foreign currency translation

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

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

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

COMPARATIVES

These financial statements are for the first reporting period since the establishment of KHL. Therefore no comparative information is presented. Results in the Statement of Financial Performance, Statement of Comprehensive Income, Statement of Movements in Equity and Statement of Cashflows are for the period from the vesting date, 31 December 2012, to 30 June 2013.

NEW STANDARDS ADOPTED

The Group has adopted the following new and amended NZ IFRSs as of 1 July 2012:

- *NZ IAS 1 Presentation of Financial Statements* (revised 2011) amends the presentation of items in the statements of financial performance and comprehensive income. The changes came into effect for financial reporting periods beginning on or after 1 July 2012. The changes do not impact the way that items of comprehensive income are accounted for, only their presentation in the financial statements. The adoption of this standard has not had any material impact on the consolidated financial result of the Group.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

- *NZIFRS 9 Financial Instruments* (revised 2010) is the first standard issued as part of a wider project to replace NZIAS39 and is effective for reporting periods beginning on or after 1 January 2013. The revised standard amends measurement categories for financial assets. It is not expected to have any impact on the consolidated financial results of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013

1. Total Income

	Note	Group 2013	Parent 2013
		$m	$m
Revenue	2	364.1	92.8
Grant income	4	80.5	80.5
Total income		**444.6**	**173.3**

2. Revenue

	Group 2013	Parent 2013
	$m	$m
Freight	228.3	-
Interislander	68.0	-
Tranz Metro	21.7	-
Scenic	10.8	-
Property & Corporate	18.0	74.9
Infrastructure & Engineering	17.3	17.9
Total revenue	**364.1**	**92.8**

3. Operating Expenses

	Group 2013	Parent 2013
	$m	$m
Salaries and wages	128.9	26.1
Defined contribution plan employer contributions	4.7	1.0
Employee entitlements	3.7	1.6
Other employee expenses	1.1	0.8
Total staff costs	138.4	29.5
Materials and supplies	45.7	13.6
Fuel and traction electricity	57.2	1.5
Lease and rental costs	22.4	7.6
Incidents, casualties and insurance	9.9	4.8
Contractors expenses	7.4	2.1
Fees paid to auditors:		
Audit fees	0.4	0.4
Impairment of receivables	(0.1)	(0.1)
Directors' fees	0.2	0.2
(Gain)/loss on disposal of property, plant and equipment	(2.7)	-
Other expenses	24.0	12.5
Total operating expenses	**302.8**	**72.1**

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

4. Grant Income

	Group 2013	Parent 2013
	$m	$m
Capital grants for metro projects		
Auckland rail development	12.3	12.3
Wellington rail development	-	-
Auckland electrification project	51.0	51.0
Other capital grants		
Other	17.0	17.0
Public policy grant	0.2	0.2
Total grant income	**80.5**	**80.5**

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

5. Gain on Sale of Land

NZRC records the value of rail corridor land on its balance sheet. Under a lease agreement with NZRC, KHL may identify railway land that should be sold and request NZRC 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. KHL will incur an accounting gain following a sale of railway land as the sale proceeds are received but the value of the land is not in the Company's asset base. No land has been sold between the inception of the lease and 30 June 2013. Further details of the lease agreement with NZRC are provided in note 21(b).

6. Depreciation and Amortisation Expense

	Note	Group 2013	Parent 2013
		$m	$m
Depreciation expense	15	31.2	6.9
Amortisation expense	17	0.7	0.5
Depreciation recharge		-	(0.3)
Total depreciation and amortisation expense		**31.9**	**7.1**

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

7. Foreign Exchange and Commodity Gains and Losses

	Group 2013	Parent 2013
	$m	$m
Net realised foreign exchange and commodity losses	(0.1)	(0.2)
Net change in the fair value of derivatives not designated as cash flow hedges	2.5	(0.1)
Net foreign exchange losses on derivative instruments designated as cash flow hedges	-	-
Total foreign exchange gains and losses	**2.4**	**(0.3)**

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

8. Net Finance Costs

	Group 2013	Parent 2013
	$m	$m
Finance income		
Interest income on bank deposits	1.5	0.6
Interest income other	-	6.3
Net change in fair value of derivatives	-	-
	1.5	6.9
Less Finance costs		
Interest expense on borrowings	(9.2)	(9.4)
Interest expense on finance lease	-	-
Interest expense – other	-	-
Net change in fair value of derivatives	6.1	6.1
	(3.1)	(3.3)
Net finance income/(costs)	**(1.6)**	**3.6**

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

9. Taxation

	Group 2013	Parent 2013
	$m	$m
Components of tax expense		
Current tax expense	-	-
Deferred tax expense	-	-
Tax benefit/(expense)	**-**	**-**
Reconciliation between tax expense and accounting surplus		
Loss before tax	(98.7)	(91.7)
Tax at 28%	(27.6)	(25.7)
Tax effect of:		
Non-deductible expenditure	0.3	1.4
Other temporary differences	27.3	24.3
Tax benefit/(expense)	**-**	**-**

At balance date a Bill before Parliament contained amendments to the Income Tax Act 2007 that directly affects the KHL Group and the tax values in the financial statements. These changes were contained in the Taxation (Livestock Valuation, Assets Expenditure and Remedial Matters) Bill and have retrospective application to 31 December 2012. The financial statements of the Group have been prepared on the basis that the changes in that Bill had been substantively enacted at balance date. The Bill was subsequently passed into law and received Royal assent on 17 July 2013.

