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2014 ANNUAL REPORT

KiwiRail

KiwiRail **Overview**

KiwiRail is a New Zealand Government-Owned Enterprise which owns and operates New Zealand's rail transportation network and the between island ferry service. We are in the business of operating and optimising transport and supply chain networks to enable New Zealand's economic growth.

From 1 January 2013, railway business activities were separated from rail land holdings as a result of a Government restructure carried out to put the business on a more commercial footing. The former parent, New Zealand Railways Corporation (NZRC), continued to hold the 18,000 hectares of rail network land, from which no financial return is expected. The business activities were transferred to a new State Owned Enterprise, KiwiRail Holdings Ltd. NZRC is managed by KiwiRail Holdings Ltd under a long-term nominal fee management agreement, and therefore has limited operational activities.

We conduct business in the following areas:

Logistics: We are a logistics provider to customers who use our rail freight and ferry services. Each week, approximately 900 freight trains operate on the KiwiRail network. They carry bulk freight such as coal and milk, containerised import or export freight to and from ports and full container loads for New Zealand freight forwarders. Three ferries provide the inter-island supply chain link with more than 4000 sailings a year.

Shipping: We are an owner and operator of shipping services operating under the Interislander brand. Of our three ferries, two are owned and one is chartered.

Tourism Experiences: We provide tourism experiences by rail and sea. Three long-distance rail passenger trains - the TranzAlpine, Coastal Pacific and Northern Explorer - provide daily, tri-weekly or seasonal services. Train charters provide specific rail experiences and service the cruise market. Interislander ferry services operate daily between Wellington and Picton return.

Public Transport: We operate public transport services in Wellington on behalf of Greater Wellington Regional Council. Each week, Tranz Metro suburban services provide approximately 2,200 services. KiwiRail currently operates the Capital Connection commuter train on weekdays between Palmerston North and Wellington. In Auckland, we control the movements of 2,000 passenger services a week on trains operated by Transdev on contract to Auckland Transport.

Infrastructure: We are an infrastructure provider in the form of the New Zealand rail network. Our role is to operate, maintain and improve the 4,000 km track network.

Rolling Stock: KiwiRail owns and operates 189 mainline locomotives, 4,820 freight wagons and approximately 60 passenger carriages. We are a rolling stock owner, manufacturer, maintainer and refurbisher. Mechanical services are provided at depots around the country as well as the major railway workshop in Lower Hutt.

Property: Our property group earns income from leasing and managing the property portfolio.

Assets

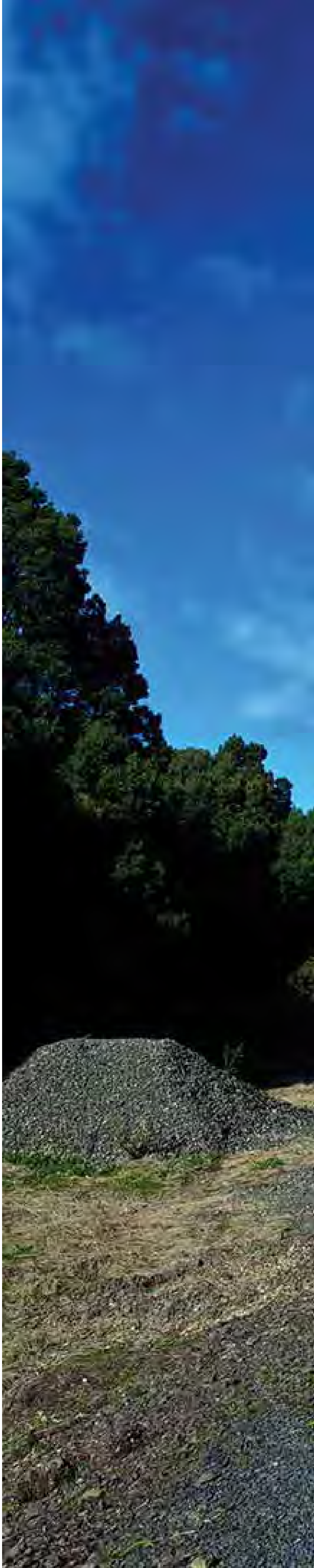
4,000kms tracks

189 Mainline Locomotives

2 owned, 1 leased ferry

4,100 staff approximately

Contents

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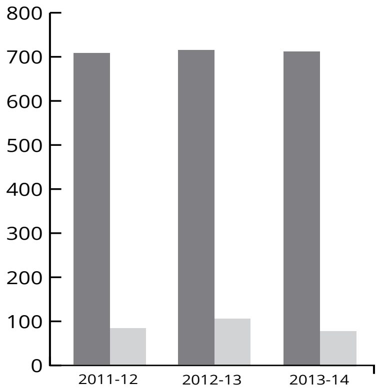
Summary of Results

KiwiRail Group

Revenue & Operating Surplus

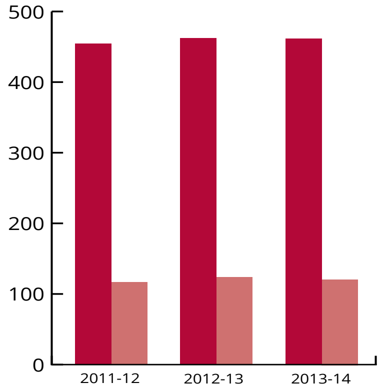
Revenue ($m) Operating Surplus ($m)



Freight

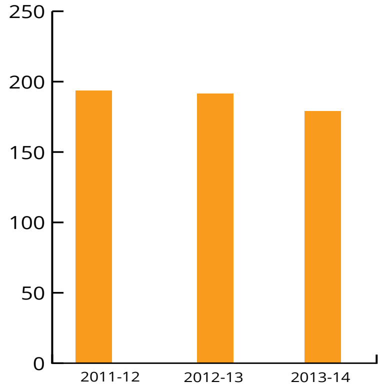
Revenue & Operating Surplus

Revenue ($m) Operating Surplus ($m)



Infrastructure & Engineering

Network Investment ($m)

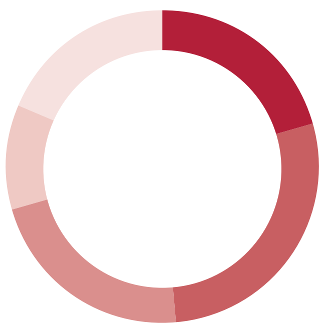


Revenue by Business

Freight Tranz Metro Scenic Journeys
Property & Corporate Interislander
Infrastructure & Engineering

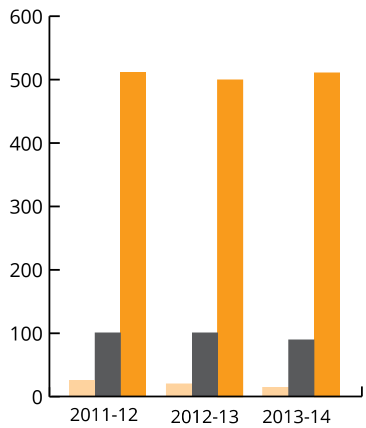
Segment Revenue

Bulk Import-Export Domestic
Forestry Other



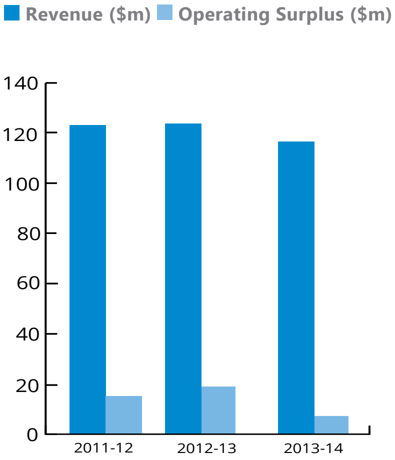
Infrastructure Improvements

New rail laid (km) New sleepers laid
Bridges Replaced

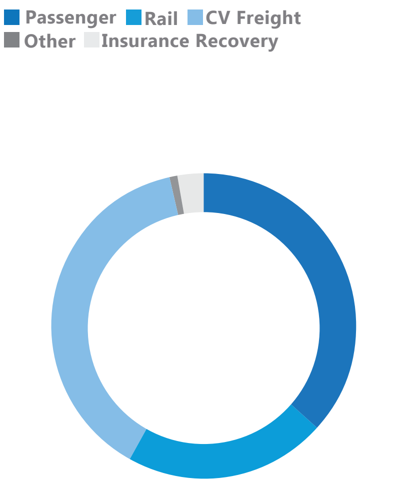


Interislander

Revenue & Operating Surplus

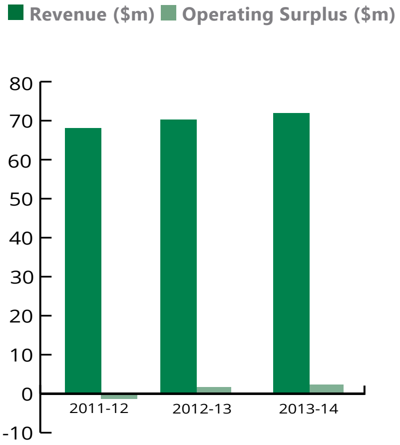


Segment Revenue

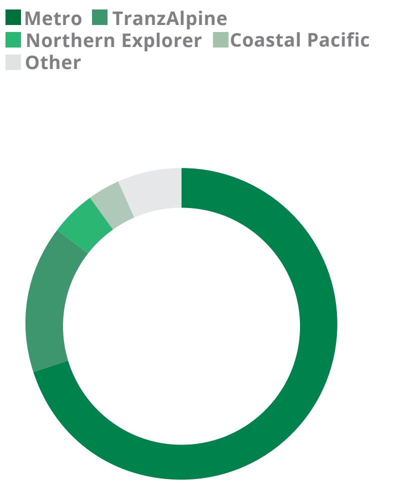


Passenger

Revenue & Operating Surplus

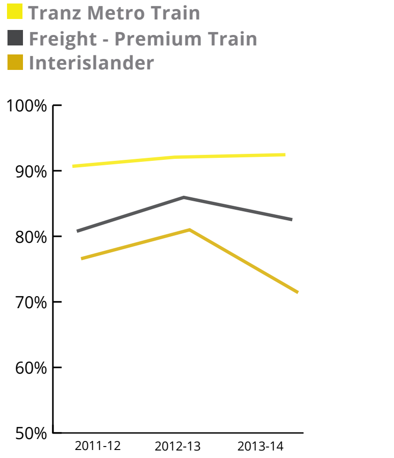


Segment Revenue

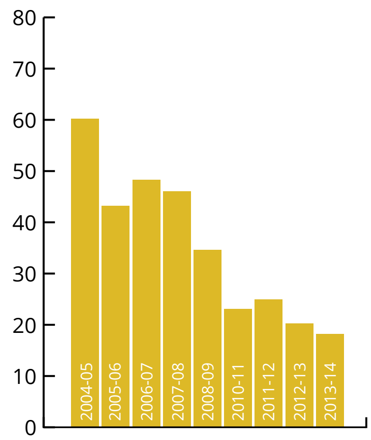


Key Indicators

On-time Performance



Mainline Derailment



Chairman's Report

John Spencer
Chairman

KiwiRail has made significant progress since being formed in 2008. Growth in traffic volume and revenue, improving customer confidence and asset quality illustrate this progress.

This performance has been achieved despite the global financial crisis, earthquakes, droughts and floods, land slippages and the vagaries of the market. These have all tested the character and resilience of the rail industry and its staff. They have impacted on our business and on the plan we have been implementing to achieve greater financial independence.

Two events during the 2014 financial year rank among the tougher tests we have faced because of their effect on our earnings and on our reputation with our customers.

The events in question were a propeller shaft failure on the Interislander ferry Aratere and the identification of asbestos contamination in our new DL locomotives.

The propeller shaft failure and its consequent loss are dealt with in greater detail elsewhere in this report. In short, it took the ferry out of service from early November — the beginning of the peak freight and passenger period — beyond the end of the financial year.

It created capacity constraints, frustrated freight and passenger customers and required Interislander to lease a replacement vessel to fill the gap. While it was gratifying to be able to source a replacement at short notice, the replacement ship did not have Aratere's capability to carry rail wagons and passengers.

We have put the cost of the Aratere issue at $27 million which includes lost freight and passenger revenue and the costs associated with leasing the replacement vessel. This has impacted on our result for the year and it has also had a lingering impact in terms of the time it will take us to regain the confidence of customers, as it will on revenue.

The DL locomotives' asbestos issue is also described in greater detail elsewhere. It took 40 new locomotives in an overall fleet of 189 out of service at the end of February. The 20 newest locomotives began re-entering service in mid-April but the remaining 20 have filtered back more slowly.

KiwiRail does not take these service failures lightly. In each case we have established thorough forensic investigation processes as to why these occurred. Wherever possible, we will pursue compensation if it emerges that our suppliers or advisors have not met their obligations.

The direct and indirect effects of these issues, along with a reduction in import-export traffic and a softening forestry market, resulted in revenue being held in line with FY 2013 but falling 6 percent below plan.

The costs to maintain our services, however, were significant and account for much of the poorer operating earnings outcome of $75.3 million, $32.9 million (30 percent) lower than FY 2013.
The FY 2014 result is particularly disappointing because the year had begun so promisingly. The introduction of new and improved rolling stock provided the Freight business with the capacity to meet demand created by a growing economy. Freight revenue in the first four months of the year was tracking ahead of plan.

At year's end, Freight revenue was $1.7 million below FY 2013, impacted not only by the Aratere and locomotive issues, but by lower than expected import-export and bulk freight revenue. In the circumstances, this was a creditable performance from the business unit that generates the bulk of our income.

While the year had its share of disappointments, there were also achievements that deserve to be recognised. Total harm injuries reduced 44 percent from the prior year, mainline derailments dropped to 18, a far cry from the 60 recorded 10 years ago and a reflection of the improving quality of network infrastructure.

The FY 2014 result brings us to the view that the sustainability plan as it was originally conceived, did not make sufficient provision for unexpected events. This should not come as a surprise. No plan could have made provision for the combination of events that have undermined the original revenue premises.

As a result of this realisation the Board has instituted a commercial review of the business with the aim of developing a new 30-year plan. The review provides us with an opportunity to re-examine rail's role in the New Zealand economy.

Rail clearly has a significant contribution to make in the New Zealand economy, a view that is underlined in the Ministry of Transport's latest National Freight Demand Study. It is forecasting the overall freight task will grow by almost 60 percent over the next 30 years. It identifies strong continuing growth in the traffic that currently drives the KiwiRail freight business.

This, along with the continued support of our customers, tells us that although the sustainability plan's revenue projections may have been more optimistic than was justified, the case for investment in rail remains as valid today as it was when the plan was conceived.

Central to the implementation of the plan is the office of the Chief Executive Officer whose job is to drive it. The five-year term of inaugural Chief Executive Jim Quinn expired during the year. Jim did an excellent job during the formation phase of KiwiRail. The timing was right for the Board to build on that foundation with a new focus.

An international search resulted in the appointment of Peter Reidy, who had been Chief Operating Officer, Infrastructure Services, of Downer EDI in Australia. Peter is a New Zealander with a successful track record of leading and building service and infrastructure-based businesses in the freight, engineering, energy, building products and asset management sectors in Australia, New Zealand, Asia and the United Kingdom.

He took up his appointment in February. While his arrival has coincided with the aftermath of the Aratere outage and the DL contamination issue, he has made considerable progress refocusing the business on the key priorities.

The Board places on record its appreciation for Jim Quinn's help and cooperation in ensuring as seamless a transition as possible. During his tenure, he led a fast and wide-ranging reform of the business that included the development and implementation of the 10-year plan, encouraging growth in the freight business, capital investment in network improvements, new rolling stock and ferry infrastructure and building stronger relationships with key customers.

Peter has brought a stronger focus on health and safety issues. The Board is confident we will see significant improvement in KiwiRail's safety record in the years to come.

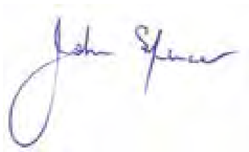
A new position of General Manager Zero Harm, reporting directly to the Chief Executive, has been established.

The combination of unexpected events and management changes have made 2014 a testing year for KiwiRail staff. The Board is grateful for the way staff have met the challenges and remained focused on keeping the business running.

It has also been a challenging year for the Board itself. I want to record my appreciation of the work done by my fellow Board members to deal with the immediate issues and create a platform for future growth.

The events of the past year cause us to be cautious about FY 2015. We have work to do with customers who lost confidence in our ability to provide them with reliable service as a result of the Aratere and locomotive issues. We also enter a year in which prices for dairy and forestry products are falling and will most likely impact on freight revenues.

Working to our advantage is a buoyant domestic economy. As a result we are budgeting for continued freight growth and modest growth in our passenger business. We are looking for a year of recovery and consolidation that can allow us to regain momentum in the years to follow.



John Spencer

Chairman

Chief Executive Officer's Report

Peter Reidy
Chief Executive Officer

The 2013-14 financial year has been a challenging one for KiwiRail.

Over the initial years of the 10-year plan to achieve greater financial independence, the business had slipped behind target for reasons that included the global financial crisis and the Christchurch earthquakes. But to its credit, it had grown its core freight business substantially.

The Ministry of Transport's 2014 updated National Freight Demand Study indicates the sustainability plan had been achieving results. It found that rail increased its share of the overall freight net tonne kilometres hauled by eight percent over the five years since the inaugural study — with a modal shift from both road and coastal shipping.

The conclusion to be drawn is that investment has improved rail's capacity to complement other transport modes by moving more of the goods that are naturally suited to rail and in doing so, freeing capacity on the New Zealand road network.

Along the way, the business has benefitted from an improvement in the way it delivers service to its customers.

The issues in 2014 relating to Aratere and the DL locomotives — the fourth year of the plan — have interrupted this progress. As a new Chief Executive, my task has been to deal with their consequences in terms of both the immediate impact on the business and restoring customer confidence in our service offer.

With the support of the Board and management, we have embarked on two initiatives. The first seeks to simplify our business and reduce the cost of operations. The second addresses rail's longer term role in supporting the growth of the New Zealand economy and what kind of operating model can best enable it to perform this role.

To address the shorter term performance issues, we have implemented a "Back to Basics" approach focusing on sustaining a "Zero Harm" environment, engaging our customers, empowering our people and simplifying the way we work to improve our financial position.t

Central to achieving the vision will be a total KiwiRail leadership approach which replaces what has been relative business unit autonomy. At its heart is recognising that a high performance engagement culture will improve performance by working closely with employees and unions to identify and solve problems from the ground up. This empowerment approach will enable our business to improve productivity and increase efficiency across our core operations.

Sustaining a Zero Harm Environment

I make no apologies for putting Zero Harm first. It is effectively our licence to operate. I have recognised its importance by appointing a dedicated general manager who reports directly to me.

We are making progress. Total harm injuries, one of the ways we measure the effectiveness of our safety response, has reduced by 44 percent compared with FY 2013.

Financial Performance by Business Unit ($m)

Measure	Frt	I&E	IIL	Pass	Corp	Grp before major one-off items	Major one-off items	Grp after one-off items
External Revenue	462.0	35.2	116.7	73.6	36.1	723.6	17.3	740.9
Operating Surplus	132.3	(79.1)	6.6	3.1	12.4	75.3	2.2	77.5
Total Assets	341.2	265.3	128.9	36.1	151.2	922.7	-	922.7

But that is no reason for complacency. Our lost time injury rates and total recorded injuries do not place us favourably among comparable infrastructure-related companies in Australia or New Zealand.

On a comparative basis we lag the top 50 ASX listed companies in Australia.

We have implemented a plan which involves identifying and reducing critical risks, implementing compliant safety management systems, building Zero Harm capability in the operations by actively engaging KiwiRail's leaders, and developing environmental accountability.

We have identified key areas such as safety in tunnels, compliance with signals, track occupancy safety, and terminal collisions – as our immediate critical risks to manage.

Engaging our customers

The support of our customers is crucial to our business success. Considerable progress has already been made in developing relationships with our customers. This is evident in the partnerships we have established with customers such as Fonterra and major ports as well as with the freight forwarders who have established depots at railheads to create intermodal hubs.

In 2009-10, 79 percent of premium freight trains were arriving within 30 minutes of schedule. Two years later, this had risen to 89 percent. The problems of the past year resulted in it dropping back to 84 percent, but we are heading in the right direction.

Delivering on-time performance is what customers value most. Investment in the network and in rolling stock has been improving on-time performance for our premium freight and passenger services.

The percentage of Interislander sailings arriving within 15 minutes of schedule was similarly affected after showing improvement over the last two years. On-time performance slipped from 82 percent of sailings to 66 percent.

It is encouraging to record that the Tranz Metro business on Wellington's suburban rail network continued to improve on-time performance. Ninety four percent of units arrived at destination within five minutes of time-table and customer satisfaction has increased to 93 percent, a reflection on the investment in the network, rolling stock and the commitment of staff.

Empowering our people

To deliver on our targets, we must have an engaged and motivated workforce, led by managers with vision and energy.

The workforce engagement index is the measure we, and most businesses, use to gauge the mood and commitment of staff. It is encouraging to record a steady improvement in the index from 65 in FY 2010 to 74 in FY 2014 particularly in light of the operational distractions during 2013/2014.

Over the next 24 months we will focus on building a high performance engagement leadership approach to support the front line teams who are closest to the problem to develop the right solution to lift productivity and efficiency.

This is a fundamental leadership mindset change from the current operating model and will require a higher level of employee, union engagement and leadership skills from the KiwiRail Group (KRG) management. Our employee engagement index at 74 percent is a strength that we will leverage to build this high performance engagement culture.

Through this leadership approach, greater collaboration, integrated structures across the business and the introduction of a set of six new "values", we expect to see engagement continuing to improve over time.

Chief Executive Officer's Report - *cont*

Simplifying the way we work

Delivering improved operational performance is the fourth focus area in the "Back to Basics" framework. For us to achieve this, the freight, infrastructure and ferry business units need to become less complex, more efficient and integrated across the supply chain offer.

Because Freight constitutes almost two-thirds of our revenue earning capacity, its success is particularly important. We can take encouragement from the fact that our freight revenues for FY 2014 were only marginally lower than FY 2013, despite the problems with Aratere and the DL locomotives and market conditions that did not work to the advantage of our bulk or import-export businesses.

Bulk business was down $4.7 million reflecting lower volumes of milk and coal. Import/export goods were $2.5 million lower than the prior year with the key impact being changes in shipping service schedules from Tauranga to Auckland.

The $6.4 million increase in revenue from domestic freight is an indication that the investment we have been making in specialised rolling stock and improving customer relationships, is paying dividends.

Interislander's commercial freight revenue was $1.7m up on prior year, a strong performance given the reduced capacity. The biggest impact from Aratere's withdrawal, however, was on ferry passenger revenue, down $9.2m on the prior year.

Aratere's withdrawal focused Interislander staff on bringing a replacement vessel into service quickly and delivering customer service as effectively as possible. But they also worked on developing a long-term strategy for the fleet which looks beyond Aratere's issues to the need to replace the other rail-capable ferry, Arahura by 2015.

Few other countries in the world carry rail wagons on ferries, which makes a rail enabled charter replacement unlikely. In a competitive Cook Strait, building a replacement vessel would be unrealistic. The most feasible option is road bridging – effectively transferring rail cargo to a specialised form of road transport for access to and from ferries. The option has been studied and partially in operation for some time.

KiwiRail's passenger business contributes around 10 percent of group business revenue. This derives from the Tranz Metro contract with Greater Wellington Regional Council to operate suburban rail services in Wellington, and four long-distance passenger services primarily serving the tourism and travel experience market that make up the Scenic Journeys business.

Both businesses produced encouraging results. Tranz Metro achieved operating surplus $0.3 million ahead of budget as a result of passenger growth of 3 percent on FY 2013.

The Scenic Journeys business has suffered in recent years as a result of the impact on tourist numbers following the Canterbury earthquakes. The gradual recovery of the tourism market coupled with cost savings resulted in Scenic Journeys achieving revenue on a par with budget and 40 percent ahead of budget for operating surplus.

While our Infrastructure & Engineering division is not a revenue generator, it plays a crucial role in enabling the other business units to meet customer expectations. Investment of approximately $1.4 billion in the network over the past 10 years has been instrumental in improving reliability.

The task of addressing historical under investment in the network is far from complete. As we have sought to achieve cost savings and productivity gains within Infrastructure & Engineering, we have concentrated attention on the lines that carry the heaviest traffic – the "Golden Triangle" Auckland-Tauranga route, the West Coast South Island coal route and the southern South Island dairy route.

Improvement in KiwiRail's financial position will be achieved through progress in each of the areas identified. It will also occur as a result of the commercial review of the business announced in July of this year.

This in depth commercial review provides an opportunity to re-examine the basic assumptions of the 10 year transformation plan, growth prospects for the coming years, our longer term capital investment path, elements of our network that are sustainable and non sustainable and opportunities to drive efficiency and productivity improvements. We are also evaluating rail's role in the New Zealand economy which is being challenged by technological and population changes. This review is being conducted in conjunction with Treasury, the Ministry of Transport and the New Zealand Transport Agency.

Impact of one-off Items

A number of significant one-off items, that are not part of our normal trading result have arisen this financial year. These include the insurance recovery we received in respect of claims for damage to our buildings and infrastructure from the 2011 Christchurch earthquake, the direct costs of running the Stena Alegra (mainly the charter cost), the incident costs and insurance recovery related to the Aratere propeller incident, and the costs associated with rectifying the DL locomotives. Our external revenue result of $723.6m and operating surplus of $75.3m excludes these one-off items. The items are included in the financial statements for financial reporting purposes.

2015 Outlook

The 2015 financial year provides KiwiRail with the opportunity to rebuild customer confidence in our ability to provide a reliable service, reduce the cost of operations and develop a realistic long-term plan for the future.

We will also seek to engage our customers to ensure the "value proposition" is correctly balanced and commercially focused for a high fixed cost network. I have been surprised to discover the extent to which, in some cases, KiwiRail is disadvantaged in its commercial relationships. We need to be on the same commercial footing as other modes.

Rail has a number of significant competitive advantages for bulk and containerised products; however, there is no gain for the business or New Zealand in carrying goods at tariffs that do not provide an adequate return.

During the current financial year we will focus on simplifying the business, reducing the cost of operations and building the consistent on-time performance that our customers expect. We will also make decisions on a future Interislander fleet configuration. As we prepare for the retirement of the long-serving Arahura, our aim will be to provide our customers with exceptional service without incurring the burden of cost associated with building bespoke ferries.

Finally and most importantly, we will be working hard to improve our workplace safety and health record. We will be doing our utmost to ensure that the welfare of our staff, the public and customers is protected and that everyone goes home after their day or night with us as fit and healthy as they arrived.

Peter Reidy

Chief Executive

Sustaining a Zero Harm Environment

Our commitment to the protection and care of our people, the public and the environment is central to creating a sustainable business. Without good safety performance our licence to operate is threatened.

By their nature the rail and ferry industries have a number of hazards that can have significant consequences for people and the environment if they are not properly controlled. While we have addressed key safety issues and seen an overall improvement in key indicators, we continue to have avoidable incidents within the rail environment.

To address this we have begun to implement a Zero Harm philosophy across the business. This is being led by Dr Bob Stacy, an experienced safety professional with a track record of improving safety performance at BHP Engineering, BHP Transport, CSR, Downer Group and General Electric.

Safety Performance

Our Total Recordable Injury Frequency Rate (TRIFR) has reduced by 44 percent from the previous year – which is partly due to a change in definition of what constitutes a medical treatment injury[1].

We still have a long way to go when compared to our international benchmarks. Our objective for this financial year is to reduce TRIFR by a further 30 percent.

[1] TRI = LTIs + MTIs. Medical treatment injuries no longer include referrals to a medical practitioner where no treatment is provided.

Our Lost Time Injury Frequency Rate (LTIFR) increased slightly from FY 2013. Our LTIFR for FY 2014 is the equivalent of one injury per 16 employees. This puts us at the lower end of safety performance for similar industries in New Zealand and Australia.

Operational Performance.

Over the past 10 years, the incidence of the more serious form of SPAD (Signals Passed at Danger) has been rising, reflecting the growth of traffic on the network. In the 2006 year there were 28 SPAD (As) recorded. The total has risen to 50 this year. It is pleasing to see that we have not incurred a SPAD in our Passenger business since February 2014 and in August 2014 our Freight business had a SPAD free month, the first time since 2006.

While signal irregularities have been rising, there has been a pleasing decrease in terminal collisions which are often more serious in terms of resulting injuries. Over the last 10 years, collisions peaked at 106 in 2010 and have decreased steadily to 64 in the 2014 year, two less than the previous year.

Mainline train derailments continue to decline significantly as both network improvements and new rolling stock have a positive impact.

Environmental Performance

KiwiRail's freight services produce roughly 60 to 80 percent less emissions than a comparable truck trip. Since 2010 there has been a consistent reduction with a 4 percent reduction in the carbon intensity freight services with a 4 percent reduction from 2013.

Carbon intensity is calculated on the basis of emissions from fuel and electricity consumed divided by the net tonne kilometres of freight carried. This is reflective of better planning and utilisation of freight services as well as the benefits of the new efficient 40 DL locomotives starting to be realised.

Our main initiative to improve fuel burn and reduce carbon intensity for our customers is the EnergyMiser project. A lot of the work over FY 2014 has been to set-up the software and populate the databases with KiwiRail track information.

Safety Performance

	2011-12	2012-13	2013-14
LTIFR	7.6	12.8	13.6
TRIFR	55.5	54.6	32.9
SPAD As	53	71	50
Terminal collisions	76	66	64
Train Derailments	27	20	18

The installation part of the project experienced a delay due to the DL fleet being withdrawn from service in February. Equipment had been installed in the cabs of 32 percent of the planned locomotive fleet by the end of June.

In the absence of New Zealand data on transport emissions we have compared our performance with data from the UK[2]. At 31.3 gms per net tonne kilometre (NTK) rail compares very favourably to the truck equivalent at 123.20 gms per NTK.

Both of our tourism-focused services, Interislander and Scenic Journeys trains continue to hold a Silver level endorsement from Qualmark for responsible tourism activities. This acknowledges efforts in energy saving, waste reduction and involvement in community activities.

KiwiRail has a number of interfaces with the environment ranging from the construction of the rail network including bridges and culverts to the management of storm-water collected within our sites. We hold 220 resource consents for a range of these activities and other activities covered by the Resource Management Act. These consents are managed through an online database providing an auditable trail of conditions.

[2] Department of Environment, Food and Rural Affairs. Greenhouse Gas Conversion Repository. Data compared to is All Heavy Goods Vehicles for 2014.=

Zero Harm Strategy

The strategy for Zero Harm is simple. Identify and reduce critical risk; implement compliant, robust management systems; build capability throughout the business, be environmentally accountable and improve leader visibility across our operations. We believe that safety is a proxy for good leadership. Our strategy incorporates good leadership practices including workforce engagement and operating discipline, with a particular focus on building a high performance engagement culture with our front line and unions.

Through this active leadership KiwiRail is working to make a material improvement in its safety, health and environmental performance. While we still have a long road ahead to achieve our goal, we have a solid plan and a strong commitment from our people and contractors.

Our driving principles for FY 2015 will continue to be:

- To work towards a One-KiwiRail approach to Zero Harm;
- To implement systems and processes that allows us to move beyond compliance and continuously improve;
- To provide the tools and knowledge to support our people at the front-end of our businesses; and to engage KiwiRail leadership and unions in the Zero Harm journey.

Progress on Group Activities

Establishment of Critical Risk Networks (CRN)

Effectively managing operational risk is a key business activity. While all of our activities have related risks, KiwiRail recognises that these could be better managed.

- During Q4 FY 2014, three critical risks were identified and Critical Risk Networks (CRN) formed to actively identify hazards and manage high level risks: Signals Passed at Danger (SPADs), tunnel operations and work on the track network.
- To combat SPAD risk, KiwiRail has worked during the year to improve the understanding of why they occur, improved in-cab procedures, improved signalling systems and harnessed emerging technologies.
- Tunnel risk is being addressed through programmes to install fire suppression on locomotives operating on the coal route,

Environmental Performance

	2011-12	2012-13	2013-14
Carbon intensity (gms CO_2-e per NTK)	32.51	32.49	31.13
Energy used (TJ)	-	4,194	3,982
Carbon emissions - scope 1 and 2 (tonnes of CO_2-e)	-	289,915	276,418

Sustaining a Zero Harm Environment

substituting petrol with diesel on small plant and improving personal protective equipment (PPE) for gas detection and worker isolation.

- A full review has been carried out of all processes, documentation and training for tunnel work.
- Mandatory additional protection measures have been introduced for work sites where multiple activities are taking place. A review is underway to determine whether to introduce these additional measures across all work sites.
- Introducing Track Worker Protection on a system called Eprotect has improved safety for Compulsory Stop Protection (CSP) worksites. Trialled the previous year, it uses technology which provides automatic control systems for approaching trains.

Establishment of a Just and Fair Culture

A frame-work and policy for adopting a Just and Fair Culture has been developed collaboratively by a cross business working group including employees, management and Rail and Maritime Transport Union (RMTU) representatives. This initiative is supported by Life Saving Behaviours (LSB) for the business and an improved incident investigation capability.

The Just and Fair Culture and Life Saving Behaviours (LSB) will be implemented in October 2014.

While initial focus has been on land based operations we will expand this work to include seagoing staff during FY 2015.

Improved Investigation Capability

Recognising the latent opportunities not fully exploited in our occurrence investigation methodology, a new team of dedicated professional safety investigators was formed during the year.

The team brings together operational, human factors and engineering expertise from the maritime, aviation, rail and infrastructure domains. While its primary focus is on significant safety occurrences, the team will also be used to build quality assurance capability at line management level.

Employee Health Monitoring

Heightened focus has been placed on workplace health hazards which have the potential to result in workplace illness. These hazards have been identified and processes for health monitoring of the relevant employees have been developed to ensure the risk is being managed appropriately and confirm there is no detrimental impact on employee health.

A response process outlining the actions to be taken in the event of any potential exposure to asbestos at a KiwiRail facility has been formalised. This process ensures employees have access to relevant health surveillance and have an opportunity to discuss any concerns raised with a KiwiRail Doctor.

In collaboration with Counties Manukau DHB a diabetes prevention and awareness programme has been developed for KiwiRail employees. A series of workshops with follow-up support has been conducted for those employees in the Counties Manukau DHB catchment area.

The workshops address the effect of diabetes on a person's fitness for work and the risks associated with performing safety critical work with uncontrolled and/or undiagnosed diabetes.

Medical Standards

NRSS3 – Health Assessment of Rail Safety Workers was further embedded in the I&E business unit to ensure the fitness for work of all safety critical employees within KiwiRail. Preparation was progressed for implementation of revised medical standards to strengthen key areas of employee health in relation to sudden incapacity.

These standards (National Standard for Rail Safety Workers) represent a significant step in the continuing improvement of rail safety. KiwiRail is working through the process required with our industry partners to adopt them.

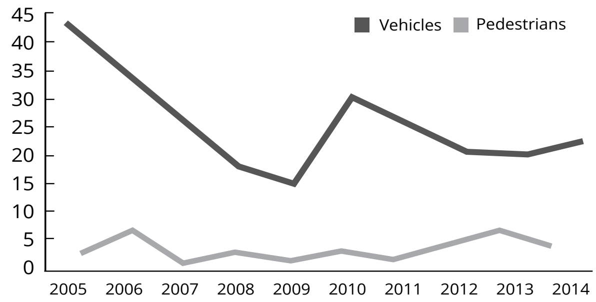
Keeping the Public Safe

Rail is an inherently safe form of transport because it operates in a dedicated, controlled environment – the New Zealand rail network. The most regular interaction between the public and the railway infrastructure occurs at level crossings – 1,400 public road and 85 public pedestrian crossings.

Only half of the network's crossings are controlled by electronic devices such as lights and bells and barrier arms. The remainder are commonly controlled by signs which require road users to stop and check that the track is clear.

Public awareness programmes and work over the last 10 years to improve safety at those level crossings considered to constitute the greatest risk, have almost halved the number of collisions.

Level Crossing Collisions



Unfortunately, some road users, either on purpose or through inattention, ignore signage and even electronic signals. The result is between 20 and 30 collisions a year and consequent injury or loss of life.

In the 2014 year, 22 vehicle collisions and three pedestrian collisions were reported. This is a slight increase in vehicle collisions on last year's 20, but a reduction of three on pedestrian collisions. In the past year, seven level crossing upgrades were completed, a figure consistent with past years.

But even at an accelerated rate, upgrades will not alter the fact that approximately half of the country's crossings do not have electronic signals fitted.

Level crossing safety awareness programmes are run in conjunction with TrackSAFE Foundation NZ.

The Chief Executive of KiwiRail chairs the New Zealand TrackSAFE board and sits on the Board of TrackSAFE in Australia.

The August 2013 Rail Safety Week targeted behavioural change amongst pedestrians, particularly young males and children. This was built around the theme developed the previous year of "Use your brain, tracks are for trains", developed by TrackSAFE in Australia and adapted to New Zealand by KiwiRail.

The campaign also broke new ground by making greater use of social and online media rather than traditional press advertising.

Rail Safety week was launched at The Strand Platform, Parnell, and provided a link with the 150th anniversary of rail in New Zealand in the form of a Rail Safety Week "Safety Train" being hauled by a steam locomotive.

Conclusions and Outlook

This year's performance underlines the need for a structured approach to operational and occupational safety and environment across the KiwiRail Group. While some progress has been made to tackle the critical risks facing the business this work has yet to provide the benefit of a systematic approach supported by a culture of safety.

The new Health and Safety at Work Act which will come into force in 2015 reinforces KiwiRail's commitment to address this area.

We now have in place a strategy based on the belief that nothing we do should cause harm to our people, the public and the environment. This is our Zero Harm philosophy which, along with experienced leadership has been successful in improving safety in similar organisations. The type of incidents we experience are avoidable and we will be putting in place both the behaviours and control systems to address their occurrence.

Empowering our People

KiwiRail employs approximately 4,100 staff. The average age of staff members is 46 and 85 percent are male.

We recognise that to deliver on our targets, we must build a high performance engagement culture led by managers with vision, energy and collaborative attitudes who have a clear sense of what targets they need to achieve.

During the year, we worked with staff to develop six core values we consider to be critical to achieving engagement and motivation.

Our major focus is developing an awareness that staff are working as part of one business, KiwiRail, rather than a collection of individual businesses. KiwiRail keeps New Zealand moving and together we have a responsibility to operate and optimise public transportation and the supply chain network to enable New Zealand's growth.

The values are:

1. **Care and Protect** is our most important value with recognition across the business that everyone is a safety leader.
2. **One Winning Team** is an expression of the "one business" concept which empowers the workforce to make decisions, value diversity and collaborate to achieve.
3. **Great Customer Experiences** refers to the fundamental need to be commercial, engage with our customers, understand their needs and deliver on promises.
4. **Straight and True** requires us to be honest and up-front and treat people with respect.
5. **Strive for Excellence** represents searching for opportunities, challenging the status quo and seizing the initiative.
6. **Deliver Results** is a business fundamental that requires us to hold each other accountable and nail our targets

Our most visible employee performance indicator is the staff engagement index. It is indicating that our staff are becoming more engaged.

From an index of 65 in FY 2010 and 67 in FY 2012, we moved to 73 in both FY 2013 and FY 2014.

From FY 2015 we will be considering a range of approaches to gauge employee engagement in addition to the staff engagement index.

The difficult year the business has experienced in 2014 may have a short-term impact on the way our staff regard KiwiRail. However, we are confident that embedding our values, along with our Back to Basics framework, and leaders building a high engagement performance culture with our teams and unions will improve engagement levels to above 80 percent.

Given the ageing nature of the workforce, managers have been given responsibility for creating business continuity by putting succession and development plans for tier 2 and 3 during 2014 into place.

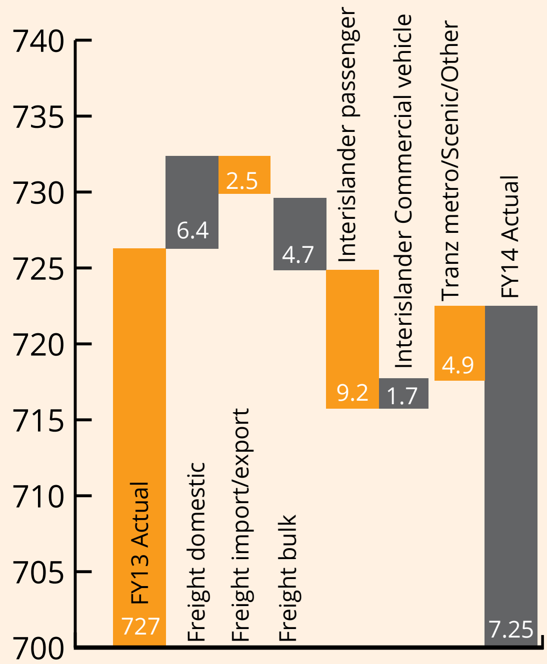
Workplace relations

There are a number of industrial agreements in accordance with which KiwiRail staff work. The most significant is that negotiated with the Rail and Maritime Transport Union (RMTU).