The Bill includes changes that:

- Create tax values for the depreciable property of the Parent;
- Permit the carry forward of tax losses from the old Group to the new Group structure;
- Determine the tax treatment of various items vested in the Parent by NZRC;
- Preserve the tax treatment of proceeds from the sale of any land or interest in land held by NZRC within the Group; and
- Various miscellaneous administrative measures to assist transition to the new Group structure.

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

10. Cash and Cash Equivalents

	Group 2013	Parent 2013
	$m	$m
Cash on hand	0.3	-
Current accounts	22.2	12.7
Call deposits	42.3	32.2
Foreign currency accounts	-	-
	64.8	**44.9**

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 26.

11. Trade and Other Receivables

	Group 2013	Parent 2013
	$m	$m
Trade receivables	54.0	9.9
Accrued and other receivables:		
Prepayments	9.1	5.4
Related party receivables	5.2	248.4
Other	21.4	12.2
Gross receivables	89.7	275.9
Less provision for impairment	(1.1)	(0.2)
	88.6	**275.7**
Current assets	87.9	275.5
Non-current assets	0.7	0.2
	88.6	**275.7**

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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

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

	Gross	2013 Impairment	Net
GROUP	$m	$m	$m
Not past due	38.5	(0.2)	38.3
Past due 1 – 30 days	12.1	-	12.1
Past due 31 – 60 days	1.4	-	1.4
Past due 61 - 90 days	0.3	(0.2)	0.1
Past due > 91 days	1.7	(0.7)	1.0
Total	54.0	(1.1)	52.9
PARENT	$m	$m	$m
Not past due	6.4	-	6.4
Past due 1 – 30 days	2.6	-	2.6
Past due 31 – 60 days	0.5	-	0.5
Past due 61 - 90 days	-	-	-
Past due > 91 days	0.4	(0.2)	0.2
Total	9.9	(0.2)	9.7

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

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

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

	Group 2013	Parent 2013
	$m	$m
Balance at 31 December 2012	-	-
Provision vested from NZRC	1.2	0.4
Amounts written off during the year	(0.2)	(0.1)
Additional provisions made/(reversed) during the year	0.1	(0.1)
Balance at 30 June 2013	**1.1**	**0.2**

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

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

Exposure to credit and currency risks are disclosed in note 26.

The average credit period on sales of goods and services is 23.7 days.

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

12. Inventories

	Group 2013	Parent 2013
	$m	$m
Operational Activities		
Fuel	1.9	-
Inventory held to maintain railway	29.1	29.1
Inventory held to maintain rolling stock and vessels	42.6	-
Inventory held for resale	0.7	-
Contracting Activities – work in progress	1.3	-
Gross inventory	**75.6**	**29.1**
Less obsolescence provision	**(21.6)**	**(11.0)**
Net inventory	**54.0**	**18.1**

	Group 2013	Parent 2013
	$m	$m
Movement in provision for stock obsolescence during the period		
Opening balance		
Provisions vested 31 December 2012	28.0	-
Provision amalgamated from Ontrack Infrastructure Limited	-	12.4
Provisions made during the period	-	1.6
Provisions utilised during the period	(6.4)	(3.0)
Closing balance	**21.6**	**11.0**

No inventories are pledged as security for liabilities.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

13. Financial Assets and Liabilities

	Group 2013	Parent 2013
	$m	$m
Current financial assets		
Commodity forward contracts	0.1	-
Foreign currency forward contracts	4.0	3.6
Intercompany advances – current	-	166.1
Total current financial assets	4.1	169.7
Non-Current financial assets		
Foreign currency forward contracts	0.1	-
Interest rate swaps	-	-
Intercompany advances	-	31.3
Total non-current financial assets	0.1	31.3
Total financial assets	**4.2**	**201.0**
Current financial liabilities		
Commodity forward contracts	0.4	-
Loans	3.1	3.1
Finance leases	0.4	0.4
Interest rate swaps	-	-
Foreign currency forward contracts	1.6	1.6
Total current financial liabilities	5.5	5.1
Non-Current financial liabilities		
Commodity forward contracts	0.1	-
Foreign currency forward contracts	-	-
Loans	205.6	205.8
Finance leases	2.5	2.5
Interest rate swaps	10.3	10.3
Total non-current financial liabilities	218.5	218.6
Total financial liabilities	**224.0**	**223.7**

Unsecured loans

The notional principal amounts of the outstanding loans for the Group were $178.1m.

Secured loans

A loan from Commonwealth Bank of Australia which is secured against MV Aratere was vested along with the vessel to KHL on 31 December 2012. The amount outstanding as at 30 June 2013 is $30.8m.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

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

	Unit	Group 2013	Parent 2013
Notional principle	$m	211.9	211.9
Average fixed interest rate	%	5.68	5.68
Average term to maturity	years	4.12	4.12

Credit card facilities

The Group has a credit card facility with a maximum limit of $2.3m and $0.2m was drawn as at 30 June 2013.

Letter of credit facilities

The Group had one outstanding Import Letter of Credit with a total outstanding balance of USD3.3m for rail purchases as at 30 June 2013.

Fair value of derivative instruments

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

Commodity forward contracts

The Group is party to a number of commodity forward contracts for heavy and light fuel oil.
The total notional principal amount of outstanding commodity forward contracts is $9.3m.

Foreign currency forward contracts

The New Zealand Dollar notional principal amounts of outstanding forward foreign exchange contracts were $70.6m.