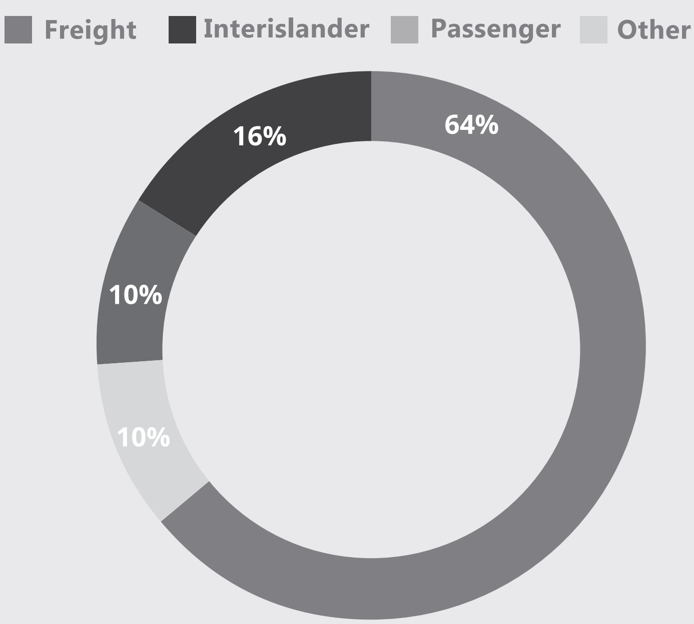
During the 2014 year, KiwiRail and the RMTU have continued their discussions on the renewal of the collective agreement that establishes remuneration and conditions of work.

Business Revi

Group Year on Year Revenue Bridge ($m)



Financial Year 2014 - Revenue

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Freight

KiwiRail's 900 weekly freight trains are an integral part of the New Zealand economy. They move heavy freight through the country and to and from major ports, complementing and taking pressure off the highway network.

The Ministry of Transport, in this year's update of its 2006-07 National Freight Demand Study (NFDS), noted the importance to the economy of freight movements. It recognised that the cost-effective and efficient movement of goods bound for export – estimated at 30 percent of total flows — is particularly vital.

The updated findings, based on statistics up to and including 2012 are positive about the performance of rail over the six years since the first study was completed. While KiwiRail Freight's FY 2014 year can be regarded as out of step with the picture the study paints, the conclusions it reaches about rail freight's importance to the economy, remain valid.

The study found that rail tonnages had risen 18 percent between 2006-07 and 2012, faster than road (4 percent) and coastal shipping (2 percent). These increases reflected growth in volumes of dairy products, logs and retail goods.

KiwiRail provides four separate categories of freight services namely domestic, bulk, forestry and import/ export (IMEX) . It moves bulk commodities such as coal, fertiliser, steel, aluminium and milk. The NFDS estimates KiwiRail carries 60 percent of all coal measured by volume and 91 percent measured by tonne kilometre.

Freight trains carry containerised goods to and from ports. Given the importance of the dairy industry to the New Zealand economy, KiwiRail's 41 percent share of manufactured dairy products is significant.

The specialised forestry business has benefited from the introduction of specialist rolling stock and the boom in log exports which have doubled traffic volumes over six years.

Domestic services support the freight forwarding industry. These have grown volumes – particularly in the food industry – from the introduction of new, specially designed rolling stock and decisions by freight forwarders to use the cost effective rail offering as a key part of their offer to their customers.

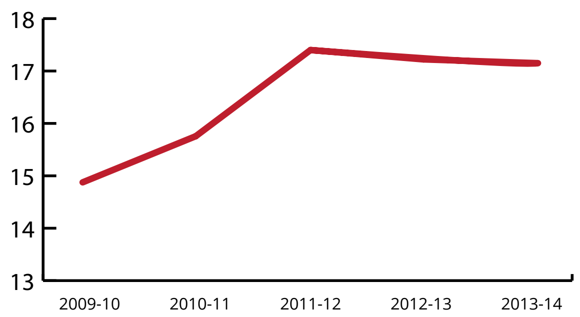
It is worth noting freight forwarders are increasingly signaling their commitment to using rail as they look to build or upgrade their deports on rail land — thereby further integrating their offering with rail.

A number of issues contributed to a decline in KiwiRail's freight business financial performance in the last financial year.

As noted earlier, the two more significant were the loss of the ferry Aratere for the second half of the year after a propeller shaft failure in November and the discovery of asbestos containing material in the new DL locomotives. A weakening forestry market, a reduction in dairy exports, softer coal prices and some shipping schedule changes were also contributors.

Revenue of $462 million was $37.4 million below plan and marginally ($1.7 million) below last year. Operating surplus performance for the freight business at $132.3 million before one-off items, was $23 million below plan and slightly ($2 million) below last year.

Freight Carried (Net Tonnes m)



Average yield showed an improvement, up from 8.20 (c/NTK) FY 2013 to 8.30 (c/NTK).

Aratere's absence impacted particularly on domestic services. Major freight forwarders were forced to make other arrangements to get goods across Cook Strait which included converting to road or moving goods using coastal shipping services.

Not only did the ship's absence reduce revenue but it also affected confidence in KiwiRail's ability to provide reliable service.

The DL locomotives were withdrawn from service on 28 February as a result of the discovery of asbestos containing material. The second tranche of 20 locomotives had only been introduced into service in August.

The loss of 40 locomotives in a fleet of 189 creates obvious problems. The impact was most noticeable in Northland where locomotives were repositioned to other regions and the Bay of Plenty where DLs had been deployed moving logs and forestry products. They were replaced with less powerful locomotives which reduced the capacity of the services.

Trading conditions in the second half of the year were affected by a softening in the forestry and dairy markets, both related to a weakening of demand, primarily in China.

These issues are reflected in the reduction in freight net tonne kilometres carried, down from 4,585 million FY 2013 to 4,530 million FY 2014.

The problems associated with Aratere and the DL locomotives arrested what had been a steady improvement in on-time performance of premium freight trains as a result of investment in infrastructure and rolling stock. FY 2013 on-time performance had reached 89 percent against a target of 90 percent but dropped back to 84 percent in FY 2014.

The standard measure of locomotive efficiency, locomotive mean distance between failure (MDBF), also deteriorated slightly from 46,000 km FY 2013 to 45,000 km FY 2014 as a result of the removal of the higher performing DLs from service.

In September 2013, a further 300 new container wagons were added to the freight fleet, increasing the new container wagon fleet to more than 835 which is approximately a third of the container flat top fleet.

Effective from 1 February, the driver hire agreement between KiwiRail and Auckland suburban network operator Tranzdev came to an end. As a result, all 66 drivers transferred to Tranzdev. This was part of the transition from the diesel fleet to Auckland's new electric multiple units.

Import-export

Movement of goods to and from ports is not only KiwiRail's biggest single earner but also a major contributor to the overall New Zealand economy. More than a third of all freight transport movements are associated with products being exported from or imported into New Zealand. KiwiRail moves almost fifty percent of manufactured dairy products, one of the country's principal exports.

Import-export revenue was $15.7 million or just over 11 percent lower than plan and 2 percent lower than last year. Revenue was affected by changes in shipping port schedules and other commodity impacts in the dairy sector.

The announcement by Fonterra logistics company Kotahi of a 10-year contract with Port of Tauranga and Maersk will provide growth opportunities in the North Island.

Freight - *cont*

Bulk Goods

Coal and milk are the principal commodities moved in bulk along with goods like fertiliser, steel and aluminium. Overall revenue was $12.8 million or just over five percent below last year and almost 12 percent below plan.

Revenue from moving Solid Energy coal was only slightly below budget but coal revenue overall was adversely affected by coal destined for New Zealand Steel being imported through Auckland and moved by road to Glenbrook.

Bulk milk revenues fell 15 percent below target because of an early finish to the season and a late start for Fonterra's Hawera plant.

An increase in steel volumes carried, in revenue terms up almost 6 percent, can be attributed to a rise in steel exports and movement of steel to Canterbury to support the Christchurch rebuild.

Forestry

The availability of specialist log wagons and high wood prices had made forestry an outstanding performer in FY 2013. But the asbestos related issues that affected the DL locomotives along with a decline in the commodity price for logs, kept forestry revenues below budget in FY 2014.

High wood stocks in China and some slowing in the Chinese economy impacted on the forestry business in the second half of the year and is likely to carry over into the 2015 financial year.

Revenue for FY 2014 was 10 percent below budget and $5.8 million (1 percent) below FY 2013.

Domestic Freight

Goods carried for freight forwarding firms are the most sensitive to timetable disruptions. In spite of the Aratere outage, domestic revenue was only three percent below plan, met budget on yield and exceeded revenue for FY 2013 by seven percent.

While this is encouraging, it does not compensate for the loss of confidence among major customers affected by the Aratere outage.

Smaller customers who consign freight in containers rather than specialised rail wagons, were less affected. Increased revenue from them came close to bridging the budget gap.

Outlook and Emphasis for 2015

Freight will continue to be the revenue driver for the KiwiRail business. After a difficult 2014, the Board and management are taking a cautious approach to FY 2015.

The priority will be to restore customer confidence in rail freight's capacity to deliver in a timely manner, to grow revenue where possible and to increase revenue yield.

The New Zealand domestic economy is currently buoyant but high stocks in China of both dairy products and logs are affecting international demand and may impact on KiwiRail's import-export and forestry businesses. Business analysts are predicting that demand for both commodities will return as stocks in China diminish.

Currently, demand for New Zealand meat products is reviving which could result in higher volumes of processed export meat being railed.

We can be optimistic about the prospect of increased traffic in the North Island as a result of the 10-year agreement among Kotahi, Maersk and Port of Tauranga, but we could lose some business in the South Island.

With no immediate prospect of a lift in world coal prices, we do not expect any significant increase in bulk coal traffic. A mild, wet winter offers the prospect of good spring grass growth and good early bulk milk volumes, but as always is dependent on invariable weather conditions.

Aratere returned to service in July and is now performing to expectations. Ensuring a consistent and reliable performance over the peak season is critical to restoring customer confidence in KiwiRail.

In the longer term, the prospects for rail freight remain positive. The Ministry of Transport's NFDS is forecasting the overall freight task will grow by almost 60 percent over the next 30 years. It identifies strong continuing growth in the traffic that currently drives the KiwiRail freight business. It predicts Auckland will continue to grow in both population and share of economic activity, but more importantly, as a national distribution centre.

Measure

	2011-2012	2012-2013	2013-2014
Net tonnes (000)	17,455	17,265	17,196
Net tonne/km (m)	4,581	4,547	4,492

Performance Measures

Freight premium train on-time (%<30mins)	81%	89%	84%
Freight operating cost/NTK	7.6 c	6.8 c	6.8 c
Freight labour cost/NTK	2.0 c	3.1 c	3.2 c
External revenue	457.6	463.7	462.0
EBITDA ($000) *	129.1	134.3	132.3
Total assets ($000)	299.3	369.4	341.2

Market Segment 2013-2014

	Bulk	Import/Export	Domestic
Net tonnes (000)	8,543	6,280	2,373
Net tonne/km (m)	1,900	1,249	1,343
New wagons	0	300	0
Wagon wheel-set changes	969	887	889
Wagon bogie changes	252	262	266
Wagons brought back into service	10	33	40
Wagon conversions	7	56	48
New locomotives	0	10	8
Locomotive bogie changes	31	26	20
Locomotive overhauls	6	10	9
Locomotive engine overhauls	4	18	6

FY 2013 comparatives have been restated where appropriate to reflect the FY 2014 changes in business unit structure.

** Excludes major one off items*

Asbestos Contamination in the new DL Locomotive

The background

One of the issues that confronted KiwiRail when it was formed in 2008 was the increasing age of its locomotive fleet. Many were thirty or more years old, the most recent having been bought in the 1980s.

Early work on locomotive replacement had established that the best combination of quality and price was to be obtained from sourcing locomotives from China. KiwiRail placed its first order for 20 new locomotives with CNR's locomotive and rolling-stock plant in Dalian in 2009 and a second order for another 20 some months later.

With a pulling power of up to 2000 tonnes and a double-cab configuration, they enabled a single locomotive to do the work of two of the older locomotives on a number of routes. The purchase contract stipulated that the locomotives be fit for purpose and compliant with New Zealand law. The specifications clearly stated that asbestos was not to be used in any part of the locomotives. The DLs, as they were classed, entered service progressively from early 2011.

The issue

In late 2013, locomotives operating in Australia, built by a separate Chinese supplier, were withdrawn from service because of the discovery of asbestos in exhaust systems. KiwiRail sought and obtained further assurance that its DL locomotives did not contain asbestos in lagging around the exhaust system. In early 2014, routine tests detected the presence of asbestos containing material in coatings around locomotive engine bays. In recognition of KiwiRail's commitment to ensuring the health and safety of staff, the locomotives were withdrawn from service.

The operational repercussions

The DL locomotives had initially been allocated to the Upper North Island traffic routes. But after the commissioning of the second batch of 20, they were being used in other parts of the North Island, including on the North Island Main Trunk and the "milk route" in the lower North Island.

When they were withdrawn from service on 28 February, KiwiRail put in place a train plan which included suspending services in Northland and repositioning locomotive horsepower to ensure each service was optimised. Although there was only a minor reduction in overall services, there was a reduction in tonnage capacity which did impact some businesses and supply chains around the country.

Northland services were restored in mid-April when second generation locomotives that showed a lesser level of contamination in tests, began filtering back into service. All of the 20 second generation locomotives are expected back in time to meet the freight peaks of the last quarter of the calendar year.

The response

All 40 locomotives were withdrawn on 28 February. Two series of independent tests carried out indicated a very small presence of asbestos fibre in five locomotives but no asbestos dust. The tests also indicated the asbestos identified was contained and could not get into the air to be inhaled.

The testing regimes and recommendations were validated by an internationally-recognised, Australian occupational medicine expert. He confirmed that the risk of any exposure to airborne fibres was low and if any did arise it would be insignificant in relation to both New Zealand and International workplace exposure standards for respirable Chrysotile fibre.

Packing material in the engine bay doors as well as sound-proofing material from the engine bay and cabs of the locomotives were identified as needing to be removed from all of the 40 locomotives.

KiwiRail and the Rail and Maritime Transport Union (RMTU) worked collaboratively to manage the issue and ensure the safety of all employees. WorkSAFE New Zealand was also closely involved and indicated it was satisfied with the operating and management procedures developed and that KiwiRail and the RMTU had taken all practicable steps to manage the work-related hazards.

The outcome

CNR accepted full responsibility for removal and associated costs of the asbestos containing material. It is working with an asbestos removal expert and has seconded a team to Hutt workshops to carry out the work.

The manufacturer is considered to be genuine in its commitment to rectifying the issue and has provided options by which the impact of the DLs' loss from service can be recognised. In view of the strength of the relationship established with CNR over a period of five years, KiwiRail has opted for a negotiated settlement on terms which enable the relationship to continue and the rectification of the remaining DLs to be completed.

The time-line

28 February
Routine tests detected the presence of asbestos in coatings around DL locomotive engine bay roofs. In recognition of KiwiRail's commitment to ensuring the health and safety of staff, all 40 were withdrawn from service.

1 March
Revised and reduced locomotive plan introduced including suspension of freight services in Northland.

6 March
Initial testing raises concerns about a packing material used in the doors of the locomotives, found to contain asbestos containing material. Agreed this material to be removed from all the locomotives before being returned to service.

7 March
Independent tests indicate no airborne fibre or asbestos dust present in DLs.

17 March
CNR officials arrive at Hutt Workshops to begin rectification.

8 April
First generation two locomotives return to service after rectification work.

14 April
Sufficient locomotives in service to enable freight services to resume in Northland.

December 2014
Rectification of DL G1 fleet will be completed.

June 2015
Rectification for the DL G2 fleet target completion.

Infrastructure & Engineering

KiwiRail's infrastructure team maintains and upgrades 4,000 kms of rail corridor, bridges, tunnels, viaducts, overhead wires, signals and level crossings. It is also responsible for all train movements on the network managed by the National Train Control Centre.

New Zealand's weather and terrain make it a challenging country in which to operate a railway network and 2014 proved no exception. Infrastructure staff were kept busy dealing with the effects of major storms in June 2013 and regularly during the year.

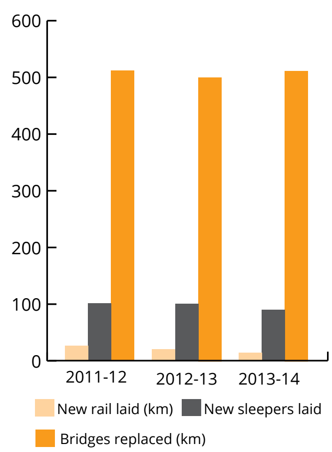
As a result, planned spending on maintenance work was redirected into repairing storm damage to a greater degree than in most years. The extent of this can be gauged from the fact that I&E routinely holds $4.0 million for all types of event contingencies and in FY 2014 we spent $5.9 million.

A good example is the work carried out to re-align a section of track north of Dunedin damaged in the June 2013 storm. During a December planned line closure, approximately 3,000 cubic metres of rock was stock-piled in a confined area and then moved into place to repair a weakened embankment.

Maintenance work continued to focus heavily on the business-critical Auckland to Tauranga route. A particular goal was eliminating timber bridges by the end of FY 2015. At this stage, the target looks likely to be met only a couple of months beyond the end of the year.

Storm repair work and the second year of a three-year cost reduction programme reduced the extent of work on renewal of basic infrastructure such as track, sleepers, bridges and line de-stressing. This is reflected in the performance measure comparison.

Infrastructure Improvements



We have been careful to ensure that the reduction has not been at the expense of safety.

However, the commissioning of six new rail maintenance machines at a cost of $12 million, provided a fillip to basic track maintenance. The three new ballast regulators and three new tampers, improve track formation, provide a smoother ride and prolong track life. They replace equipment that was 30 years old.

The rail grinding programme begun in FY 2013, completed a full year on the network, moving from the North Island to the South. The grinder extends the life-span of track by smoothing and removing defective metal from the rail head. It also has long term cost saving benefits by reducing the amount of track and wheel maintenance needed and reducing fuel consumption.

The grinder, which made its first appearance in October 2012, is operating on the New Zealand network for the first time.

Signalling projects were started in the Bay of Plenty and Dunedin areas. During the year, staff made significant steps towards centralising more signal boxes. The majority of these projects will be completed in FY 2015 but the Petone Box was centralised in FY 2014 while Te Rapa and Taita followed soon after, in the first weeks of FY 2015.

The major upgrade work was in the area of signalling and improving entry to and exit from major depots.

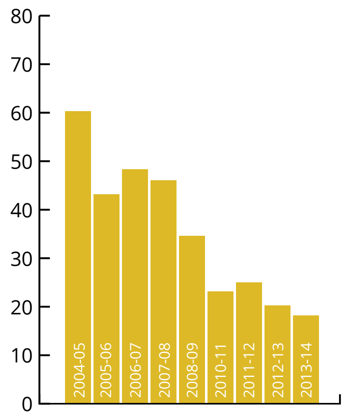
The introduction of centralised track control (CTC) to the section of the Marton-New Plymouth Line between Wanganui and Marton — replacing the Track Warrant system of train control — was completed in time for bulk milk traffic to operate. The foundation for this work had been carried out the year before.

Rail yard work was carried out in Palmerston North to improve the flow of traffic both passing through and loading and unloading.

Further work was done in South Auckland in preparation for the creation of a third line which will enable freight traffic to operate more independently of the increasing amount of commuter traffic on the Auckland network. This included work associated with the new depot at Wiri which will house Auckland's new electric commuter trains.

Completing the connection on the Midland Line to Fonterra's new Darfield dairy factory was an important milestone and an indication of the continuing growth of the dairy industry in the South Island.

Other projects included re-cabling a section of the Addington to Lyttelton tunnel which had been significantly weakened by the Canterbury earthquakes and replacing sections of fibre on the North Island Main Trunk Line.



Mainline Derailments

One of the most significant measures of network robustness is the incidence of derailments. It is pleasing to record the continuing reduction in derailments over time. This year's figure of 18 is in stark contrast to the 60 to 70 that were the norm a decade ago.

Improving the quality of asset management has been a priority for a number of years. The final link in the introduction of the new Maximo asset and works management system went live in April, pleasingly on time and on budget.

With similar objectives, a major inventory re-engineering project was launched. So far $2.0 million has been recovered and all aspects of materials handling and management have been improved.

Auckland and Wellington Suburban Networks

Both Auckland and Wellington suburban networks have benefitted from extensive upgrades over a number of years.

In Auckland, the DART project to improve basic infrastructure has been completed and the focus has been on electrifying the network for use by the city's new electric commuter trains.

It has involved the installation of 3,500 masts, carrying 560 km of 25 kv overhead wires across 175 km of railway tracks.

The complexity and scale of this project is comparable to recent rail upgrades in some of the world's largest cities.

KiwiRail has installed state-of-the-art technology that will enable greater levels of automation, communications and safety across the network.

This includes the implementation of a new train control system that overrides drivers if they are travelling too fast towards red signal lights and advanced, automated signalling equipment that is a world-first for New Zealand and replaces equipment that has not been upgraded for more than fifty years

With infrastructure work substantially completed during FY 2014, the project now involves working closely with Auckland Transport and train manufacturer CAF to ensure the smooth introduction of the new trains onto the network.

Improvements on the Wellington network have included replacement of ageing overhead wiring and support masts, the introduction of new signaling technology to replace the old Petone Signal Box, the replacement of wooden bridges on the Wairarapa Line and strengthening of the sea wall along the Wellington harbour edge between Petone and Wellington.

New overhead electrification hardware is being introduced between Redwood north of Wellington and Muri which is south of Paekakaiki. The project is scheduled to be completed in FY 2015. Overhead wiring has also been replaced near Woburn and north of Trentham on the Wairarapa Line.

Manually controlled signalling equipment at Petone and Porirua has been replaced with the latest computer controlled signalling equipment. Generator backed-up power supplies have also been provided. The new technology brings improved reliability and easier maintenance and service.

Bridge replacements on the Wairarapa Line are part of a commitment by KiwiRail and Greater Wellington Regional Council to invest in infrastructure on the line. Long term planning has begun to determine a programme for replacement of all remaining timber pier bridges on the Wairarapa Line.

The most significant replacement was the bridge which crosses the Mangatere Stream south of Carterton.

Strengthening of the sea wall between Petone and Wellington became a priority after storm damage in June 2013.

Infrastructure & Engineering - *cont*

Outlook and Emphasis for 2015

The focus during the year will be to continue meeting financial targets and control costs as well as completing a number of projects started in FY 2013 and FY 2014.

Projects include the change from track warrant to CTC in Dunedin, centralisation of signal boxes, re-signalling the forestry route in the Bay of Plenty and starting repairs to the Kaimai tunnel floor.

We will also begin work on seven bridges on the North Island Main Trunk Line in the central North Island, work that once complete will be a major step towards the complete timber replacement for the line. While 10 bridges will remain to be replaced, they are relatively modest structures.

Performance Measures

	2011-2012	2012-2013	2013-2014
New rail laid (Km)	36	30	24
New sleepers laid (000)	105	101	67
Line de-stressed (Km)	242	155	130
Bridges replaced (m)	524	492	130
Timber piers replaced	77	76	25
Derailments	27	20	18
Level crossing upgrades	10	8	7

Financial Performance ($m)

	2010-2011	2011-2012	2012-2013
External revenue	34.2	35.1	35.2
EBITDA	(55.1)	(64.7)	(79.1)
Grants	161.5	181.2	93.4
Total assets *	3,669.2	298.7	265.3
- Infrastructure & Engineering Assets (ex land)	411.0	298.7	265.3
- Land Assets **	3,258.2	0.0	0.0

FY 2013 comparatives have been restated where appropriate to reflect the FY 2014 changes in business unit structure.

* *Reduction between 2011-12 and 2012-13 due to $2.45 billion decrease in, and values resulting from, the normal revaluations performed by independent valuers; and a $6.5 billion decrease in all other fixed assets as a result of the decision to restructure our balance sheet*

** *Land assets were not transferred to KiwiRail from NZRC*

Interislander

Interislander's three ferries sail around the clock to provide the vital freight and passenger link between the North and South Islands.

The business's performance FY 2014 reflects the absence of Aratere from November 2013 and the steps taken to provide a replacement. Aratere was taken out of service following a propulsion shaft failure and the loss of a propeller in Cook Strait just as the November to February peak season for freight and passengers was gathering momentum.

In early February, she sailed to Singapore for repairs, returning to Wellington in July.

The result was a reduction in Interislander external revenue of almost 6 percent on FY 2013 to $116.7 million and a reduction in operating surplus of 66 percent to $6.6 million.

Acquiring a replacement vessel, the 22,152 tonne Stena Alegra, and getting her to Wellington and into service by early January 2014 was a remarkable achievement.

The fact that Interislander commercial vehicle revenue was $1.7 million higher than FY 2013 and almost $2 million higher than FY 2012, is a good result and directly related to the speed and efficiency with which Stena Alegra was brought into service.

The loss of Aratere's capacity to handle railway wagons reduced the number of rail wagons carried by just over 3,000, although most remained within the business by being road-bridged on KiwiRail ferries. But the greatest impact of Aratere's absence was on passenger revenue, down $9.2m on FY 2013. A hundred thousand fewer passengers and 42,000 fewer passenger vehicles travelled on Interislander ferries during the year.

The disruption to services inevitably affected on-time performance. In FY 2013, ferries recorded an 82 percent arrival at destination within fifteen minutes of schedule. In FY 2014, on-time performance slipped to 66 percent. On-time performance was also affected by shortages of key staff while we operated four ships at times rather than only three.

The overall impact of Aratere's absence for KiwiRail, including revenue loss and the cost of the Stena Alegra charter, was approximately $27 million. There has also been a longer term impact on Interislander's reputation with customers which will extend beyond the current financial year.

KiwiRail's other two ferries, Arahura and Kaitaki, both performed creditably during the year and both passed milestones of their own.

The second rail-capable ferry, Arahura, celebrated 30 years of service in December 2013 and completed her 50,000th crossing of Cook Strait on 26 June 2014, the equivalent of roughly 4.6 million kilometres. Arahura joined the Interislander fleet in 1983 and has been an outstanding performer over the years.

Interislander's flagship passenger ferry, Kaitaki, spent six weeks in Brisbane during August and September for standard dry-dock work but also a $4.5 million refurbishment of passenger space.

The work followed the confirmation in May 2013 of the ship's charter from Irish Ferries for four years until 2017. The main focus of the refurbishment was to give Kaitaki a stronger "Kiwi feel" by improving the food-court area, the bar, the atrium, the passenger thoroughfare and the main family lounge.

Outlook and Emphasis for 2015

The priority for 2015 is to restore customer confidence in Interislander's capacity to provide reliable service. Since returning from repairs in Singapore, Aratere has performed reliably; however, there were initial problems with speed resulting in an inability to maintain a three-return-sailings-a-day schedule because of marine growth and the size and efficiency of the old propeller. This has now been addressed and the ship is sailing a three sailing daily timetable.

While Arahura has been a remarkable servant for 30 years on Cook Strait, she is scheduled for a special survey in 2015. Options to progress with this work or replace Arahura are being evaluated. The costs associated with acquiring a rail-capable replacement has led to consideration of a road-bridging alternative using a conventional ferry.

This option is being investigated by a project team and a decision will be made in late 2014.

Fleet Assets

Ship	Age (years)	Tonnage	Ownership	Freight Vol (lane metres)	Passenger Numbers	Crew
Arahura	30	12,735	KiwiRail	756	539	50
Aratere	15	17,816	KiwiRail	1,052	670	39
Kaitaki	18	22,365	Leased	1,150	1,650	60
Stena Alegra		22,152	Short-term lease			

Performance Measures

	2011-2012	2012-2013	2013-2014
Passenger journeys	755,398	748,724	641,277
Commercial lane metres	1,184,647	1,209,237	1,243,969
On-time performance (%<15 minutes)	75%	82%	66%
Labour cost/revenue	30.9 %	31%	27%
Financial Performance ($m)			
External Revenue *	123.9	124.3	116.7
EBITDA *	15.5	19.4	6.6
Total Assets	131.6	124.1	128.9

** Excludes major one off items*

The Aratere propeller shaft failure

The background

Aratere was built in Spain for Tranz Rail and entered service in 1999. While she experienced operational problems in her earlier years, she later settled into the role of "work-horse" of the fleet. In 2011, the ship's capacity to handle rail wagons, commercial vehicle and passenger traffic was increased by approximately thirty percent by adding a new mid-section. At the same time, two small (further) engines were added. New propellers were added to improve fuel efficiency. The result when Aratere re-entered service was increased capacity, improved on-time performance, better handling, reduced wake and improved fuel efficiency.

The issue

On Tuesday 5 November, Aratere suffered a mechanical issue with one of the two shafts which drive the ship's propellers. While she was able to return to Wellington (Terminal) the ship was subsequently withdrawn from service. Divers who examined the shafts confirmed that the tail section of the ship's starboard propeller shaft had broken and the propeller had been lost at sea. Aratere is fitted with equipment which monitors all mechanical systems. These systems provided no warning of imminent failure. The crew were not aware of anything unusual prior to the failure.

The operational repercussions

Aratere sails three return daily crossings (one more than her sister ferries) and provides approximately 45 percent of Interislander's fleet capacity. Losing this capacity inevitably impacted on the business, particularly because it occurred at the height of the pre-Christmas freight peak and it severely reduced Interislander's capacity to move rail wagons because only the smaller Arahura, of the two remaining ferries, had a rail deck.

The response

Initially, Aratere freight was re-allocated to the remaining two ships and what could not be carried was re-booked onto Bluebridge vessels.

The highest priority was to arrange the charter of a temporary replacement and a dry-dock for Aratere so that repairs could be made. In spite of there being a limited number of roll-on, roll-off vessels able to use the Picton and Wellington berths, Interislander found and chartered Stena Alegra in three weeks and had her in operation in eight weeks.

The repair work on Aratere was carried out at Singapore's Keppel shipyard in conjunction with a routine two-year, dry-dock that was due. The most significant work included replacing both port and starboard propeller tail shafts and bearings and realigning the shafting system. The original propellers were fitted because new propellers would have taken up to nine months to procure and fit. The pair fitted in 2011 were excluded on the basis that they could have contributed to the November shaft failure.

The outcome

Aratere re-entered service in early July. Initially the ship struggled to maintain three return sailings a day. Mechanically and electrically, Aratere ran perfectly but her original, smaller propellers were less effective than the larger propellers they were replacing. Initially, morning sailings from Wellington were cancelled and Aratere held back for the afternoon freight-critical departures from Wellington. However, ship operating improvements and hull cleaning enabled Aratere to resume her normal intensive around-the clock schedule. In spite of the problems experienced, Aratere's size, rail-deck capacity and purpose-built for Cook Strait characteristics make her an invaluable part of the Interislander fleet.

The cost

The overall impact of Aratere's absence for KiwiRail, including revenue loss and the cost of the Stena Alegra charter was approximately $27 million. There has also been a longer term impact on Interislander's reputation with customers which will extend beyond the current financial year.

The responsibility

KiwiRail has put in place a forensic investigation, conducted by national and international maritime experts, to establish why the failure occurred. Their findings have guided the process of repairing Aratere and determining cause and responsibility. The process has not yet reached a conclusion – which is why KiwiRail has been unable to comment publicly. However, we are on record that we will pursue compensation if it emerges that our suppliers or advisors have not met their obligations and we will provide transparency into the cause when our commercial and insurance processes are concluded.

The time-line

5 November
Aratere loses starboard propeller during scheduled sailing.

Late November
Alternative ferry, Stena Alegra, chartered.

11 December
Aratere commences freight only sailings on a single shaft.

12 January
Stena Alegra enters regular service.

8 February
Aratere departs Wellington for repairs in Singapore.

3 March – 9 April
Aratere in first Singapore dry-dock.

9 April – 16 May
Aratere berthed awaiting new rudder stocks; maintenance continues.

16 – 23 May
Aratere's second dry-dock to replace rudder stocks.

14 June
Aratere leaves Singapore for Wellington after shaft alignment, sea trials and repairs.

29 June
Stena Alegra finishes service.

2 July
Aratere arrives back in Wellington

10 July
Aratere re-enters service.

Passenger

Passenger provides public transport services in the greater Wellington metropolitan area under the Tranz Metro brand and tourism experiences in the form of three long distance passenger trains, the TranzAlpine, Coastal Pacific and Northern Explorer.

A week-day service between Palmerston North and Wellington, the Capital Connection, is technically a commuter train but is accounted for as a long distance service.

While Passenger is a smaller contributor to the overall business than Freight or Interislander, it produced a pleasing FY 2014 improvement in performance.

Tranz Metro revenue of $51.7 million was only $1 million short of budget. Revenue generated accrued to Greater Wellington Regional Council as the service owner. KiwiRail receives a margin as service operator, reflected in the operating surplus result of $5.0 million, $0.3 million ahead of budget. The improvement was achieved as a result of passenger growth of 3 percent on FY 2013.

The Scenic business, heavily impacted by the Canterbury earthquakes effect on the tourism market, rebounded to earn revenue of $20.9 million that was on a par with budget. The operating surplus loss of $1.3 million was 40 percent ahead of budget.

The result reflects the recovery in patronage of the flagship TranzAlpine service and the service reductions in the other two trains which reduced costs.

Overall, external revenue was up by almost $10 million. Passenger benefitted by $7 million from a structural change associated with the Mechanical Depot while $1.8 million came from greater Tranz Metro patronage and $1 million from Scenic.

Tranz Metro performance continues to reflect the investment in Wellington urban network infrastructure improvements in operations and new electric trains. Passenger numbers have grown steadily – up from 11.1 million in FY 2010 to almost 11.7 million this year – as service reliability has improved.

In FY 2010, 89 percent of trains were reaching destination within five minutes of schedule. For FY 2014, on-time performance had risen to 95 percent. These improvements were reflected in Tranz Metro receiving the highest customer satisfaction rating since surveys began in 2001.

They were also recognised with a Chartered Institute of Logistics and Transport Award for Implementation and Practice, given to KiwiRail and Greater Wellington Regional Council (GWRC) for the work undertaken to develop and deliver a high quality commuter rail services to residents and visitors to the Wellington region.

The award acknowledged KiwiRail's service excellence training for Tranz Metro staff, including more emphasis on timely communications, improving engagement with Tranz Metro staff, network upgrades and consistently high punctuality.

Events of nature such as flooding and slips are hazards Tranz Metro regularly copes with, particularly during the winter months. FY 2014 was unusual for two strong earthquakes which resulted in services being suspended. In July 2013, services were suspended from Sunday afternoon 21 July until midday Monday 22 July following a 6.5 magnitude earthquake and again from Friday 16 August until the following day as a result of the even larger 6.6 magnitude quake.

While the advent of the new Matangi electric trains has introduced a new era of comfort and reliability, they were briefly taken out of service on 7 October 2013 while the manufacturer carried out a precautionary check on a locking nut that couples individual units.

Services to Melling station in the Hutt Valley were briefly interrupted in May 2014 when a Matangi unit was unable to come to a complete halt and hit a buffer block. Two passengers required treatment as a result of the collision and the unit was damaged by the impact. The collision is being investigated by the Transport Accident Investigation Commission and by KiwiRail.

Scenic Journeys

Scenic Journeys performance rebound is as yet embryonic but nevertheless encouraging. Long distance passenger numbers overall were up in spite of a fall in Capital Connection patronage. A 40 percent improvement in operating surplus performance was particularly pleasing for a business that has been buffeted by the decline in South Island tourist numbers since the Canterbury earthquakes.

The most significant improvement was in patronage for the internationally rated TranzAlpine service between Christchurch and Greymouth. Patronage was up almost 10 percent, still well below pre-earthquake levels, but heading in the right direction.

Passengers have responded positively to the use of the new AK carriages — operating now on all three long distance services — which have enhanced sight-seeing and comfort. The new carriages were recognised during the year with a Designers Institute of New Zealand Best Design Silver Award.

This increase in operating surplus was in spite of the closure of the Otira tunnel as a precautionary safety measure in mid July 2013 and the need to bus passengers around Otira tunnel.

Numbers on the Northern Explorer, which runs between Auckland and Wellington, were up by about 1,500 on FY 2013 but the trend on the Picton-Christchurch Coastal Pacific was less encouraging. Approximately two thousand fewer passengers than in FY 2013 used the service.

Scenic Journeys has benefitted from lower costs as a result of eliminating off-season services on the Coastal Pacific and halving the service offering by introducing one-way running on the Northern Explorer.

The Capital Connection week-day train between Palmerston North and Wellington is more of a commuter service than a scenic experience targeted at tourists. The introduction of regular commuter services to Waikanae in early 2010 undermined its financial viability. KiwiRail agreed to continue running the service until the end of the current year, absorbing its losses and seeking to grow revenue.

Despite initiatives to grow patronage, the train has lost popularity steadily over recent years – down from 178,000 passengers a year in FY 2011 to 139,000 FY 2014. The target of break even by 2015 appears a distant prospect at this stage.

Outlook and Emphasis for 2015

During 2015, KiwiRail will bid to secure the Greater Wellington Regional Council contract to provide suburban rail services in the capital. We can expect competition for the contract, which makes the focus on improving on-time performance and customer service doubly important. We will also make a decision on whether to bid for the contract to operate suburban train services in Auckland when that contract comes up for renewal in 2016.

We expect a decision to be made on the future of the Capital Connection service. Despite initiatives to boost patronage, the competition it receives from the expanded and improved Kapiti Line commuter services make its survival problematic without some form of funding assistance.

We will continue with initiatives to boost the number of passengers using long distance trains. Figures for FY 2014 have been encouraging for the TranzAlpine and Northern Explorer services. But KiwiRail will be looking at ways to deal with the failure of the Coastal Pacific to approach break even.

Rail Passenger Services

Service	No. of Services	Passengers 2011-2012	Passengers 2012-2013	Passengers 2013-2014
Tranz Metro		11,274,139	11,355,402	11,684,055
Northern Explorer	306	55,059	30,683*[1]	32,144
Coastal Pacific	416	42,166	37,084*[2]	34,933
TranzAlpine	715	105,938	99,545	108,380
Capital Connection	483	158,972	145,590	139,022
Long-distance passenger	1,920	362,135	312,902	314,479

Performance Measures

	2011-2012	2012-2013	2013-2014
Tranz Metro on-time performance (%<5 mins)	92	94	95
Long-distance operating cost/passenger ($)	67	70	71.30
Financial Performance ($m)			
External revenue	66	70.1	73.6
EBITDA	(0.6)	2.1	3.1
Total assets of Scenic	51.8	43.0	36.0

*[1] *Services decreased from 14 per week to six.* *[2] *Ceased running during low winter season demands*

FY 2013 comparatives have been restated where appropriate to reflect the FY 2014 changes in business unit structure

KiwiRail in the Community

KiwiRail's network of tracks, depots and 4,100 staff throughout the country gives it a highly visible presence. At any time during the year we are interacting with not only customers but with communities, tenants who lease our land, iwi, local authorities and members of the public who use rail services or simply cross tracks at level crossings.

One of the biggest challenges we face is keeping the rail corridor tidy and, as far as possible, graffiti-free.

Graffiti is most common along the rail corridor in major cities. Our policy has been to partner with local trusts to work on our behalf to remove graffiti as soon as possible after it occurs. In many cases, we — and those who seek a graffiti-free rail corridor — have to accept the reality that because graffiti-covered walls and fences are not on KiwiRail land, images cannot easily be erased.

Nationally KiwiRail has partnered with groups during the year on graffiti eradication. These include the Manukau Beautification Trust, Civic Contractors, Tag Busters, Civic Bay of Plenty, community groups and various community service groups.

In Dunedin, KiwiRail supported Youth Week Aotearoa in association with the Malcam Charitable Trust. Youth MP Bokyong Mun, and a group of local artists worked with more than 70 young people from eight schools and youth organisations to paint a mural on the 160 metre long KiwiRail embankment wall on Wilkie Road, South Dunedin.