Interest rate swaps

The notional principal amounts of the outstanding interest rate swaps for the Group were $111.0m, with average term to maturity and average fixed interest rate shown in the table below:

	Unit	Group 2013	Parent 2013
Notional principle	$m	111.0	111.0
Average fixed interest rate	%	5.66	5.66
Average term to maturity	years	7.01	7.01

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

14. Investment Property

	Group 2013	Parent 2013
	$m	$m
Balance at 31 December 2012	-	-
Vested from NZRC	5.0	5.0
Additions	-	-
Disposals	-	-
Fair Value Gains/(Losses) on Valuation	-	-
Balance at 30 June 2013	**5.0**	**5.0**

Investment property comprises land and rail designation assets acquired as part of the joint venture arrangement with Northland Regional Council. The balance of investment property at 30 June 2013 comprises land of $2.2m and rail designation land and costs of $2.8m.

See note 22 for further information on this joint venture arrangement.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

15. Property, Plant and Equipment – Group

	Note	Land	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant and Equipment	Capital Work In Progress	Total
Cost:		$m	$m	$m	$m	$m	$m	$m	$m
Balance at 31 December 2012		-	-	-	-	-	-	-	-
Vested from NZRC		1.6	126.2	161.5	257.8	113.0	134.4	78.1	872.6
Additions		-	3.4	47.0	13.6	1.0	15.4	182.9	263.3
Disposals		-	-	-	(0.7)	-	(2.8)	(2.2)	(5.7)
Impairment	16	-	(1.8)	(79.5)	(32.5)	-	-	(107.5)	(221.3)
Balance at 30 June 2013		**1.6**	**127.8**	**129.0**	**238.2**	**114.0**	**147.0**	**151.3**	**908.9**
Accumulated depreciation:									
Balance at 31 December 2012		-	-	-	-	-	-	-	-
Vested from NZRC		-	7.9	0.4	24.2	21.2	49.2	-	102.9
Depreciation expense	6	-	4.4	1.1	15.4	3.7	6.6	-	31.2
Disposals		-	-	-	(0.4)	-	(2.2)	-	(2.6)
Impairment	16	-	-	(1.5)	(13.7)	-	-	-	(15.2)
Balance at 30 June 2013		**-**	**12.3**	**-**	**25.5**	**24.9**	**53.6**	**-**	**116.3**
Net book value:									
At 31 December 2012		-	-	-	-	-	-	-	-
At 30 June 2013		**1.6**	**115.5**	**129.0**	**212.7**	**89.1**	**93.4**	**151.3**	**792.6**

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

Property, Plant and Equipment (Continued) – Parent

	Note	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant and Equipment	Capital Work In Progress	Total
Cost:		$m	$m	$m	$m	$m	$m	$m
Balance at 31 December 2012		-	-	-	-	-	-	-
Vested from NZRC		33.3	161.5	-	-	94.3	26.1	315.2
Amalgamated from Ontrack Infrastructure Ltd		-	-	-	-	0.7	-	0.7
Additions		3.0	47.0	-	-	11.5	117.8	179.3
Disposals		-	-	-	-	(0.5)	(2.2)	(2.7)
Impairment	16	(1.8)	(79.5)	-	-	-	(102.4)	(183.7)
Balance at 30 June 2013		**34.5**	**129.0**	**-**	**-**	**106.0**	**39.3**	**308.8**
Accumulated depreciation:								
Balance at 31 December 2012		-	-	-	-	-	-	-
Vested from NZRC		1.1	0.4	-	-	29.6	-	31.1
Amalgamated from Ontrack Infrastructure Ltd		-	-	-	-	0.7	-	0.7
Depreciation expense	6	1.0	1.1	-	-	4.8	-	6.9
Disposals		-	-	-	-	(0.4)	-	(0.4)
Impairment	16	-	(1.5)	-	-	-	-	(1.5)
Balance at 30 June 2013		**2.1**	**-**	**-**	**-**	**34.7**	**-**	**36.8**
Net book value:								
At 31 December 2012		-	-	-	-	-	-	-
At 30 June 2013		**32.4**	**129.0**	**-**	**-**	**71.3**	**39.3**	**272.0**

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

Valuation of Assets

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

Land and Buildings

In June 2012 Darroch Limited conducted a valuation of land and buildings for NZRC. The 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.

If Land, Buildings and Railway infrastructure were stated on the historical cost basis, the amounts would be as follows:

	Land	Buildings	Railway Infrastructure
GROUP	$m	$m	$m
Cost	1.8	215.3	1,934.1
Accumulated depreciation	-	(56.6)	(159.3)
Net carrying value at 30 June 2013	1.8	**158.7**	**1,774.8**

	Buildings	Railway Infrastructure
PARENT	$m	$m
Cost	62.3	1,934.1
Accumulated depreciation	(6.6)	(159.3)
Net carrying value at 30 June 2013	**55.7**	**1,774.8**

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 16.

Property, plant and equipment pledged to secure borrowing

The MV Aratere is pledged as security for a loan from Commonwealth Bank of Australia. There are no restrictions on title and the balance of the loan at 30 June 2013 is $30.8m.

Leasing

Included within the plant and equipment asset class are Hi-Rail vehicles with a net book value of $3.2m which are held under a finance lease from Westpac Banking Corporation. Further details of the lease term are provided in note 21(a).

Borrowing costs

During the period the group has not capitalised any direct borrowing costs on qualifying assets.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

16. Impairment of Property, Plant and Equipment

Reconciliation of Impairment Movements to Primary Statements

	Impairment recognised in Statement of Financial Performance	
	Group	Parent
GROUP	$m	$m
Impairment of Cash Generating Units (below)	(209.4)	(185.5)
Impairment of Investment in Subsidiary	-	(3.6)
Impairment in Statement of Financial Performance	**(209.4)**	**(189.1)**

The non-leased buildings, railway infrastructure, rolling stock, plant and equipment and intangible assets are considered by management to form one CGU ("the Rail CGU"). The assets within the CGUs are tested for impairment. The recoverable amount of these assets is the higher of the value in use and fair value less costs to sell. The value in use for the CGU is the discounted estimated future cash flows that will be derived from the assets. The impairment for the Rail CGU is $209.4m. The impairment is allocated across each asset class within the CGU, including intangible assets.