As part of a series of workshops, the young people learned fine art skills. They were asked to create positive representations for future change which they painted on the mural over the week which KiwiRail supported.

The images include a train carriage with *Be the Change* written in graffiti-style French. Other images included a UFO and rocket, sport and music stars, plants and trees, cartoon characters and some imagined figures that were very much the product of creative young minds.

Along the wider rail corridor, controlling weeds and vegetation is the biggest challenge. KiwiRail contracts Treescape New Zealand to control vegetation on the corridor. This includes keeping weeds under control and trimming vegetation.

In a number of areas, local authorities have entered into beautification leases and assumed responsibility for vegetation maintenance.

In urban areas, litter is a significant issue. KiwiRail staff make scheduled trips along the corridor to clear rubbish and litter.

Community Activities and Sponsorship

150th anniversary of rail

KiwiRail celebrated the 150th anniversary of rail in New Zealand in partnership with the Canterbury Railway Society, Ferrymead Heritage Park and the Rail Heritage Trust of New Zealand.

To commemorate the occasion, a travelling exhibition showcasing rail in New Zealand visited 12 locations around the country in September and October 2013. Keeping NZ on the Move: The Exhibition Express featured four individually-themed educational containers and three Scenic carriages hauled by a locomotive.

The exhibition told the story of rail's journey from 1863 until today, KiwiRail's Scenic Journeys' and Interislander's contribution to New Zealand tourism, rail safety, and the vital role KiwiRail plays in moving New Zealand's economy.

The project's innovative characteristics won it a gold medal in the Exhibition Stand category in the annual New Zealand Sign and Display Association awards.

The 12 Exhibition Express Open Days started on 29 September and moved through the country until 26 October.

Where possible, new DL locomotives were used to pull the express and visitors were encouraged to visit the cab and talk to the locomotive engineer.

KiwiRail customers Toll and Mainfreight provided support at open days along with local heritage rail operators.

On 1 December 2013, KiwiRail donated a sculpture commemorating the 150th anniversary to the new National Railway Museum at Ferrymead, Christchurch. The sculpture is to be held in storage until the museum is completed.

Once installed, visitors will pass through the sculpture activating audio recordings of old railway sounds and stories.

Other Initiatives

KiwiRail provides on-going financial support to the Rail Heritage Trust of New Zealand to help it in its work of preserving sites and rolling stock of historical significance. We are also committed to providing second-hand materials to the Wellington Heritage Multiple Unit Preservation Trust for the storage of their heritage rolling-stock.

KiwiRail supports the Federation of Rail Organisations of New Zealand (FRONZ) in the form of annual funding of an award for infrastructure initiatives by members. In 2013, the award was presented to the Canterbury Railway Society for the construction of Ferrymead's turning triangle

KiwiRail engineering staff and its Maori staff network Te Kupenga Mahi representatives are working in partnership with iwi to facilitate the replacement of bridges on the North Island Main Trunk line. We are working with Waikato–Tainui for Taupiri bridge works, and Maniapoto for Taumarunui bridge works. Consultation will continue until project completion in 2015/16.

Interislander is involved in a range of sponsorships which include Wellington Volunteer Coastguard, Picton Maritime Festival and the Marlborough Wine and Food Festival. Our KiwiRail Scenic Journeys and Interislander businesses also provide travel vouchers to community groups to be used as fundraising prizes. Our Tranz Metro team volunteered their time to operate the Goodwill Express in partnership with the Salvation Army, picking up donated items at stations throughout the Wellington region to be redistributed to families in need at Christmas.

Promoting safe rail behaviour

Programmes to promote public safety on and around the rail network are run in conjunction with TrackSAFE, an Australian harm prevention charity.

The August 2013 Rail Safety Week targeted behavioural change amongst pedestrians, particularly young males and children. The was built around the theme developed the previous year of "Use your brain, tracks are for trains", developed by the TrackSAFE Foundation and adapted to New Zealand by KiwiRail.

The campaign broke new ground by making greater use of social and online media rather than traditional press advertising. The safety messages were reinforced in the open day displays taken to 12 centres around New Zealand as part of "The Exhibition Express". One of the exhibits illustrated the theme, Moving Safely and Responsibly.

Ahead of the electrification of the Auckland suburban network, KiwiRail conducted an awareness campaign about electrification to educate pedestrians and road users about the new technology that they would be living with.

Every year, KiwiRail has to deal with the consequences of vehicles colliding with railway bridges. The most common form of bridge strike is over-height vehicles not having sufficient clearance to pass under railway over-bridges.

Bridge strikes vary from year to year. In 2014, strikes rose to a slightly above average 24 compared with a 10-year low of 16 in the previous year.

Community

KiwiRail Board

John Spencer

Chairman

John Spencer is a Wellington-based businessman and company director. He is Chairman of KiwiRail Limited, WEL Networks Ltd, Tertiary Education Commission and Raukawa Iwi Developments Ltd. He is a Director of Tower Ltd and Mitre 10 NZ Ltd. He was the Chief Executive of the New Zealand Dairy Group prior to the formation of Fonterra and has held senior management positions in New Zealand and Australia.

Paula Rebstock

Deputy Chair

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, 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 State Services Commission Performance Improvement Framework and Chair of the New Zealand Police Women's Advisory Network.

Bob Field

Director

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 and adviser to Emirates Team NZ.

John Leuchars

Director

John is a professional company director. He was a consulting engineer who held director and managing director positions in international consulting engineering companies for 30 years. These included managing director of Connell Wagner (NZ) Limited (now Aurecon) and of Connell Mott MacDonald, when he was based in London. He has experience in a broad range of industries in a hands on design role or at governance level. John has had governance experience in a number of private and public companies and not for profit organisations. John is currently a director of Genesis Energy Limited, The Wellington Gateway General Partnership Companies Nos.1 and 2 (Transmission Gully motorway) and Milmeq Ltd.

Rececca Thomas

Director

Rebecca Thomas has more than 25 years' 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 and Black and White Group Ltd. Rebecca is also an Associate Member of the Foundation Board of the Financial Markets Authority and a Trustee of The Professionelle Foundation.

Dr Kevin Thompson

Director

Kevin Thompson is a Nelson based professional director and civil engineer. He was Chief Executive of Opus International Consultants from 2001 to 2010. 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 President of the Institution of Professional Engineers New Zealand.

Guy Royal

Director

Guy Royal has a background in private equity with commercial and corporate law for more than 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 more than 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 New Zealand, PNG and Samoa.

KiwiRail Executive **Team**

Peter Reidy

Chief Executive

Peter Reidy started as KiwiRail's Chief Executive on March 1, 2014. He brings to KiwiRail a successful track record of leading and building service and infrastructure-based businesses in the logistics, engineering, energy and asset management sectors in Australia, New Zealand, Asia and the United Kingdom. Prior to his appointment Peter held the role of Chief Operating Officer, Infrastructure Services with Downer EDI Group in Australia and prior to joining Downer Group, Peter held senior leadership roles with Todd Energy, Fletcher Building, Freightways and TNT (UK).

David Walsh

General Manager Corporate and Finance

David Walsh has been with KiwiRail just over five years. He started as the CFO and two years ago expanded the role to include a wider group of corporate support functions. David has wide experience through a range of industries including the New Zealand Racing Board, Fonterra, TransAlta and Shell NZ.

Iain Hill

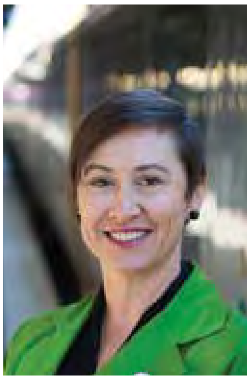
General Manager KiwiRail Freight

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

Thomas Davis

General Manager Interislander

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.



Dr Deborah Hume

General Manager Passenger and External 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 been a General Manager for NZTA's predecessor, Transit, as well as doing risk management consultancy work and being a principal in a multinational engineering & environmental consulting company.

Rick van Barneveld

General Manager Infrastructure & Engineering

Rick van Barneveld leads the infrastructure and engineering 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.

Andrew Norton

General Manager Human Resources

Andrew Norton has previously held senior and executive roles with Public Service Association (PSA) NZ, Auckland District Health Board and his most recent role, Executive General Manager Human Resources for Downer in Australia. Andrew brings a combination of Senior Executive level HR capability, an indepth understanding of industrial relations in NZ and Australia, strong engagement skills with front line engineering and customer service teams and experience in developing Executive leadership in large organisations.

Dr Bob Stacy

General Manager Zero Harm

Dr Bob Stacy joined KiwiRail as its General Manager, Zero Harm, in March 2014 and is responsible for Health, Safety and Environment. He has extensive senior safety and health leadership experience in Australia including BHP Engineering, BHP Transport, CSR, Downer Group and General Electric.

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 Board is to guide the strategic direction of KiwiRail and to direct and oversee management.

The Board establishes objectives and sets strategies to achieve those objectives. The Board, in the context of the approved policy, risk and compliance framework within which the Group operates, monitors management's performance against those strategies. The Board has delegated the day-to-day management to the Group Chief Executive.

The Board met 12 times during the year as part of the regular meeting agenda. Throughout the financial year ended 30 June 2014, the Board of KiwiRail consisted of John Spencer (Chair), Paula Rebstock (Deputy Chair), Rebecca Thomas, John Leuchars, Bob Field, Dr Kevin Thompson and Guy Royal.

Committees

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

The members of the AFR Committee were Rebecca Thomas, 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, responsibilities and performance of management and the auditors in financial reporting, business risk management systems and internal control systems.

Due to the importance of health and safety and the pending change to applicable legislation, all matters to be considered by the SHRE committee were elevated to the full board during the year. The committee will recommence to operate as a separate board committee in the near future.

The members of the Infrastructure Committee were John Leuchars, Kevin Thomas and Guy Royal. This 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 during the year.

The role of the Remuneration 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 directors 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 related 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 directors of its wholly-owned subsidiaries against any costs or liabilities of the type referred to in section 162(5) of the Companies Act 1993.

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.

A comparison against the 2014 performance targets and measures, as set out in the KiwiRail 2012- 2015 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.

Key Performance Indicators

Statement of Corporate Intent Comparisons

	2014 Actual	2014 Target
Financial Metrics (m)		
Total External Revenue before major one-off items	723.6	769.3
One-off items*	17.3	-
Total External Revenue	740.9	769.3
Operating surplus before major one-off items	75.3	120.1
One-off items*	2.2	-
Operating surplus	77.5	120.1
Strategic Plan Capital Expenditure	250.7	309.6
Metro Project Capital Expenditure	54.7	26.1
Metro Renewals Capital Expenditure	43.4	46.0
Key Sales Metrics		
Freight NTK (million)	4,492	4,944
Freight average yield (c/NTK)	8.3	8.4
Key Investment Outcomes		
Rolling Stock Replacement		
- Locomotives (no. of new units)	8	10
Network Reneals		
- New Sleepers Laid (000)	67	83
- New Rail Laid (km)	24	20
- Lines Destressed (km)	130	180
- Span Metres Replaced	130	220
- Timber Piers Replaced	25	40
- Culverts Replaced	20	20
- Level Crossing Upgrades	7	10
Customer Service Performance		
Freight - Premium Train (%<30min)	84%	90%
Metro (%<5min)	95%	95%
Scenic (%<15min)	67%	87%
Interislander (%<15min)	66%	90%

*One-off items include insurance recovery and costs associated with the Aratere propeller incident, Stena Alegra and DL Locomotive remediation

Key Performance Indicators

Statement of Corporate Intent Comparisons

	2014 Actual	2014 Target
Productivity Measures		
Group Labour Costs as % of Revenue	39.9%	38.5%
Freight operating expenditure as a % of Freight Revenue	69.4%	62.9%
Freight fuel and traction electricity as a % of Revenue	15.7%	16.0%
Freight maintenance costs as a % of Revenue	8.6%	10.0%
Interislander operating expenditure as a % of Revenue	124.8%	82.0%
Interislander fuel costs as a % of Revenue	25.4%	21.0%
Network operating costs % of Freight revenue	19.6%	19.0%
Health & Safety		
Total Harm	261	309
Staff Engagement		
Engagement Index	73	74
The Crown's Investment in KiwiRail ($m)		
Total Shareholders Funds (TSF)	477.0	726.0
Average Shareholders Funds (ASF)	532.3	706.5
Financial Performance Measures for SOE Portfolio		
Crown Investment in KiwiRail		
- Dividend Yield	Nil	Nil
- Dividend Payout	Nil	Nil
- Return on Average Equity	-46.6%	-19.4%
- Return on Average Equity excluding IFRS fair valuation movements and asset revaluations	-50.9%	-21.6%
Profitability/Efficiency Measures		
- Return on Average Capital Employed	-32.6%	-12.9%
- Operating Margin (before major one-off items)	10.4%	15.6%
Leverage/Solvency Measures		
Shareholder's Funds to Total Assets	51.7%	56.1%
Gearing Ratio (net)	46.1%	43.3%
Interest Cover	8.2	8.5
Solvency (current assets/current liabilities)	0.91	0.93

Audited Annual Financial Statements

For the financial year ended 30 June 2014

Statement of Financial Performance

For the financial year ended 30 June 2014

	Note	Group Year to June 2014	NZRC/ KHL Year to June 2013	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
		$m	$m	$m	$m	$m
Operating revenues	5	740.9	727.0	364.1	223.6	92.8
Operating expenses	6	(663.4)	(618.8)	(302.8)	(159.5)	(72.1)
Operating surplus		**77.5**	**108.2**	**61.3**	**64.1**	**20.7**
Grant income	7	93.4	181.7	80.5	93.4	80.5
Depreciation and amortisation expenses	9	(69.7)	(61.9)	(31.9)	(14.0)	(7.1)
Foreign exchange and commodity gains and losses	10	(1.5)	2.7	2.4	(0.9)	(0.3)
Finance income	11	1.6	3.2	1.5	11.7	6.9
Finance costs	11	(10.8)	(9.3)	(3.1)	(11.7)	(3.3)
Impairment	19	(331.3)	(399.3)	(209.4)	(338.6)	(189.1)
Movement in value of investment properties	17	(7.2)	-	-	-	-
Net loss before taxation		**(248.0)**	**(174.7)**	**(98.7)**	**(196.0)**	**(91.7)**
Income tax (expense)/credit	12	-	-	-	-	-
Net loss after taxation		**(248.0)**	**(174.7)**	**(98.7)**	**(196.0)**	**(91.7)**

The accompanying notes form part of these financial statements.

Statement of Comprehensive Income

For the financial year ended 30 June 2014

	Group Year to June 2014	NZRC/ KHL Year to June 2013	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$m	$m	$m	$m	$m
Net loss after taxation	**(248.0)**	**(174.4)**	**(98.7)**	**(196.0)**	**(91.7)**
Other comprehensive (loss)/income					
Gains/(losses) from cash flow hedges	(2.9)	1.3	3.3	(1.6)	3.3
Transfer to asset carrying value from cash flow hedge reserve	(0.9)	2.3	1.5	(0.4)	1.5
Building revaluation	13.5	-	-	-	-
Asset revaluation reserve transfers	-	-	-	(25.3)	-
Vesting of assets and liabilities	9.0	-	594.4	-	595.2
Total comprehensive income/(loss)	**(229.3)**	**(171.1)**	**500.5**	**(223.3)**	**508.3**

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 30 June 2014

	Note	Group June 2014	Group June 2013	Parent June 2014	Parent June 2013
		$m	$m	$m	$m
Current assets					
Cash and cash equivalents	13	15.4	64.8	0.7	44.9
Trade and other receivables	14	93.4	87.9	347.4	275.5
Inventories	15	58.7	54.0	26.3	18.1
Financial assets	16	2.6	4.1	157.7	169.7
Assets held for sale	23	1.6	-	-	-
		171.7	**210.8**	**532.1**	**508.2**
Non-current assets					
Property, plant and equipment	18	710.4	792.6	224.8	272.0
Investment property	17	39.9	5.0	5.2	5.0
Intangible assets	20	0.3	0.4	-	-
Financial assets	16	0.3	0.1	28.8	31.3
Trade and other receivables	14	0.1	0.7	0.1	0.2
Investment in subsidiary		-	-	-	89.9
		751.0	**798.8**	**258.9**	**398.4**
Total Assets		**922.7**	**1,009.6**	**791.0**	**906.6**
Current liabilities					
Trade and other liabilities	21	152.2	144.6	60.4	73.9
Financial liabilities	16	21.3	5.5	18.1	5.1
Income taxes payable	12	-	-	-	-
Provisions	22	15.3	12.5	4.2	5.6
		188.8	**162.6**	**82.7**	**84.6**
Non-current liabilities					
Trade and other liabilities	21	37.3	37.3	8.1	8.1
Financial liabilities	16	214.0	218.5	209.4	218.6
Provisions	22	5.6	3.7	-	-
		256.9	**259.5**	**217.5**	**226.7**
Total Liabilities		**445.7**	**422.1**	**300.2**	**311.3**
Net Assets		**477.0**	**587.5**	**490.8**	**595.3**
Equity					
Share capital		205.8	87.0	205.8	87.0
Retained earnings		235.4	442.3	285.0	481.0
Asset revaluation reserve		37.6	56.2	-	25.3
Cash flow hedge reserve		(1.8)	2.0	-	2.0
Total Equity		**477.0**	**587.5**	**490.8**	**595.3**

John Spencer, Chair
28 August 2014

Paula Rebstock, Deputy Chair
28 August 2014

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the financial year ended 30 June 2014

	Equity Capital	Retained Earnings	Asset Valuation Reserve	Cash Flow Hedge Reserve	Total
	$m	$m	$m	$m	$m
GROUP					
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/(loss)	**-**	**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**
Net loss for the period	-	(248.0)	-	-	(248.0)
Other comprehensive (loss)/income					
Gains/(losses) from cash flow hedges	-	-	-	(2.9)	(2.9)
Transfer to asset carrying value from cash flow hedge reserve	-	-	-	(0.9)	(0.9)
Revaluation reserve of property, plant and equipment	-	-	13.5	-	13.5
Revaluation reserve of transferred / disposed property, plant and equipment	-	32.1	(32.1)	-	-
Vested assets	-	9.0	-	-	9.0
Total comprehensive income/(loss)	**-**	**(206.9)**	**(18.6)**	**(3.8)**	**(229.3)**
Transactions with owners					
Capital Investment	118.8	-	-	-	118.8
As at 30 June 2014	**205.8**	**235.4**	**37.6**	**(1.8)**	**477.0**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the financial year ended 30 June 2014

	Equity Capital	Retained Earnings	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Total
	$m	$m	$m	$m	$m
PARENT					
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**
Net loss for the year	-	(196.0)	-	-	(196.0)
Other comprehensive (loss)/income					
Gains/(losses) from cash flow hedges	-	-	-	(1.6)	(1.6)
Transfer to asset carrying value from cash flow hedge reserve	-	-	-	(0.4)	(0.4)
Transfer of asset revaluation reserve	-	-	(25.3)	-	(25.3)
Total comprehensive income/(loss)	**-**	**(196.0)**	**(25.3)**	**(2.0)**	**(223.3)**
Transactions with owners					
Capital Investment	118.8	-	-	-	118.8
As at 30 June 2014	**205.8**	**285.0**	**-**	**-**	**490.8**

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the financial year ended 30 June 2014

	Note	Group Year to June 2014	NZRC/ KHL Year to June 2013	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
		$m	$m	$m	$m	$m
Cash flows from operating activities						
Proceeds from:						
Receipts from customers		741.7	752.3	385.2	228.2	116.0
Interest received		1.6	3.2	1.5	11.7	6.8
Proceeds utilised for:						
Payments to suppliers and employees		(666.7)	(663.4)	(343.7)	(176.9)	(140.6)
Interest expense		(9.5)	(15.1)	(2.9)	(11.1)	(3.0)
Net cash from operating activities	26	**67.1**	**77.0**	**40.1**	**51.9**	**(20.8)**
Cash flows from investing activities						
Proceeds from:						
Sale of property, plant and equipment		1.9	6.2	5.0	-	3.4
Capital grant receipts		93.4	181.7	80.5	93.4	80.5
Repayment / (advances) of loans to / (from) subsidiaries		-	-	-	(69.6)	14.7
Proceeds utilised for:						
Purchase of property, plant and equipment		(332.2)	(484.1)	(262.3)	(239.1)	(182.4)
Purchase of intangibles		(10.1)	(1.9)	(4.0)	(9.0)	(1.6)
Net cash used in investing activities		**(247.0)**	**(298.1)**	**(180.8)**	**(224.3)**	**(85.4)**
Cash flows from financing activities						
Proceeds from:						
Cash balance vested from NZRC		-	-	119.4	-	64.9
Crown capital investment		118.8	250.0	87.0	118.8	87.0
Finance lease		16.0	2.9	0.7	10.2	0.7
Proceeds utilised for:						
Repayment of borrowings		(3.5)	(2.9)	(1.6)	(0.5)	(1.5)
Repayment of finance lease liability		(0.8)	(0.2)	-	(0.3)	-
Net cash from financing activities		**130.5**	**249.8**	**205.5**	**128.2**	**151.1**
Net increase in cash and cash equivalents		**(49.4)**	**28.7**	**64.8**	**(44.2)**	**44.9**
Cash and cash equivalents at the beginning of the period		**64.8**	**36.1**	**-**	**44.9**	**-**
Effect of exchange rate fluctuations on cash held		-	-	-	-	-
Cash and cash equivalents at the end of the period	13	**15.4**	**64.8**	**64.8**	**0.7**	**44.9**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1. 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 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 year ended 30 June 2014 and were authorised for issue by the Board of Directors on 28 August 2014. The comparative "period" information from last year's Statement of Financial Performance, Statement of Comprehensive Income, Statement of Movements in Equity and Statement of Cash Flows represent operations from the vesting date 31 December 2012 to 30 June 2013. The comparative "year" information includes six months operations of NZRC from 1 July 2012 to 31 December 2012 for those statements.

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

NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES

The Group carries out the following activities:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"), and comply with the State-Owned Enterprises Act of 1986, the requirements of the Companies Act 1993 and the Financial Reporting Act 2013. The financial statements have also been prepared on the basis of historical cost, except for certain non-financial assets and derivative financial instruments, which have been valued at fair value.

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.

(b) Statement of compliance

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") as appropriate for for-profit entities and other applicable Financial Reporting Standards.

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.

(c) New accounting standards and interpretations

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended NZ IFRS as at 1 July 2013:

Reference	Description	Impact
NZ IFRS 13	NZ IFRS 13 Fair Value Measurement NZ IFRS 13 establishes a single source of guidance under NZ IFRS for determining the fair value of the assets and liabilities. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine the fair value under NZ IFRS when fair value is required or permitted under NZ IFRS. Application of this guidance may result in different fair values being determined for the relevant assets. NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	With this standard coming into force, the Group has analysed the fair value calculation used on non-financial assets. Emphasis was placed on the definition of 'highest and best use' from a market participant perspective. The impact to the Group is disclosed in notes 18, 19 and 29 where relevant.

(d) 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 recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

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. The difference between the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as a goodwill or a discount on acquisition.

Subsidiary companies are those entities that are controlled directly or indirectly by the Parent.

Unrealised losses relating to impairment of subsidiaries are recognised in the Statement of Financial Performance.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable by the Parent and Group to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue represents amounts receivable for goods and services provided in the normal course of business once significant risks and rewards of ownership have been transferred to the buyer.

(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 Tranz Scenic revenue is recognised at the date of travel.

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

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

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

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

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

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

(x) Government funding received as reimbursements of the costs of capital projects is recognised 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.

(xii) Inter-company sales are eliminated within the Group.

(f) 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 and accumulated impairment losses. 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 and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. Fair value is determined from market-based evidence by an external, independent valuer. Valuations are undertaken in accordance with the standards issued by the New Zealand Property Institute, NZ IAS 16 Property, Plant and Equipment and NZ IFRS 13 Fair Value Measurement with the following bases of valuation adopted:

- Specialised buildings – 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 and buildings 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 or buildings is charged as an expense to the Statement of Financial Performance to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Other additions between revaluations are recorded at cost.

(iii) Derecognition

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

(iv) Renewals

Expenditures that are eligible for capitalisation as property, plant and equipment relating to track renewals, ballast formation upgrading, and major overhauls of rolling stock are capitalised at cost as property, plant and equipment. Repairs and maintenance costs are expensed through the Statement of Financial Performance as incurred.

(v) Depreciation

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

Depreciation is provided on freehold buildings, railway infrastructure, rolling stock, ships and containers, and plant and equipment. Land is not depreciated.

Depreciation on revalued buildings and track assets is charged to the Statement of Financial Performance.

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

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

(g) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine if there is any indication of impairment. External factors such as changes in expected future processes, technology and economic conditions are also monitored to assess for indicators 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 f(ii) above).

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

Finance leases on motor vehicles, leasehold improvements and equipment included in plant and equipment asset class 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.

(h) Intangible assets

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

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 of 3 to 5 years.

(i) Net finance costs

Borrowing costs - are 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 NZ IAS 23 Borrowing Costs 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 designated at fair value through profit or loss.

(j) Inventories

Inventories comprise 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. Inventories are 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 net realisable value. Costs comprise 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 using the weighted average method.

(k) Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

(i) Group as a lessee

Finance leases
Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of a finance lease are included in property, plant and equipment. They are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the Statement of Financial Performance.

Operating leases
Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an operating expense in the Statement of Financial Performance on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(ii) Group as a lessor

Leases in which the Group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(l) 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 provided 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.

(m) 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, Inland Revenue ('IR') is included as part of receivables or payables in the Statement of Financial Position.

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

(n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount can be reliably estimated.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense in relation to any provision is presented in the Statement of Financial Performance net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the future cash flows. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision for the passage of time is recognised as a finance cost.

(o) 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.

(p) Employee entitlements

Provision is made for benefits accruing to employees in respect of annual leave, retiring leave (including involuntary retirement as medically unfit) and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Employee entitlements are accounted for based on NZ IAS 19 Employee Benefits.

The provision for retiring leave and long-service 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 Group in respect of services provided by employees up to the reporting date.

Employee entitlements such as 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.

(q) 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 if the fund does not hold sufficient assets to pay all employee benefits 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.

(r) Reimbursement assets

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the Group settles the obligation. The reimbursement is treated as a separate asset.

(s) Interest in a joint arrangement

The Group is party to a joint arrangement with Northland Regional Council. This arrangement is considered as a joint operation under NZ IFRS 11 Joint Arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. As a party to a joint operation, the Group has recognised the following in relation to its interest in the proposed Oakleigh to Marsden Point rail link:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly
- Its revenue from the sale of its share of output arising from the joint operation
- Its share of the revenue from the sale of output by the joint operation
- Its expenses, including share of any expenses incurred jointly

(t) Financial assets

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

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

Recognition and derecognition

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

Subsequent measurement

(i) Loans and receivables

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

Cash and cash equivalents
Cash and cash equivalents comprises cash on hand, call deposits and other investments with an initial term of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

(ii) Fair value

Financial assets designated at fair value are those derivative financial instruments within predetermined policies and limits in order to manage exposure to fluctuations in foreign exchange, commodity and interest rate risks. The relevant accounting policy for these types of financial assets is set out under 'Derivative financial instruments and hedging activities' in note 2(u)(ii).

Impairment of financial assets
Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have 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.

(u) Financial liabilities

Financial liabilities are designated at amortised cost or at fair value through profit or loss unless these are designated as hedged items and therefore hedge accounted for.

(i) Amortised cost

Amortised cost is the amount at which the financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount.

The Group has two types of financial liabilities designated at amortised cost:

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

Borrowings
Borrowings are initially measured at fair value, plus directly attributable 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 to the net carrying amount of the financial liability.

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 date.

(ii) Fair value

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 12 months or less.

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 other comprehensive income 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.

In any of the following circumstances, the Group shall discontinue hedge accounting:

- If a derivative financial instrument expires or is sold, terminated or exercised
- It no longer meets the criteria for hedge accounting
- The forecast transaction is no longer expected to occur
- The designation of the hedge relationship is revoked or changed

In cases where hedge accounting is discontinued as per the circumstance outlined above, the cumulative, unrealised gain or loss recognised in the cash flow hedge reserve in other comprehensive income 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.

(v) Assets held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For an asset to be classified as held for sale, it must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

An asset held for sale is measured at the lower of its carrying amount and its fair value less cost to sell.

(w) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are measured at fair value, which is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset at the reporting date. Gains or losses from changes in the fair values of investment properties are recognised in the Statement of Financial Performance in the year in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

(x) 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.

(y) Accounting standards and interpretations issued but not yet effective

NZ IFRS Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2014, are outlined in the table below:

Reference	Description	Application date of standard	Impact
NZ IAS 36 Amendments to NZ IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	The amendments require disclosure of: • Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal. • Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique.	1 July 2014	The impact of this change to the accounting standards will be additional presentation and disclosure.

Notes to the Financial Statements

Reference	Description	Application date of standard	Impact
NZ IFRS 9 Financial Instruments	NZ IFRS 9 is the standard issued as part of IASB's project to replace NZ IAS 39. **Financial assets** The requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39. The most significant changes include: • Two categories for financial assets being amortised cost or fair value. • Strict requirements to determine which financial assets can be classified as amortised cost or fair value. • Reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes. **Financial liabilities** Where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI). • The remaining change is presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. **Hedging** • New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. • Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of NZ IFRS 9 at the same time.	1 January 2017*	The Group is yet to assess the impact of these changes to the accounting standard.

** The International Accounting Standards Board (IASB) had announced a tentative decision to establish a new effective date for IFRS 9, being for periods beginning on or after 1 January 2018. Once the new effective date has been issued by the IASB, it is likely that the New Zealand Accounting Standards Board will amend the effective date for NZ IFRS 9 to align with IFRS 9.*

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

(z) Comparatives

The presentation of information in some notes to the financial statements has changed from the previous year, with prior year balances re-stated to be comparable with current year figures.

Also, we have amended disclosure for note 24(c) Lease Commitments and note 28 Related Party Transactions. The impacts of these restatements are not material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make judgements, 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.

(a) 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.

Land and buildings are revalued every three years taking into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling to another market participant that would use the asset in its highest and best use. Specialised buildings are those assets identified as having no readily available market and exist strictly to carry out KiwiRail's unique operations. These specialised buildings are valued using the optimised depreciated replacement cost.

(b) Impairment of non-financial assets

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include technological, economic and political factors and future expectations. If an impairment trigger exists, the recoverable amount of the assets is determined. If no impairment is stated then management does not consider that the triggers for impairment testing have been significant (see note 19 for further disclosures on impairment of non-financial assets).

(c) 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.

(d) 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.

(e) Taxation

The Group's accounting policy for taxation purposes requires management's judgment. Judgement is also required in assessing whether deferred tax assets and liabilities are recognised in some areas. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only when they may be recovered, dependent on the generation of sufficient future taxable profits.

The judgement and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the profit or loss for the year.

(f) Estimation of useful lives of assets

The Group reviews the useful lives and residual values of its property, plant and equipment annually. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires the Group to consider a number of factors such as the physical condition of the asset, expected period of use and expected disposal proceeds from the future sale of the asset. An incorrect estimate of the useful life or residual value will impact the depreciation expense recognised in the profit or loss for the year and the carrying amount of the asset in the Statement of Financial Position.

GOING CONCERN

KiwiRail is continuing on the path towards a self-sustaining railway business. Shareholder support to date has been provided in line with KiwiRail's business plans, with a further $198m of equity funding confirmed for proposed investments in the 2014/15 financial year that will provide the opportunity to drive long-term sustainable earnings. The latest business plan assumes additional equity funding for a number of years. The additional equity funding beyond 2014/15 will be confirmed by the shareholder on a year by year basis. We have completed these financial statements on a "going concern" basis based on the assumption that the shareholder support will continue, largely in line with business plans.

4. TOTAL INCOME

	Note	Group Year to June 2014	NZRC/ KHL Year to June 2013	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
		$m	$m	$m	$m	$m
Revenue	5	740.9	727.0	364.1	223.6	92.8
Grant income	7	93.4	181.7	80.5	93.4	80.5
Total income		**834.3**	**908.7**	**444.6**	**317.0**	**173.3**

5. REVENUE

	Group Year to June 2014	NZRC/ KHL Year to June 2013	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$m	$m	$m	$m	$m
Freight	462.0	463.7	228.3	-	-
Interislander	120.8	124.3	68.0	-	-
Tranz Metro	52.6	50.1	21.7	-	-
Scenic Journeys	21.0	20.0	10.8	-	-
Property & Corporate	49.3	33.8	18.0	185.9	74.9
Infrastructure & Engineering	35.2	35.1	17.3	37.7	17.9
Total revenue	**740.9**	**727.0**	**364.1**	**223.6**	**92.8**

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

6. OPERATING EXPENSES

	Group Year to June 2014	NZRC/ KHL Year to June 2013	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$m	$m	$m	$m	$m
Salaries and wages	333.5	330.7	156.1	109.5	76.5
Defined contribution plan employer contributions	11.4	9.2	4.7	2.8	1.0
Employee entitlements	0.2	(0.6)	3.7	(0.1)	1.6
Other employee expenses	3.1	2.8	1.1	1.6	0.8
Total staff costs	348.2	342.1	165.6	113.8	79.9
Less amounts capitalised	(52.6)	(57.2)	(27.2)	(43.4)	(50.4)
Net staff costs	295.6	284.9	138.4	70.4	29.5
Materials and supplies	118.3	90.1	45.7	41.7	13.6
Fuel and traction electricity	114.9	119.7	57.2	3.6	1.5
Lease and rental costs	50.9	47.1	22.4	11.8	7.6
Incidents, casualties and insurance	19.6	19.2	9.9	9.7	4.8
Contractors expenses	16.3	14.9	7.4	-	2.1
Fees paid to auditors:					
Audit fees	0.5	0.5	0.4	0.4	0.4
Impairment/(recovery from impairment) of receivable	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Directors' fees	0.3	0.3	0.2	0.3	0.2
(Gain)/loss on disposal of property, plant and equipment	(0.5)	(2.8)	(2.7)	(0.5)	-
Other expenses	47.6	45.0	24.0	22.2	12.5
Total operating expenses	**663.4**	**618.8**	**302.8**	**159.5**	**72.1**

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

7. GRANT INCOME

	Group Year to June 2014	NZRC/ KHL Year to June 2013	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$m	$m	$m	$m	$m
Capital grants for metro projects					
Auckland rail development	1.6	35.4	12.3	1.6	12.3
Auckland electrification project	51.5	115.0	51.0	51.5	51.0
Other capital grants					
Other	39.8	30.8	17.0	39.8	17.0
Public policy grant	0.5	0.5	0.2	0.5	0.2
Total grant income	**93.4**	**181.7**	**80.5**	**93.4**	**80.5**

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

8. GAIN ON SALE OF LAND

NZRC records the value of rail corridor land on its Statement of Financial Position. 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 2014. Further details of the lease agreement with NZRC are provided in note 24(b).

9. DEPRECIATION AND AMORTISATION EXPENSES

	Note	Group Year to June 2014	NZRC/ KHL Year to June 2013	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
		$m	$m	$m	$m	$m
Depreciation expense	18	67.9	61.3	31.2	13.1	6.9
Amortisation expense	20	1.8	0.6	0.7	1.4	0.5
Depreciation recharge		-	-	-	(0.5)	(0.3)
Total depreciation and amortisation expenses		**69.7**	**61.9**	**31.9**	**14.0**	**7.1**

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

10. FOREIGN EXCHANGE AND COMMODITY GAINS AND LOSSES

	Group Year to June 2014	NZRC/ KHL Year to June 2013	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$m	$m	$m	$m	$m
Net realised foreign exchange and commodity losses	(0.2)	(0.6)	(0.1)	(0.4)	(0.2)
Net change in the fair value of derivatives not designated as cash flow hedges	(1.3)	3.3	2.5	(0.5)	(0.1)
Total foreign exchange gains and losses	**(1.5)**	**2.7**	**2.4**	**(0.9)**	**(0.3)**

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

11. NET FINANCE INCOME/(COSTS)

	Group Year to June 2014	NZRC/ KHL Year to June 2013	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$m	$m	$m	$m	$m
Finance income					
Interest income on bank deposits	1.6	3.2	1.5	0.5	0.6
Interest income other	-	-	-	11.2	6.3
	1.6	3.2	1.5	11.7	6.9
Less finance costs					
Interest expense on borrowings	(14.6)	(20.1)	(9.2)	(16.1)	(9.4)
Interest expense on finance lease	0.5	-	-	(0.2)	-
Interest expense – other	(0.3)	-	-	-	-
Net change in fair value of derivatives	4.6	10.8	6.1	4.6	6.1
	(10.8)	(9.3)	(3.1)	(11.7)	(3.3)
Net finance income/(costs)	**(9.2)**	**(6.1)**	**(1.6)**	**-**	**3.6**

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

12. TAXATION

	Group Year to June 2014	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$m	$m	$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	(248.7)	(98.7)	(196.0)	(91.7)
Tax at 28%	(69.6)	(27.6)	(54.9)	(25.7)
Tax effect of: Non-deductible expenditure	0.3	0.3	25.4	1.4
Other temporary differences	69.3	27.3	29.5	24.3
Tax benefit/(expense)	**-**	**-**	**-**	**-**

At 30 June 2013 a Bill before Parliament contained amendments to the Income Tax Act 2007 that directly affected 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 had retrospective application from 31 December 2012. For the period ended 30 June 2013, the financial statements of the Group were prepared on the basis that the changes in that Bill had been substantively enacted at the reporting date. The Bill was subsequently passed into law and received Royal assent on 17 July 2013.

The Bill included changes that:

- Created tax values for the depreciable property of the Parent;
- Permitted the carry forward of tax losses from the old Group to the new Group structure;
- Determined the tax treatment of various items vested in the Parent by NZRC;
- Preserved 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.

Income tax in the current reporting period has been calculated consistent with the basis used for the reporting period ended 30 June 2013.

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

12. TAXATION (continued)

DEFERRED TAXATION

The Group has an unrecognised deferred tax asset of $726.9m (2013: $651.9m) arising from deductible temporary differences of $2,308.0m (2013: $2,204.7m) and unused tax losses of $288.1m (2013: $124.0m).

The Parent has an unrecognised deferred tax asset of $634.3m (2013: $602.7m) arising from deductible temporary differences of $2,108.2m (2013: $2,100.1m) and unused tax losses of $157.1m (2013: $52.9m)

The Group has formed an imputation Group. The Group has access to $1,176,699 imputation credits (2013: $1,009,364 imputation credits). These imputation credit figures are in NZ dollars and not expressed in millions.

13. CASH AND CASH EQUIVALENTS

	Group June 2014	Group June 2013	Parent June 2014	Parent June 2013
	$m	$m	$m	$m
Cash on hand	0.1	0.3	-	-
Current accounts	10.2	22.2	0.7	12.7
Call deposits	5.1	42.3	-	32.2
	15.4	**64.8**	**0.7**	**44.9**

The carrying value of cash at bank and call deposits with maturities of 3 months or less 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 30.

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

14. TRADE AND OTHER RECEIVABLES

	Group Year to June 2014	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$m	$m	$m	$m
Trade receivables	50.4	54.0	8.6	9.9
Accrued and other receivables:				
Prepayments	13.8	9.1	4.8	5.4
Related party receivables	6.2	5.2	326.1	248.4
Other	24.1	21.4	8.1	12.2
Gross receivables	94.5	89.7	347.6	275.9
Less provision for impairment	(1.0)	(1.1)	(0.1)	(0.2)
	93.5	**88.6**	**347.5**	**275.7**
Current assets	93.4	87.9	347.4	275.5
Non-current assets	0.1	0.7	0.1	0.2
	93.5	**88.6**	**347.5**	**275.7**

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

14. TRADE AND OTHER RECEIVABLES (continued)

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.

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

	Gross	2014 Impairment	Net	Gross	2013 Impairment	Net
	$m	$m	$m	$m	$m	$m
GROUP						
Not past due	43.9	(0.4)	43.5	38.5	(0.2)	38.3
Past due 1 – 30 days	5.0	(0.1)	4.9	12.1	-	12.1
Past due 31 – 60 days	0.4	-	0.4	1.4	-	1.4
Past due 61 – 90 days	0.5	(0.2)	0.3	0.3	(0.2)	0.1
Past due > 91 days	0.6	(0.3)	0.3	1.7	(0.7)	1.0
Total	**50.4**	**(1.0)**	**49.4**	**54.0**	**(1.1)**	**52.9**
PARENT						
Not past due	6.9	-	6.9	6.4	-	6.4
Past due 1 – 30 days	1.5	-	1.5	2.6	-	2.6
Past due 31 – 60 days	-	-	-	0.5	-	0.5
Past due 61 – 90 days	0.2	(0.1)	0.1	-	-	-
Past due > 91 days	-	-	-	0.4	(0.2)	0.2
Total	**8.6**	**(0.1)**	**8.5**	**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.