Where assets have a readily determinable market value they have been impaired to this value. Where a market value is not able to be determined the assets have been impaired to their share of the calculated value in use for the CGU. A discount rate of 9.8% has been used to calculate the value in use for the CGU. Market values have been provided by independent valuers Darroch Limited for buildings as at 30 June 2012, and Ernst and Young for all railway infrastructure and rolling stock as at 30 June 2013.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

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

	Carrying amount before impairment	Impairment recognised in Statement of Financial Performance	Impairment recognised in Asset Revaluation Reserve	Carrying amount after impairment
GROUP	$m	$m	$m	$m
Rail CGU				
Non-Leased Buildings	47.7	(1.8)	-	45.9
Railway infrastructure	207.0	(78.0)	-	129.0
Rolling stock	231.5	(18.8)	-	212.7
Plant and equipment	86.2	-	-	86.2
Assets under construction	256.0	(107.5)	-	148.5
Software	3.3	(3.3)	-	-
	831.7	**(209.4)**	**-**	**622.3**
Interislander CGU				
Ships	89.1	-	-	89.1
Plant and equipment	7.2	-	-	7.2
Assets under construction	2.8	-	-	2.8
Software	0.4	-	-	0.4
	99.5	**-**	**-**	**99.5**
Leased Building CGU				
Buildings	69.6	-	-	69.6
	69.6	**-**	**-**	**69.6**
Clifford Bay CGU				
Land	1.6	-	-	1.6
	1.6	**-**	**-**	**1.6**
Total	**1,002.4**	**(209.4)**	**-**	**793.0**

	Carrying amount before impairment	Impairment recognised in Statement of Financial Performance	Impairment recognised in Asset Valuation Reserve	Carrying amount after impairment
PARENT	$m	$m	$m	$m
Rail CGU				
Non-Leased Buildings	9.1	(1.8)		7.3
Railway infrastructure	207.0	(78.0)	-	129.0
Rolling Stock	-	-	-	-
Plant and equipment	71.3	-	-	71.3
Assets under construction	141.7	(102.4)	-	39.3
Software	3.3	(3.3)	-	-
	432.4	**(185.5)**	**-**	**246.9**
Leased Building CGU				
Buildings	25.1	-	-	25.1
	25.1	**-**	**-**	**25.1**
Total	**457.5**	**(185.5)**	**-**	**272.0**

In note 15 Property, Plant and Equipment, the impairment is split between cost and accumulated depreciation as appropriate.

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

17. Intangible Assets

	Note	Group Software	Parent Software
		$m	$m
Gross carrying amount			
Balance at 31 December 2012		-	-
Vested from NZRC		2.0	-
Additions		4.0	3.8
Disposals		-	-
Impairment		(3.8)	(3.8)
Balance at 30 June 2013		**2.2**	**-**
Accumulated amortisation			
Balance at 31 December 2012		-	-
Vested from NZRC		1.6	-
Amortisation expense	6	0.7	0.5
Disposals		-	-
Impairment		(0.5)	(0.5)
Balance at 30 June 2013		**1.8**	**-**
Net book value			
As at 30 June 2013		0.4	-

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

Impairment losses of $3.3m for the Group and $3.3m for the Parent are included in the impairment in the Statement of Financial Performance. For more details see note 16.

No software is pledged as security for liabilities at the balance date and there are no restrictions on title.

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NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

18. Trade and Other Liabilities

	Note	Group 2013	Parent 2013
		$m	$m
Trade payables		36.6	20.5
Goods and services tax receivable		(7.4)	(6.5)
Employee entitlements	a	96.1	23.9
Unearned revenue		7.8	4.2
Accrued interest		1.1	1.0
Amounts payable to related parties		-	9.7
Joint venture payable	22	5.9	5.9
Other payables and accruals		41.8	23.3
Total payables		**181.9**	**82.0**
Current liabilities		144.6	73.9
Non-current liabilities		37.3	8.1
		181.9	**82.0**

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

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

Exposure to credit and currency risks and impairment losses are disclosed in note 26.

a. Employee Entitlements

	Group 2013	Parent 2013
	$m	$m
Current portion		
Accrued salaries and wages	7.4	2.4
Annual leave entitlement accruals	45.3	12.8
Sick leave entitlement accruals	-	-
Retirement and long service leave liability	6.1	0.6
Total current portion	58.8	15.8
Non-Current portion		
Retirement and long service leave	37.3	8.1
Total non-current portion	37.3	8.1
Total employee entitlements	**96.1**	**23.9**

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

The present value of the retirement and long service leave obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. The assumptions used by the actuaries in arriving at the retirement and long service leave liabilities were a salary increase rate of 3.0% per annum and term specific risk-free discount rate between 2.7% and 5.5% per annum. The discount rate is derived from the yields on government bonds as at 30 June 2013, 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 2013	Parent 2013
	$m	$m
ACC partnership programme	2.8	0.7
Leased vessel costs	3.7	-
Transition costs	0.1	-
Warranty costs	0.5	-
Reorganisation costs	4.3	2.8
Other provisions	4.8	2.1
	16.2	**5.6**
Represented by:		
Current	12.5	5.6
Non-current	3.7	-
	16.2	**5.6**

Movements in each class of provision are as follows:

	Balance at 31 Dec 2012	Vested from NZRC	Provisions made during the period	Provisions utilised during the period	Balance at 30 June 2013	Current	Non-Current
GROUP	$m	$m	$m	$m	$m	$m	$m
ACC partnership programme	-	2.7	0.2	(0.1)	**2.8**	2.8	-
Leased vessel costs	-	4.5	0.7	(1.5)	**3.7**	-	3.7
Transition costs	-	0.3	-	(0.2)	**0.1**	0.1	-
Warranty costs	-	0.2	0.3	-	**0.5**	0.5	-
Reorganisation costs	-	12.7	2.6	(11.0)	**4.3**	4.3	-
Other provisions	-	3.4	3.4	(2.0)	**4.8**	4.8	-
	-	23.8	7.2	(14.8)	**16.2**	12.5	3.7

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

	Balance at 31 Dec 2012	Vested from NZRC	Provisions acquired through amalgamation	Provisions made during the period	Provisions utilised during the period	Balance at 30 June 2013	Current
PARENT	$m	$m	$m	$m	$m	$m	$m
ACC partnership programme	-	0.1	0.5	0.1	-	**0.7**	0.7
Reorganisation costs	-	-	7.8	1.4	(6.4)	**2.8**	2.8
Other provisions	-	-	-	2.1	-	**2.1**	2.1
	-	0.1	8.3	3.6	(6.4)	**5.6**	5.6

ACC partnership programme

The Group 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 principal assumption of the Bornheutter-Fergusson (BF) method is that the development pattern of claims payments is the same for all loss periods;
- The BF method assumes that future inflation will be the same as the historical weighted average inflation which is present in the claims data. It is not possible to calculate the inflation rate explicitly;
- Projected future claim payments were discounted for the time value of money based on secondary market government bond yields as at the valuation date;
- The assumed "loss ratios" (claims / liable earnings) for Kiwirail of 0.50% (loss quarters up to March 2011) and 0.55% (thereafter) of liable earnings were determined by considering the observed loss ratios for the earlier loss quarters and the goodness of fit to KiwiRail's ACC Partnership Programme's claims experience.
- Included a provision of 10% for the costs of managing future claims.

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

Leased vessel cost

Redelivery costs: The Group has a charter agreement with Irish Continental Line Limited for the Kaitaki roll-on-roll-off ferry (effective 1 July 2013) until 30 June 2017, which replaced a previous charter agreement for the same ship with Stena Finance B.V. The ship commenced in service under the original charter agreement on 22 August 2005. Redelivery costs are accrued during the period of the lease. At balance date the provision totalled $3.7m.

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

NOTES TO THE FINANCIAL STATEMENTS

Warranty costs

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

Reorganisation costs

A provision was established by NZRC in the year ended 30 June 2012. This was in relation to plans to restructure the Infrastructure and Engineering division including the potential sale or closure of the Hillside workshop. The balance of this provision at 31 December 2012 was vested in the Group. These plans are now largely complete and any excess provision has been released back to the Statement of Financial Performance. In addition there are other restructuring plans across the Group and provisions have been established for expected costs including contract termination costs, consulting fees and employee termination benefits. These restructuring activities are expected to be complete during the 2014 financial year.

20. Deferred Taxation

The Group has an unrecognised deferred tax asset of $651.9m (Parent $602.7m) arising from deductible temporary differences of $2,204.7m (Parent $2,100.1m) and unused tax losses of $124.0m (Parent $52.9m).

The Group has formed an imputation Group. The Group has access to $1,009,364 imputation credits. This figure is in NZ dollars and not expressed in millions.

21. Lease Commitments

(a) Finance lease commitments

The Group has an agreement with Westpac Banking Corporation to lease 69 Hi-Rail Trucks and 15 Hi-Rail Light Inspection Vehicles. The approved limit of the agreement is $13.1m to be drawn down by December 2014. At 30 June 2013 the Group had the following commitments under this lease agreement:

	Group 2013	Parent 2013
	$m	$m
Total minimum lease payments due		
Not later than one year	0.6	0.6
Later than one year but not later than five years	2.0	2.0
Later than five years	0.8	0.8
Total minimum lease payments	3.4	3.4
Future lease finance charges	(0.5)	(0.5)
Present value of minimum lease payments	**2.9**	**2.9**
Represented by:		
Current	0.4	0.4
Non-current	2.5	2.5
Total finance leases	**2.9**	**2.9**

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

(b) Operating lease commitments as lessee

NZRC 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 rail corridor land. KHL 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. It is also able to sub-lease railway land for periods of time within the term of the lease.

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. In April 2013, a new lease was signed which came into effect on 1 July 2013 for the Kaitaki vessel. The new lease has a non-cancellable term of four years expiring on 30 June 2017.

Motor vehicle leases generally have a non-cancellable term of three years.

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

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

	Group 2013	Parent 2013
	$m	$m
Total minimum lease payments due:		
Not later than one year	20.5	6.7
Later than one year but not later than five years	51.6	14.8
Later than five years	12.0	11.9
	84.1	**33.4**

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

Exposure to currency risks are included in the currency exposures in note 26..

(c) Operating lease commitments as lessor

The Group has certain non-cancellable property leases. The property lease portfolio is made up of a large number of leases with varying terms. The commitment includes a significant lease with FX Networks with 28 years remaining of the lease term and a total commitment of $60.0m. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

	Group 2013	Parent 2013
	$m	$m
Total minimum lease payments receivable:		
Not later than one year	17.6	17.6
Later than one year but not later than five years	40.7	40.7
Later than five years	66.6	66.6
	124.9	**124.9**

For the period ended 30 June 2013 $15.1m was recognised as revenue in the Statement of Financial Performance.