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

14. TRADE AND OTHER RECEIVABLES (continued)

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

	Group Year to June 2014	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$m	$m	$m	$m
Opening balance	1.1	-	0.2	-
Provision vested from NZRC	-	1.2	-	0.4
Amounts written off during the period	-	(0.2)	-	(0.1)
Additional provisions made/(reversed) during the period	(0.1)	0.1	(0.1)	(0.1)
Balance at 30 June	**1.0**	**1.1**	**0.1**	**0.2**

Changes in the provision for impairment of receivables are charged to operating expenses in the Statement of Financial Performance (see note 6).

The Group holds no collateral 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 30.

The average credit period on sales of goods and services is 22.1 days (2013: 23.7 days).

15. INVENTORIES

	Group Year to June 2014	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$m	$m	$m	$m
Operational Activities				
Fuel	1.7	1.9	-	-
Inventory held to maintain railway	25.6	18.1	25.6	18.1
Inventory held to maintain rolling stock and vessels	28.6	31.9	-	-
Inventory held for resale	0.7	0.7	-	-
Contracting Activities – work in progress	2.1	1.4	0.7	-
Net inventory	**58.7**	**54.0**	**26.3**	**18.1**

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

15. INVENTORIES (continued)

The carrying amount of inventory is measured at the lower of cost and net realisable value.

The following inventories have either declined in value or provided for obsolescence. As at 30 June 2014, these inventories are reflected at net realisable value:

- Inventory held to maintain railway
- Inventory held to maintain rolling stock and vessels

No inventories are pledged as security for liabilities.

A provision for stock obsolescence of $13.2m (2013: $21.6m) is included within each inventory items carrying amount. As at 30 June 2014 the following represents the movement in the provision for stock obsolescence:

	Group Year to June 2014	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$m	$m	$m	$m
Opening balance	21.6	-	11.0	-
Provisions vested 31 December 2012	-	28.0	-	-
Provision amalgamated from Ontrack Infrastructure Limited	-	-	-	12.4
Provisions made/(reversed) during the period	(0.9)	-	(0.2)	1.6
Provisions utilised/ written off to inventory account during the period	(7.5)	(6.4)	(7.2)	(3.0)
Balance at 30 June	**13.2**	**21.6**	**3.6**	**11.0**

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.

16. FINANCIAL ASSETS AND LIABILITIES

	Group June 2014	Group June 2013	Parent June 2014	Parent June 2013
	$m	$m	$m	$m
Current financial assets				
Commodity forward contracts	0.1	0.1	0.1	-
Foreign currency forward contracts	2.5	4.0	2.4	3.6
Intercompany advances – current	-	-	155.2	166.1
Total current financial assets	2.6	4.1	157.7	169.7
Non-Current financial assets				
Foreign currency forward contracts	0.3	0.1	0.3	-
Interest rate swaps	-	-	-	-
Intercompany advances	-	-	28.5	31.3
Total non-current financial assets	0.3	0.1	28.8	31.3
Total financial assets	**2.9**	**4.2**	**186.5**	**201.0**
Current financial liabilities				
Commodity forward contracts	0.2	0.4	0.1	-
Loans	13.7	3.1	13.8	3.1
Finance leases	2.4	0.4	1.3	0.4
Foreign currency forward contracts	5.0	1.6	2.9	1.6
Total current financial liabilities	21.3	5.5	18.1	5.1
Non-Current financial liabilities				
Commodity forward contracts	-	0.1	-	-
Foreign currency forward contracts	0.6	-	0.3	-
Loans	192.0	205.6	192.0	205.8
Finance leases	15.7	2.5	11.4	2.5
Interest rate swaps	5.7	10.3	5.7	10.3
Total non-current financial liabilities	214.0	218.5	209.4	218.6
Total financial liabilities	**235.3**	**224.0**	**227.5**	**223.7**

(a) Loans

Unsecured loans

The notional principal amounts of the outstanding loans for the Group were $177.1m (2013: $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 the reporting date is $28.7m (2013: $30.8m).

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

16. FINANCIAL ASSETS AND LIABILITIES (continued)

The average term to maturity and weighted average interest rates for external unsecured and secured loans and finance leases are shown in the table below:

	Unit	Group Year to June 2014	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
Notional principal	$m	223.9	211.9	223.9	211.9
Average fixed interest rate	%	6.06	5.68	6.06	5.68
Average term to maturity	Years	3.4	4.1	3.4	4.1

Credit card facilities

The Group has a credit card facility with a maximum limit of $2.3m (2013: $2.3m). As at the reporting date $0.1m (2013: $0.2m) of the limit was drawn.

Letter of credit facilities

The Group had no outstanding Import Letters as at 30 June 2014 (2013: USD3.3m).

(b) Derivative financial 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 publicly available market prices. Management classifies these fair value measurements as Level 2 (refer to note 29).

i. Commodity forward contracts

The Group is party to a number of commodity forward contracts for heavy and light fuel oil. The total notional principal amount of outstanding commodity forward contracts is $8.7m (2013: $9.3m).

The fair value of commodity forward contracts is as follows:

	Group June 2014	Group June 2013	Parent June 2014	Parent June 2013
	$m	$m	$m	$m
Assets				
Commodity forward contracts	0.1	0.1	0.1	-
Liabilities				
Commodity forward contracts	0.2	0.5	0.1	-

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

16. FINANCIAL ASSETS AND LIABILITIES (continued)

ii. Foreign currency forward contracts

The table below sets out the fair value of the forward currency contracts as at 30 June 2014:

	Group June 2014	Group June 2013	Parent June 2014	Parent June 2013
	$m	$m	$m	$m
Assets				
Foreign currency forward contracts	2.8	4.1	2.7	3.6
Liabilities				
Foreign currency forward contracts	5.6	1.6	3.2	1.6

The New Zealand Dollar notional principal amounts of outstanding forward foreign exchange contracts were $58.6m (2013: $70.6m).

iii. Interest rate swaps

The fair value of interest rate swaps as at 30 June 2014 are set out on the table below:

	Group June 2014	Group June 2013	Parent June 2014	Parent June 2013
	$m	$m	$m	$m
Assets				
Interest rate swaps	-	-	-	-
Liabilities				
Interest rate swaps	5.7	10.3	5.7	10.3

The notional principal amounts of the outstanding interest rate swaps for the Group were $146m (2013: $111m), with average term to maturity and weighted average fixed interest rate shown in the table below:

	Unit	Group Year to June 2014	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
Notional principal	$m	146.0	111.0	146.0	111.0
Average fixed interest rate	%	5.93	5.66	5.93	5.66
Average term to maturity	Years	5.99	7.01	5.99	7.01

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

16. FINANCIAL ASSETS AND LIABILITIES (continued)

As at 30 June 2014, after taking into account the effect of the interest rate swaps, approximately 67% of the Group's borrowings are at a fixed rate of interest (2013: 53%)

iv. Movement in cash flow hedge reserve

	Group Year to June 2014	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$m	$m	$m	$m
Opening balance	2.0	-	2.0	-
Vested from NZRC	-	(2.8)	-	(2.8)
Charged to Statement of Financial Performance	-	-	-	-
Gains/(losses) charged to other comprehensive income	(2.9)	3.3	(1.6)	3.3
Charged to asset carrying value	(0.9)	1.5	(0.4)	1.5
Balance at 30 June	**(1.8)**	**2.0**	**-**	**2.0**

17. INVESTMENT PROPERTY

	Group Year to June 2014	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$m	$m	$m	$m
Opening balance	5.0	-	5.0	-
Vested from NZRC (on 31 Dec 2012)	-	5.0	-	5.0
Additions	-	-	-	-
Disposals	-	-	-	-
Transfer / reclassification	42.1	-	0.2	-
Fair value gains / (losses) on valuation	(7.2)	-	-	-
Balance at 30 June	**39.9**	**5.0**	**5.2**	**5.0**

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

17. INVESTMENT PROPERTY (continued)

Investment properties are stated at fair value. Values for investment properties valued under NZ IAS 40 have been assessed primarily on a market related basis.

Leased buildings

During the year, non-current assets with a total net carrying value of $41.9m were assessed to be held for rental and for capital appreciation rather than for operational use. These assets were recognised and reclassified as investment properties as at 30 June 2014. As at 30 June 2014, the total fair value of these investment properties was $34.7m.

A valuation of material leased buildings was undertaken at the end of the current financial year. Approximately 80% of the total leased buildings were revalued as at 30 June 2014. The remaining 20% represents a minority of the total value of the investment properties and does not have a material impact on the financial statements.

The valuation was carried out by Darroch Limited who are independent valuers and hold a recognised and relevant professional qualification. See note 29 for the methodology used in the determination of fair value.

Investment property from joint arrangement

The investment property comprises land and rail designation assets acquired as part of the joint arrangement with Northland Regional Council. The balance of investment property at 30 June 2014 comprises land of $2.2m and rail designation land and costs of $3.0m.

The valuation has been undertaken by Telfer Young (Northland) Ltd who are independent valuers and hold a recognised and relevant professional qualification.

See note 27 for further information on this joint arrangement.

The following table represents the component of the investment properties:

	Group June 2014	**Group June 2013**	**Parent June 2014**	**Parent June 2013**
	$m	$m	$m	$m
Leased buildings	34.7	-	-	-
Marsden Point investment properties	5.2	5.0	5.2	5.0
Balance at 30 June	**39.9**	**5.0**	**5.2**	**5.0**

18. PROPERTY, PLANT AND EQUIPMENT - GROUP

2014	Note	Land	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant and Equipment	Capital Work In Progress	Total
		$m	$m	$m	$m	$m	$m	$m	$m
Cost:									
Balance at 1 July 2013		1.6	127.8	129.0	238.2	114.0	147.0	151.3	908.9
Additions		-	3.6	89.9	141.7	12.4	40.9	42.7	331.2
Disposals		-	-	-	(2.3)	-	(0.4)	-	(2.7)
Transfers from/(to) other asset category		(1.6)	(48.8)	15.3	0.4	-	1.8	(10.4)	(43.3)
Revaluation	19	-	(4.8)	-	-	-	-	-	(4.8)
Impairment	19	-	(7.9)	(116.5)	(83.9)	-	-	(149.0)	(357.3)
Vested assets		-	9.0	-	-	-	-	-	9.0
Balance at 30 June 2014		**-**	**78.9**	**117.7**	**294.1**	**126.4**	**189.3**	**34.6**	**841.0**
Accumulated depreciation:									
Balance at 1 July 2013		-	12.3	-	25.5	24.9	53.6	-	116.3
Depreciation expense	9	-	7.8	3.8	34.1	8.6	13.6	-	67.9
Disposals		-	-	-	(0.5)	-	(0.4)	-	(0.9)
Transfers from/(to) other asset category		-	(1.2)	1.4	-	-	(0.2)	-	-
Revaluation	19	-	(18.3)	-	-	-	-	-	(18.3)
Impairment	19	-	-	(5.2)	(29.2)	-	-	-	(34.4)
Balance at 30 June 2014		**-**	**0.6**	**-**	**29.9**	**33.5**	**66.6**	**-**	**130.6**
Net book value:									
At 1 July 2013		1.6	115.5	129.0	212.7	89.1	93.4	151.3	792.6
At 30 June 2014		**-**	**78.3**	**117.7**	**264.2**	**92.9**	**122.7**	**34.6**	**710.4**

18. PROPERTY, PLANT AND EQUIPMENT (continued) - GROUP

2013	Note	Land	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant and Equipment	Capital Work In Progress	Total
		$m	$m	$m	$m	$m	$m	$m	$m
Cost:									
Balance at 31 December 2012		-	-	-	-	-	-	-	-
Vested from NZRC (31 Dec 2012)		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	19	-	(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 (31 Dec 2012)		-	7.9	0.4	24.2	21.2	49.2	-	102.9
Depreciation expense	9	-	4.4	1.1	15.4	3.7	6.6	-	31.2
Disposals		-	-	-	(0.4)	-	(2.2)	-	(2.6)
Impairment	19	-	-	(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**

18. PROPERTY, PLANT AND EQUIPMENT (continued) – PARENT

2014	Note	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant and Equipment	Capital Work In Progress	Total
		$m	$m	$m	$m	$m	$m	$m
Cost:								
Balance at 1 July 2013		34.5	129.0	-	-	106.0	39.3	308.8
Additions		-	92.6	-	-	31.9	114.6	239.1
Disposals		-	-	-	-	(0.3)	-	(0.3)
Revaluation		(34.5)	0.4	-	-	5.4	0.5	(28.2)
Impairment	19	-	(104.3)	-	-	-	(139.6)	(243.9)
Balance at 30 June 2014		**-**	**117.7**	**-**	**-**	**143.0**	**14.8**	**275.5**
Accumulated depreciation:								
Balance at 1 July 2013		2.1	-	-	-	34.7	-	36.8
Depreciation expense	9	-	2.7	-	-	10.4	-	13.1
Disposals		-	-	-	-	(0.3)	-	(0.3)
Transfers		(2.1)	0.1	-	-	5.9	-	3.9
Impairment	19	-	(2.8)	-	-	-	-	(2.8)
Balance at 30 June 2014		**-**	**-**	**-**	**-**	**50.7**	**-**	**50.7**
Net book value:								
At 1 July 2013		32.4	129.0	-	-	71.3	39.3	272.0
At 30 June 2014		**-**	**117.7**	**-**	**-**	**92.3**	**14.8**	**224.8**

18. PROPERTY, PLANT AND EQUIPMENT (continued) - PARENT

2013	Note	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant and Equipment	Capital Work In Progress	Total
		$m	$m	$m	$m	$m	$m	$m
Cost:								
Balance at 31 December 2012		-	-	-	-	-	-	-
Vested from NZRC (31 Dec 2012)		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	19	(1.8)	(79.5)	-	-	-	(102.4)	(183.7)
Balance at 30 June 2014		**34.5**	**129.0**	**-**	**-**	**106.0**	**39.3**	**308.8**
Accumulated depreciation:								
Balance at 31 December 2012		-	-	-	-	-	-	-
Vested from NZRC (31 Dec 2012)		1.1	0.4	-	-	29.6	-	31.1
Amalgamated from Ontrack Infrastructure Ltd		-	-	-	-	0.7	-	0.7
Depreciation expense	9	1.0	1.1	-	-	4.8	-	6.9
Disposals		-	-	-	-	(0.4)	-	(0.4)
Impairment	19	-	(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.

18. PROPERTY, PLANT AND EQUIPMENT (continued)

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 2014 CBRE Limited, who are independent valuers and hold a recognised and relevant qualification, conducted a valuation of land for Clifford Bay Ltd. The land was identified as asset intended to be sold in the next 12 months therefore it was classified as asset held for sale as at 30 June 2014 (refer note 23).

In June 2014, the non-leased buildings were revalued by Darroch Limited who are independent valuers and hold a recognised relevant qualification. In carrying out the valuation of the buildings, Darroch has utilised valuers located nationwide who are familiar with the local property market in which the property is situated and the local inputs into the valuation such as rentals, capitalisation rates and land values.

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

Group	Land 2014	Buildings 2014	Land 2013	Buildings 2013
	$m	$m	$m	$m
Cost	-	188.4	1.8	215.3
Accumulated depreciation	-	(47.2)	-	(56.6)
Net carrying value	**-**	**141.2**	**1.8**	**158.7**

Parent	Land 2014	Buildings 2014	Land 2013	Buildings 2013
	$m	$m	$m	$m
Cost	-	-	-	62.3
Accumulated depreciation	-	-	-	(6.6)
Net carrying value	**-**	**-**	**-**	**55.7**

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 period are provided in note 19.

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 2014 is $28.7m (2013: $30.8m).

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

18. PROPERTY, PLANT AND EQUIPMENT (continued)

Leasing

Included within the plant and equipment asset class are Hi-Rail vehicles, Tampers and Hoists with a net book value of $18.1m (2013: $3.2m) which are held under finance lease and loan arrangements with Westpac Banking Corporation and Bank of New Zealand. Further details of the lease term are provided in note 24(a).

Borrowing costs

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

19. IMPAIRMENT OF PROPERTY, PLANT & EQUIPMENT

Reconciliation of Impairment Movements to Statement of Financial Performance

	Group Year to June 2014	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$m	$m	$m	$m
Impairment of Cash Generating Units (below)	(331.3)	(209.4)	(248.7)	(185.5)
Impairment of Investment in Subsidiary	-	-	(89.9)	(3.6)
Impairment in Statement of Financial Performance	**(331.3)**	**(209.4)**	**(338.6)**	**(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 $331.3m (2013: $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. Market values have been provided by independent valuers Darroch Limited for buildings as at 30 June 2014, and EY-Australia for all railway infrastructure and rolling stock as at 30 June 2014.

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.

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

19. IMPAIRMENT OF PROPERTY, PLANT & EQUIPMENT (continued)

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

Group Year to 30 June 2014	Carrying amount before impairment	Impairment recognised in Statement of Financial Performance	Movement recognised in Asset Revaluation Reserve	Carrying amount after impairment
	$m	$m	$m	$m
Rail CGU				
Non-leased buildings	72.7	(7.9)	13.5	78.3
Railway infrastructure	229.0	(111.3)	-	117.7
Rolling stock	318.9	(54.7)	-	264.2
Plant and equipment	116.2	-	-	116.2
Assets under construction	182.6	(149.0)	-	33.6
Software	8.4	(8.4)	-	-
	927.8	**(331.3)**	**13.5**	**610.0**
Interislander CGU				
Ships	92.9	-	-	92.9
Plant and equipment	6.5	-	-	6.5
Assets under construction	1.0	-	-	1.0
Software	0.3	-	-	0.3
	100.7	**-**	**-**	**100.7**
Total	**1,028.5**	**(331.3)**	**13.5**	**710.7**

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

19. IMPAIRMENT OF PROPERTY, PLANT & EQUIPMENT (continued)

NZRC/KHL Year to 30 June 2013	Carrying amount before impairment	Impairment recognised in Statement of Financial Performance	Movement recognised in Asset Revaluation Reserve	Carrying amount after impairment
	$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**

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

19. IMPAIRMENT OF PROPERTY, PLANT & EQUIPMENT (continued)

Group Period to 30 June 2013	Carrying amount before impairment	Impairment recognised in Statement of Financial Performance	Movement recognised in Asset Revaluation Reserve	Carrying amount after impairment
	$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**

PARENT Year to 30 June 2014	Carrying amount before impairment	Impairment recognised in Statement of Financial Performance	Movement recognised in Asset Revaluation Reserve	Carrying amount after impairment
	$m	$m	$m	$m
Rail CGU				
Railway infrastructure	219.2	(101.5)	-	117.7
Rolling stock	-	-	-	-
Plant and equipment	92.3	-	-	92.3
Assets under construction	154.4	(139.6)	-	14.8
Software	7.6	(7.6)	-	-
Total	**473.5**	**(248.7)**	**-**	**224.8**

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

19. IMPAIRMENT OF PROPERTY, PLANT & EQUIPMENT (continued)

PARENT Period to 30 June 2013	Carrying amount before impairment	Impairment recognised in Statement of Financial Performance	Movement recognised in Asset Revaluation Reserve	Carrying amount after impairment
	$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 18 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.

20. INTANGIBLE ASSETS

	Note	Group Year to June 2014	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
		$m	$m	$m	$m
Opening balance		2.2	-	-	-
Vested from NZRC (31 Dec 2012)		-	2.0	-	-
Additions		10.1	4.0	9.0	3.8
Impairment	19	(10.0)	(3.8)	(9.0)	(3.8)
Balance at 30 June		**2.3**	**2.2**	**-**	**-**
Accumulated amortisation:					
Opening balance		1.8	-	-	-
Vested from NZRC (31 Dec 2012)		-	1.6	-	-
Amortisation expense	9	1.8	0.7	1.4	0.5
Impairment	19	(1.6)	(0.5)	(1.4)	(0.5)
Balance at 30 June		**2.0**	**1.8**	**-**	**-**
Net carrying value		**0.3**	**0.4**	**-**	**-**

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

Impairment losses of $8.4m and $7.6m for the Group and the Parent respectively (2013: $3.3m for both the Group and the Parent) are included in the impairment in the Statement of Financial Performance. For more details see note 19.