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

22. Joint Venture with Northland Regional Council

In January 2009 NZRC entered into an agreement with Northland Regional Council to create a Joint Venture in order to advance the proposed Oakleigh to Marsden Point rail link. The Council entered into voluntary negotiations with landowners who owned land along the existing corridor and to date have acquired eight properties with a total acquisition cost of $11.3m. (The Group's share is $5.65m)

The Joint Venture arrangement was vested from NZRC to KHL on 31 December 2012.

Both the non designated land and the designated land and associated costs are accounted for based on the economic substance of the joint venture agreement. They are deemed to be jointly controlled so each party to the agreement recognises a 50% share of each asset.

At 30 June 2013 the Group has a liability of $5.9m to the Council for its share of the cost of land purchased by the Council as well as other Council expenditure relating to the JV. This is included in Trade and Other liabilities in note 18. The Group also has a receivable of $0.6m from the Council for their share of associated costs paid by the Group. This is included in Other Receivables in note 11.

23. Capital and other Commitments

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

	Group 2013	Parent 2013
	$m	$m
Capital expenditure commitments:		
Not later than one year	79.8	59.2
Later than one year but not later than five years	7.4	7.4
Later than five years	-	-
	87.2	**66.6**

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

24. Reconciliation of Net Surplus / (Deficit) to Net Cash Flows from Operating Activities

	Group 2013	Parent 2013
	$m	$m
Net (loss)/surplus after taxation	(98.7)	(91.7)
Add/(deduct) items classified as investing or financing activities		
Gain on sale of assets	(2.7)	-
Fair value movement in derivatives	(7.4)	(6.0)
Capital grant receipts	(80.5)	(80.5)
	(189.3)	(178.2)
Add non-cash flow items		
Depreciation and amortisation expense	31.9	7.4
Movements in deferred tax and provisions	(13.6)	5.6
Effect of exchange rate changes on cash balances	-	-
Impairment of property, plant and equipment	209.4	189.1
	38.4	23.9
Add/(deduct) movements in working capital		
Decrease in trade receivables	3.2	1.0
(Increase)/decrease in other receivables	31.2	26.7
(Increase)/decrease in inventories	13.4	(18.1)
Increase/(decrease) in trade payables	(26.0)	(7.5)
Increase/(decrease) in other payables	(20.1)	(46.8)
Net cash flows from operating activities	**40.1**	**(20.8)**

25. Related Party Transactions

The beneficial shareholder of the Parent is the Crown. The Parent controls one subsidiary, KiwiRail Limited ("KL"). KL has two subsidiaries, Clifford Bay Limited and Tranz Rail Limited.

	% holding 2013	Parent	Incorporation	Balance date	Nature of activities
KiwiRail Limited	100 %	KHL	New Zealand	30 June	Operates and maintains a nationwide rail and ferry transportation business
Clifford Bay Limited	100 %	KL	New Zealand	30 June	Lease of land
Tranz Rail Limited	100 %	KL	New Zealand	30 June	Non-trading

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NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

On 31 December 2012 100% shareholdings in two New Zealand incorporated companies, Kiwirail Investments Limited and Ontrack Infrastructure Limited were vested from NZRC to KHL. On 1 January 2013 Kiwirail Investments Limited was amalgamated into KL and Ontrack Infrastructure Limited was amalgamated into KHL.

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

Significant transactions with government-related entities

The Group has been provided with equity and capital grant funding from the Crown. Equity funding of $87.0m has been received together with capital grant funding of $69.9m.

The Group receives operating revenue for providing rail freight services to Solid Energy New Zealand and Genesis Power, both State Owned Enterprises.

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

	Group 2013	Parent 2013
	$000	$000
Solid Energy:		
Revenue	23,111	556
% of total	6.3%	0.6%
Genesis Power:		
Revenue	1,209	-
% of total	0.3%	-
	24,320	**556**

Collectively but not individually significant transactions with government-related entities

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

The Group also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. These purchases included the purchase of electricity from Meridian Energy, Genesis Energy and Transpower; air travel from Air New Zealand; postal services from New Zealand Post; telecommunication from Kordia; contract services by Land Information New Zealand and Metservice; promotion by New Zealand Tourism Board and licenses by New Zealand Transport Agency.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

	Group 2013	Parent 2013
	$000	$000
Meridian Energy:		
Expenses	5,759	272
% of total	1.9%	0.4%
Genesis Energy:		
Expenses	15	10
% of total	-	-
Transpower:		
Expenses	1,061	1,061
% of total	0.4%	1.5%
Air New Zealand:		
Expenses	1,447	1,043
% of total	0.5%	1.4%
New Zealand Post:		
Expenses	190	147
% of total	0.1%	0.2%
Kordia:		
Expenses	317	317
% of total	0.1%	0.4%
Land Information New Zealand:		
Expenses	8	8
% of total	-	-
Metservice:		
Expenses	11	-
% of total	-	-
New Zealand Tourism Board:		
Expenses	6	-
% of total	-	-
New Zealand Transport Agency:		
Expenses	464	302
% of total	0.2%	0.4%
	9,278	**3,160**

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2013 (Continued)

Transactions with key management personnel

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

The following transactions were carried out with key management personnel:

	Statement of Financial Performance		Statement of Financial Position	
	Sales 2013	Purchases 2013	Receivable 2013	Payable 2013
	$000	$000	$000	$000
Paula Rebstock (Director appointed 6 Nov 2012)				
ACC	-	3,491	-	-
Work & Income	9	-	2	-
	9	**3,491**	**2**	**-**
Kevin Thompson (Director appointed 6 Nov 2012)				
IPENZ	-	1	-	-
Aquamax	-	81	-	13
	-	**82**	**-**	**13**
John Spencer (Director appointed 6 Dec 2012)				
Mitre 10	-	15	-	-
	-	**15**	**-**	**-**
John Leuchars (Director appointed 6 Nov 2012)				
Genesis	1,209	15	314	1
	1,209	**15**	**314**	**1**
TOTALS 2013	**1,218**	**3,603**	**316**	**14**

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

The Parent operates an intercompany account with its subsidiary, KL in the ordinary course of business. As at 30 June 2013 the net balance receivable by the Parent was $226.5m and no debt has been forgiven. During the period KL received $9.2m in payments from the Parent for services provided.

The Parent has provided loans to its subsidiary KL. As at 30 June 2013 the outstanding balance of the loans amounted to $31.8m. Interest on the loans is charged at the cost of funds to the parent plus a margin of 0.25%. Interest on the loans during the period amounted to $6.3m.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

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

	Group 2013	Parent 2013
	$000	$000
Key Management Personnel Compensation		
Short term employee benefits	1,832	1,238
Termination benefits	-	-
Post-employment benefits	-	-
Balance at end of year	**1,832**	**1,238**

Employees' remuneration

Following the restructure of the KiwiRail business at 31 December 2012, employment contracts of staff previously employed by NZRC were vested to KHL. For the purpose of disclosing the number of employees with total remuneration and benefits in excess of $100,000 we have considered the total remuneration paid by the KiwiRail business in the financial year (i.e. by both NZRC and KHL).

	Group 2013	Parent 2013
	$000	$000
Employees' remuneration		
100 – 110	263	114
110 – 120	139	56
120 – 130	74	30
130 – 140	58	33
140 – 150	34	13
150 – 160	36	18
160 – 170	30	12
170 – 180	17	4
180 – 190	11	3
190 – 200	10	4
200 – 210	9	3
210 – 220	10	6
220 – 230	4	2
240 – 250	1	-
250 – 260	1	-
260 – 270	1	1
300 – 310	2	2
310 – 320	1	1
320 – 330	2	1
370 – 380	1	1
400 – 410	1	1
410 – 420	1	-
440 – 450	1	-
450 – 460	2	2
700 – 710	1	1
810 – 820 *	1	1
	711	**309**

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

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

The Directors earned the following fees during the year:

	2013
	$000
KHL Directors	
John Spencer	40
Paula Rebstock	25
Robert Field	20
John Leuchars	20
Rebecca Thomas	20
Kevin Thompson	20
Guy Royal	20
	165

All Directors were appointed on 6 November 2012 at the incorporation of the Company and were previously Directors of the New Zealand Railways Corporation. Guy Royal was appointed to the Board of NZRC on 1 November 2012, all other Directors served on the Board of NZRC for the period 1 July 2012 to 31 December 2012.

26. Financial Instruments

a. Market Risk

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

i. Foreign Exchange Risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

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

	Group As at 30 June 2013			
In NZ $m	USD	AUD	EUR	Other
Foreign currency risk				
Non-derivative financial instruments				
Cash and cash equivalents	-	-	-	-
Trade and other receivables (excluding prepayments)	-	-	-	-
Trade and other liabilities	(0.1)	(0.3)	-	(0.1)
Net balance sheet exposure before hedging activities	(0.1)	(0.3)	-	(0.1)
Gross forecast sales	-	-	-	-
Gross forecast purchases	(65.2)	(5.9)	(18.5)	(3.5)
Net Exposure (NZD)	**(65.3)**	**(6.2)**	**(18.5)**	**(3.6)**
Foreign currency derivatives				
Notional principal (NZD)				
Cash flow hedges	33.6	1.6	16.8	-
Non-hedge accounted	11.6	4.0	1.7	3.5
Balance*	**(20.0)**	**(0.6)**	**-**	**(0.1)**
Cash flows in respect of foreign currency cash flow hedges are expected to occur:				
Not later than 1 year	33.6	1.6	16.8	-
Later than 1 year not later than 2 years	-	-	-	-
	33.6	**1.6**	**16.8**	**-**

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

Foreign currency sensitivity on financial instruments

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

ii. Interest Rate Risk

	Group June 2013		Parent June 2013	
	Equity	Profit	Equity	Profit
In NZ $m				
Foreign currency sensitivity analysis				
Impact of a 10% strengthening of the NZD	(6.6)	(1.9)	(6.6)	(1.9)
Impact of a 10% weakening of the NZD	8.1	2.3	8.1	2.3

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

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

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

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

Interest rate risk

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

Interest sensitivity analysis

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

	Group June 2013 Profit	Parent June 2013 Profit
In NZ $m		
Impact of a 100 bp interest rate increase	5.5	5.5
Impact of a 100 bp interest rate decrease	(6.0)	(6.0)

iii. Price Risk

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

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

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

Fuel price sensitivity on financial instruments

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

	Group June 2013 Profit	Parent June 2013 Profit
In NZ $m		
Impact from a 10% increase in fuel	1.4	1.4
Impact from a 10% decrease in fuel	(1.4)	(1.4)

The sensitivity level for the Group's commodity risk was set at 10% and was based on the variation of the average of the commodities prices compared during 2012/13.

b. Credit Risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

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 2013	Parent 2013
	$m	$m
Cash at bank and term deposits	64.8	44.9
Trade and other receivables	88.5	275.7
Derivative instrument assets	4.2	3.6
Intercompany advances	-	197.4
Total credit risk	**157.5**	**521.6**

c. Liquidity Risk

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

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

Exposure to liquidity risk

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

FINANCIAL LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

	Carrying amount	Contractual cash flows	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
GROUP 2013	$m	$m	$m	$m	$m	$m
Financial Liabilities						
Trade and other payables	181.9	181.9	144.6	37.3	-	-
Net settled derivative liabilities	12.4	12.4	2.0	0.1	-	10.3
Finance Leases	2.9	3.4	0.6	0.5	1.5	0.8
Borrowings	208.7	258.8	15.5	25.9	216.6	0.8
Total	**405.9**	**456.5**	**162.7**	**63.8**	**218.1**	**11.9**
Derivative Financial Instruments						
Forward exchange contracts:						
outflow	(71.4)	(71.4)	(69.9)	(1.5)	-	-
inflow	73.7	73.7	72.2	1.5	-	-
Total	**2.3**	**2.3**	**2.3**	**-**	**-**	**-**

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

	Carrying amount	Contractual cash flows	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
PARENT 2013	$m	$m	$m	$m	$m	$m
Financial Liabilities						
Trade and other payables	82.0	82.0	73.9	8.1	-	-
Net settled derivative liabilities	11.9	11.9	1.6	-	-	10.3
Finance Leases	2.9	3.4	0.6	0.5	1.5	0.8
Borrowings	208.9	258.8	15.5	25.9	216.6	0.8
Total	**305.7**	**356.1**	**91.6**	**34.5**	**218.1**	**11.9**
Derivative Financial Instruments						
Forward exchange contracts:						
Outflow	(71.4)	(71.4)	(69.9)	(1.5)	-	-
Inflow	73.7	73.7	72.2	1.5	-	-
Total	**2.3**	**2.3**	**2.3**	**-**	**-**	**-**

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

d. Capital Risk Management

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

The capital structure of the Group consists of borrowings (as outlined in note 13), cash and cash equivalents (as outlined in note 10) and equity. Equity comprises a capital contribution from the Crown, retained earnings and reserves.

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

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

e. Financial Instrument Fair Values and Classification

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

	Group as at 30 June 2013					
	Loans and Receivables	Other Amortised Cost	Non-Hedged Accounted	Hedge Accounted	Carrying Amount	Fair Value
In NZ $m						
Financial assets						
Cash and cash equivalents	64.8	-	-	-	64.8	64.8
Trade and other receivables (excluding prepayments)	79.5	-	-	-	79.5	79.5
Derivative financial assets – current	-	-	0.7	3.4	4.1	4.1
Derivative financial assets – non-current	-	-	0.1	-	0.1	0.1
Total financial assets	**144.3**	**-**	**0.8**	**3.4**	**148.5**	**148.5**
Financial liabilities						
Trade and other liabilities	-	(181.9)	-	-	(181.9)	(181.9)
Interest-bearing liabilities	-	(211.6)	-	-	(211.6)	(221.8)
Derivative financial liabilities – current	-	-	(0.5)	(1.5)	(2.0)	(2.0)
Derivative financial liabilities – non-current	-	-	(10.4)	-	(10.4)	(10.3)
Total financial liabilities	**-**	**(393.5)**	**(10.9)**	**(1.5)**	**(405.9)**	**(416.1)**

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 30 June 2013 (Continued)

	Parent as at 30 June 2013					
	Loans and Receivables	Other Amortised Cost	Non-Hedged Accounted	Hedge Accounted	Carrying Amount	Fair Value
In NZ $m						
Financial assets						
Cash and cash equivalents	44.9	-	-	-	44.9	44.9
Trade and other receivables (excluding prepayments)	270.3	-	-	-	270.3	270.3
Interest-bearing assets	197.4	-	-	-	197.4	197.4
Derivative financial assets – current	-	-	0.1	3.5	3.6	3.6
Derivative financial assets – non-current	-	-	-	-	-	-
Total financial assets	**512.6**	**-**	**0.1**	**3.5**	**516.2**	**516.2**
Financial liabilities						
Trade and other liabilities	-	(82.0)	-	-	(82.0)	(82.0)
Interest-bearing liabilities	-	(211.8)	-	-	(211.8)	(222.0)
Derivative financial liabilities – current	-	-	(0.1)	(1.5)	(1.6)	(1.6)
Derivative financial liabilities – non-current	-	-	(10.3)	-	(10.3)	(10.3)
Total financial liabilities	**-**	**(293.8)**	**(10.4)**	**(1.5)**	**(305.7)**	**(315.9)**

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

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

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

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

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

The financial assets and liabilities outlined in tables in Note 26e above are classified as following:

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

27. Contingent Liabilities

(a) Claims

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

(b) 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.

(c) Marsden Point rail corridor designation

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

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of KiwiRail Holdings Limited and group's financial statements for the period ended 30 June 2013

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

Kiwirail Holdings Limited was incorporated on 6 November 2012 and commenced operations with effect from 31 December 2012. These financial statements cover the period from incorporation to 30 June 2013.

We have audited the financial statements of the company and group on pages 58 to 108, that comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

OPINION

Financial statements

In our opinion the financial statements of the company and group on pages 58 to 108:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the company and group's:
    - financial position as at 30 June 2013; and
    - financial performance and cash flows for the period ended on that date.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 30 August 2013. 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 company and group's financial statements that give a true and fair view of 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 company and group's internal control.

An audit also involves evaluating:

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

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

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. 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
- give a true and fair view of the company and group's financial position, financial performance and cash flows.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors 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 and the Financial Reporting Act 1993.

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.

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

S B Lucy

Audit New Zealand

On behalf of the Auditor-General

Wellington, New Zealand

Directory

Directors

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

Executive Team

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

Bankers	Bank of New Zealand North End Branch, 100 Lambton Quay, Wellington P.O. Box 1596, Wellington 6140
Auditors	Stephen Lucy, Audit New Zealand On behalf of the Auditor-General Level 8, 100 Molesworth Street, Wellington Private Bag 99, Wellington 6140
Registered office	Level 3, 8-14 Stanley Street, Auckland 1010

Further information

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

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