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

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

21. TRADE AND OTHER LIABILITIES

	Note	Group June 2014	Group June 2013	Parent June 2014	Parent June 2013
		$m	$m	$m	$m
Trade payables		36.5	36.6	18.2	20.5
Goods and services tax (receivable)/payable		0.8	(7.4)	(3.8)	(6.5)
Employee entitlements	21(a)	96.5	96.1	22.6	23.9
Unearned revenue		8.7	7.8	3.4	4.2
Accrued interest		1.9	1.1	1.2	1.0
Amounts payable to related parties		-	-	0.1	9.7
Joint venture payable	27	5.4	5.9	5.4	5.9
Other payables and accruals		39.7	41.8	21.4	23.3
Total payables		**189.5**	**181.9**	**68.5**	**82.0**
Current liabilities		152.2	144.6	60.4	73.9
Non-current liabilities		37.3	37.3	8.1	8.1
		189.5	**181.9**	**68.5**	**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.

Management of liquidity risk is disclosed in note 30.

(a) EMPLOYEE ENTITLEMENTS

	Group June 2014	Group June 2013	Parent June 2014	Parent June 2013
	$m	$m	$m	$m
Current portion				
Accrued salaries and wages	8.2	7.4	2.5	2.4
Annual leave entitlement accruals	44.8	45.3	12.6	12.8
Retirement and long service leave liability	6.2	6.1	0.6	0.6
Total current portion	59.2	58.8	15.7	15.8
Non-Current portion				
Retirement and long service leave	37.3	37.3	6.9	8.1
Total non-current portion	37.3	37.3	6.9	8.1
Total employee entitlements	**96.5**	**96.1**	**22.6**	**23.9**

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

21. TRADE AND OTHER LIABILITIES (continued)

(a) EMPLOYEE ENTITLEMENTS (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% per annum (2013: 3.0% per annum) and a term specific risk-free discount rate of between 3.7% and 5.5% per annum (2013: between 2.7% and 5.5% per annum). The discount rate is derived from the yields on Government bonds as at the respective reporting dates, 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.

22. PROVISIONS

	Group Year to June 2014	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$m	$m	$m	$m
ACC partnership programme	3.0	2.8	0.8	0.7
Leased vessel costs	4.2	3.7	-	-
Transition costs	-	0.1	-	-
Warranty costs	0.1	0.5	-	-
Reorganisation costs	3.8	4.3	2.3	2.8
Other provisions	9.8	4.8	1.1	2.1
	20.9	**16.2**	**4.2**	**5.6**
Represented by:				
Current	15.3	12.5	4.2	5.6
Non-current	5.6	3.7	-	-
	20.9	**16.2**	**4.2**	**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.

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

22. PROVISIONS (continued)

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 11.2% 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 from 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 $4.2m (2013: $3.7m).

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

The restructuring provision is $3.8m (2013:$4.3m). Restructuring was completed in 2014 for the Property, Communications, Safety and People, Information Communication Technology and Passenger functions. The remaining provision is held for minor restructuring in Freight, Corporate, InterIslander and Infrastructure and Engineering. There are 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 next financial year.

22. PROVISIONS (continued)

Movements in each class of provision are as follows:

GROUP 2014	Balance at 30 June 2013	Vested from NZRC	Provisions made during the period	Provisions utilised during the period	Balance at 30 June 2014	Current	Non-Current
	$m	$m	$m	$m	$m	$m	$m
ACC partnership programme	2.8	-	0.2	-	**3.0**	3.0	-
Leased vessel costs	3.7	-	0.5	-	**4.2**	-	4.2
Transition costs	0.1	-	-	(0.1)	**-**	-	-
Warranty costs	0.5	-	-	(0.4)	**0.1**	0.1	-
Reorganisation costs	4.3	-	1.2	(1.7)	**3.8**	3.8	-
Other provisions	4.8	-	8.7	(3.7)	**9.8**	8.4	1.4
	16.2	**-**	**10.6**	**(5.9)**	**20.9**	**15.3**	**5.6**

GROUP 2013	Balance at 31 Dec 2012	Vested from NZRC	Provisions made during the period	Provisions utilised during the period	Balance at 30 June 2014	Current	Non-Current
	$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.

22. PROVISIONS (continued)

PARENT 2014	Balance at 30 June 2013	Vested from NZRC	Provisions acquired through amalgam-ation	Provisions made during the period	Provisions utilised during the period	Balance at 30 June 2014	Current
	$m	$m	$m	$m	$m	$m	$m
ACC partnership programme	0.8	-	-	0.1	(0.1)	**0.8**	0.8
Reorganisation costs	2.7	-	-	1.0	(1.4)	**2.3**	2.3
Other provisions	2.1	-	-	1.1	(2.1)	**1.1**	1.1
	5.6	**-**	**-**	**2.2**	(3.6)	**4.2**	**4.2**

PARENT 2013	Balance at 31 Dec 2012	Vested from NZRC	Provisions acquired through amalgam-ation	Provisions made during the period	Provisions utilised during the period	Balance at 30 June 2013	Current
	$m	$m	$m	$m	$m	$m	$m
ACC partnership programme	-	0.1	0.5	0.2	-	**0.8**	0.8
Reorganisation costs	-	-	7.8	1.3	(6.4)	**2.7**	2.7
Other provisions	-	-	-	2.1	-	**2.1**	2.1
	-	**0.1**	**8.3**	**3.6**	(6.4)	**5.6**	**5.6**

23. ASSET HELD FOR SALE

	Group June 2014	Group June 2013	Parent June 2014	Parent June 2013
	$m	$m	$m	$m
Asset held for sale	1.6	-	-	-

As at 30 June 2014, properties have been re-classified as held for sale where the property is intended to be sold. The asset held for sale was valued under NZ IFRS 5 Assets Held for Sale and Discontinued Operations. The property was restated to fair value less cost to sell as the carrying value before adjustment was $1.62m. The fair value less cost to sell as at 30 June 2014 was $1.59m.

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

24. LEASE COMMITMENTS

(a) Finance lease commitments

The Group has lease agreements with Westpac Banking Corporation and Bank of New Zealand to lease Hi-Rail enabled vehicles, Tampers and Hoists. The approved limit of these facilities is $20.6m (2013: $13.1m). At 30 June 2014 the Group had the following commitments under this lease agreement:

	Group June 2014	Group June 2013	Parent June 2014	Parent June 2013
	$m	$m	$m	$m
Total minimum lease payments due				
Not later than one year	3.3	0.6	1.9	0.6
Later than one year but not later than five years	11.8	2.0	7.1	2.0
Later than five years	7.5	0.8	7.5	0.8
Total minimum lease payments	22.6	3.4	16.5	3.4
Future lease finance charges	(4.5)	(0.5)	(3.9)	(0.5)
Present value of minimum lease payments	**18.1**	**2.9**	**12.6**	**2.9**
Represented by:				
Current	2.4	0.4	1.3	0.4
Non-current	15.7	2.5	11.3	2.5
Total finance leases	**18.1**	**2.9**	**12.6**	**2.9**

(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.

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

24. LEASE COMMITMENTS (continued)

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 June 2014	Group June 2013	Parent June 2014	Parent June 2013
	$m	$m	$m	$m
Total minimum lease payments due:				
Not later than one year	16.6	17.9	8.1	6.7
Later than one year but not later than five years	31.1	42.9	12.9	14.8
Later than five years	10.7	12.0	8.1	11.9
	58.4	**72.8**	**29.1**	**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 30.

(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 27 years remaining of the lease term and a total commitment of $57.9m (2013: $60.0m).

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

	Group June 2014	Group June 2013	Parent June 2014	Parent June 2013
	$m	$m	$m	$m
Total minimum lease payments receivable:				
Not later than one year	17.5	17.6	15.0	17.6
Later than one year but not later than five years	43.3	40.7	34.9	40.7
Later than five years	77.7	66.6	65.7	66.6
	138.5	**124.9**	**115.6**	**124.9**

For the year ended 30 June 2014, $28.2m was recognised as revenue in the Statement of Financial Performance (period ended 30 June 2013: $15.1m).

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

25. CAPITAL AND OTHER COMMITMENTS

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

	Group June 2014	Group June 2013	Parent June 2014	Parent June 2013
	$m	$m	$m	$m
Capital expenditure commitments:				
Not later than one year	73.3	79.8	42.2	59.2
Later than one year but not later than five years	4.8	7.4	-	7.4
	78.1	**87.2**	**42.2**	**66.6**

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

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

	Group Year to June 2014	NZRC/ KHL Year to June 2013	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$m	$m	$m	$m	$m
Net (loss) / surplus after taxation	(248.0)	(174.7)	(98.7)	(196.0)	(91.7)
Add/(deduct) items classified as investing or financing activities					
Gain on sale of assets	0.5	(2.7)	(2.7)	-	-
Fair value movement in derivatives	(3.2)	(13.1)	(7.4)	(4.1)	(6.0)
Capital grant receipts	(93.4)	(181.7)	(80.5)	(93.4)	(80.5)
Capitalised interest on loans	0.4	-	-	0.4	-
	(343.7)	(372.2)	(189.3)	(293.1)	(178.2)
Add non-cash flow items					
Depreciation and amortisation expense	69.7	61.9	31.9	14.0	7.4
Movements in deferred tax and provisions	4.7	(16.4)	(13.6)	(1.4)	7.4
Impairment of property, plant and equipment	331.3	399.3	209.4	338.6	189.1
Movement in fair value of investment properties	7.2	-	-	-	-
	69.2	72.6	38.4	58.1	23.9
Add / (deduct) movements in working capital					
Decrease in trade receivables	3.6	-	3.2	1.3	1.0
(Increase)/decrease in other receivables	(8.5)	29.0	31.2	4.6	26.7
(Increase)/decrease in inventories	(4.7)	10.4	13.4	(8.2)	(18.1)
Increase/(decrease) in trade payables	5.6	(21.6)	(26.0)	9.1	(7.5)
Increase/(decrease) in other payables	1.9	(13.4)	(20.1)	(13.0)	46.8
Net cash flows from operating activities	**67.1**	**77.0**	**40.1**	**51.9**	**(20.8)**

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

27. JOINT ARRANGEMENTS WITH NORTHLAND REGIONAL COUNCIL

In January 2009 NZRC entered into an agreement with Northland Regional Council to create a joint arrangement 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 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 arrangement. They are deemed to be a joint arrangement categorised as a joint operation so each party to the agreement recognises its share on the assets, liabilities, revenue and expenses.

At 30 June 2014 the Group has a liability of $5.4m to the Council for its share of the cost of land purchased by the Council as well as other Council expenditure relating to the joint operation. This is included in Trade and Other liabilities in note 21.

28. RELATED PARTY TRANSACTIONS

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

	Holding 2014	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	Manage properties held for sale

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. On 28 February 2014 Tranz Rail Limited was almalgamated into KL.

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.

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

28. RELATED PARTY TRANSACTIONS (continued)

Significant transactions with Government-related entities

The Group has been provided with equity from the Crown and capital grant funding from Government entities. Equity funding of $118.8m (2013: $87.0m) has been received together with capital grant funding of $82.0m (2013:$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 Year to June 2014	NZRC/ KHL Year to June 2013	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$000	$000	$000	$000	$000
Solid Energy:					
Revenue	46,798	44,692	23,111	1,389	1,335
% of total	6.3%	6.1%	6.3%	0.9%	1.4%
Genesis Power:					
Revenue	2,400	1,735	1,209	-	-
% of total	0.3%	0.2%	0.3%	-	-
New Zealand Transport Agency					
Revenue	1,438	8	-	1,181	8
% of total	0.2%	-	-	0.7%	-
	50,636	**46,435**	**24,320**	**2,570**	**1,343**

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; telecommunications from Kordia; contract services by Land Information New Zealand and Metservice; promotion by New Zealand Tourism Board, licenses by New Zealand Transport Agency, biosecurity inspection by Asure Quality Ltd, boundary costs by Department of Conservation, hazardous material removal by New Zealand Fire Service Commission, translation by Department of Internal Affairs, and levies by Maritime New Zealand.

28. RELATED PARTY TRANSACTIONS (continued)

	Group Year to June 2014	NZRC/ KHL Year to June 2013	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$000	$000	$000	$000	$000
Meridian Energy:					
Expenses	11,193	12,376	5,759	669	272
% of total	1.7%	2.0%	1.9%	0.3%	0.4%
Transpower					
Expenses	2,831	2,032	1,061	2,831	1,061
% of total	0.4%	0.3%	0.4%	1.3%	1.5%
Air New Zealand:					
Expenses	3,692	2,566	1,447	2,531	1,043
% of total	0.6%	0.4%	0.5%	1.1%	1.4%
New Zealand Post:					
Expenses	606	368	190	430	147
% of total	0.1%	0.1%	0.1%	0.2%	0.2%
Kordia:					
Expenses	816	738	317	816	317
% of total	0.1%	0.1%	0.1%	0.4%	0.4%
New Zealand Transport Agency:					
Expenses	821	931	464	819	302
% of total	0.1%	0.2%	0.2%	0.4%	0.4%
Maritime New Zealand					
Expenses	724	-	-	-	-
% of total	0.1%	-	-	-	-
Others					
Expenses	163	166	40	102	18
% of total	-	-	-	-	-
	20,846	**19,177**	**9,278**	**8,198**	**3,160**

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

28. RELATED PARTY TRANSACTIONS (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 Year to June 2014	**Purchases Year to June 2014**	**Receivable June 2014**	**Payable June 2014**
	$000	$000	$000	$000
Paula Rebstock (Director)				
ACC	-	3,326	-	-
Work & Income	24	-	4	-
	24	**3,326**	**4**	**-**
Kevin Thompson (Director)				
Aquamax	-	167	-	3
	-	**167**	**-**	**3**
John Spencer (Director)				
Mitre 10	-	27	-	1
WEL Networks Ltd	6	-	-	-
	6	**27**	**-**	**1**
John Leuchars (Director)				
Genesis	2,400	34	-	-
	2,400	**34**	**-**	**-**
Total	**2,430**	**3,554**	**4**	**4**

28. RELATED PARTY TRANSACTIONS (continued)

	Statement of Financial Performance		Statement of Financial Position	
	Sales Period to June 2013	Purchases Period to June 2013	Receivable June 2013	Payable June 2013
	$000	$000	$000	$000
Paula Rebstock (Director)				
ACC	-	3,491	-	-
Work & Income	9	-	2	-
	9	**3,491**	**2**	**-**
Kevin Thompson (Director)				
IPENZ	-	1	-	13
Aquamax	-	81	-	13
	-	**82**	**-**	**13**
John Spencer (Director)				
Mitre 10	**-**	**15**	**-**	**-**
	-	**15**	**-**	**-**
John Leuchars (Director)				
Genesis	1,209	15	314	1
	1,209	**15**	**314**	**1**
Total	**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 2014 the net balance payable by the Parent was $9.5m (2013: net receivable from KL of $226.5m) and no debt has been forgiven. During the year KL received $2.6m (2013: $9.2m) in payments from the Parent for services provided.

The Parent has provided loans to its subsidiary KL. As at 30 June 2014 the outstanding balance of the loans amounted to $183.7m (2013: $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 $11.2m (2013: $6.3m).

28. RELATED PARTY TRANSACTIONS (continued)

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

	Group Year to June 2014	NZRC/ KHL Year to June 2013	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
	$000	$000	$000	$000	$000
Key Management Personnel Compensation					
Short-term employee benefits	4,190	3,328	1,832	2,813	1,238
Balance at end of period	**4,190**	**3,328**	**1,832**	**2,813**	**1,238**

There were no termination benefits and post-employment benefits paid to key management personnel for both financial years 2013 and 2014.

The Directors earned the following fees during the period:

	Year to 30 June 2014	Year to 30 June 2013	Period to 30 June 2013
	$000	$000	$000
KHL Directors			
John Spencer	80	80	40
Paula Rebstock	50	50	25
Robert Field	40	40	20
John Leuchars	40	40	20
Rebecca Thomas	40	40	20
Kevin Thompson	40	40	20
Guy Royal	40	27	20
Mark Tume	-	13	-
	330	**330**	**165**

All Directors were appointed on 6 November 2012 at the incorporation of the Company and were previously Directors of NZRC. 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.

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 for the previous year we have considered the total remuneration paid by the KiwiRail business in the previous financial year (i.e. by both NZRC and KHL).

28. RELATED PARTY TRANSACTIONS (continued)

Employees' remuneration Total remuneration and benefits in $000	Group Year to June 2014	Group Period to June 2013	Parent Year to June 2014	Parent Period to June 2013
100 – 110	251	263	99	114
110 – 120	166	139	70	56
120 – 130	93	74	41	30
130 – 140	47	58	24	33
140 – 150	41	34	19	13
150 – 160	24	36	6	18
160 – 170	19	30	7	12
170 – 180	25	17	11	4
180 – 190	11	11	2	3
190 – 200	12	10	3	4
200 – 210	10	9	6	3
210 – 220	4	10	2	6
220 – 230	5	4	3	2
230 – 240	3	-	2	-
240 – 250	1	1	1	-
250 – 260	-	1	-	-
260 – 270	-	1	-	1
270 – 280	1	-	-	-
280 – 290	2	-	1	-
290 – 300	1	-	1	-
300 – 310	3	2	3	2
310 – 320	2	1	2	1
320 – 330	1	2	-	1
330 – 340	1	-	1	-
350 – 360	1	-	-	-
370 – 380	-	1	-	1
390 – 400	2	-	1	-
400 – 410	-	1	-	1
410 – 420	-	1	-	-
440 – 450	-	1	-	-
450 – 460	-	2	-	2
460 – 470	1	-	-	-
520 – 530	3	-	2	-
700 – 710	-	1	-	1
810 – 820*	-	1	-	1
890 – 900*	1	-	1	-
	731	**711**	**308**	**309**

The values for remuneration include redundancy/severance payments.

*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.

29. FAIR VALUE

a. Classification of Financial Instruments

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

	Group 2014	Group 2013	Parent 2014	Parent 2013
	$m	$m	$m	$m
FINANCIAL ASSETS				
Loans and receivables				
Cash and cash equivalents	15.4	64.8	0.7	44.9
Trade and other receivables (excluding prepayments)	79.7	79.5	342.7	270.3
Interest-bearing advances	-	-	183.7	197.4
	95.1	**144.3**	**527.1**	**512.6**
Fair value through profit or loss (Derivatives non-hedge accounted for)				
Derivative financial assets	**2.8**	**0.8**	**2.8**	**0.1**
Fair value through other comprehensive income (Derivatives hedge accounted for)				
Derivative financial assets	**0.1**	**3.4**	**-**	**3.5**
FINANCIAL LIABILITIES				
Amortised cost				
Trade and other liabilities	188.7	181.9	72.3	82.0
Interest-bearing liabilities	223.8	211.6	218.5	211.8
	412.5	**393.5**	**290.8**	**293.8**
Fair value through profit or loss (Derivatives non-hedge accounted for)				
Derivative financial liabilities	**9.6**	**10.9**	**9.0**	**10.4**
Fair value through other comprehensive income (Derivatives hedge accounted for)				
Derivative financial liabilities	**1.9**	**1.5**	**-**	**1.5**

The carrying amounts of the financial assets and financial liabilities approximate their fair value.

b. Fair Value Hierarchy

The Group uses various methods in estimating the fair value of its financial instruments and non-financial assets.

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

29. FAIR VALUE (continued)

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).

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

For financial assets not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants.

i. Financial assets and financial liabilities

The fair value of the financial assets and financial liabilities as well as the methods used to estimate the fair value is summarised below:

	Valuation technique Market observable inputs (Level 2)			
Financial instruments Net Asset/(Net Liability)*	**Group 2014**	**Group 2013**	**Parent 2014**	**Parent 2013**
	$m	$m	$m	$m
Commodity forward contracts	(0.1)	(0.3)	-	-
Foreign currency forward contracts	(2.8)	2.5	(0.5)	2.0
Interest rate swaps	(5.7)	(10.3)	(5.7)	(10.3)
	(8.6)	**(8.1)**	**(6.2)**	**8.3**

*The purpose of this disclosure is to evaluate the valuation techniques used on financial instruments designated at fair value. It does not represent whether netting arrangements are in place. For relevant disclosures other than fair value, see notes 30 and 16.

Derivative financial instruments are designated at fair value through profit or loss and, if they are in a hedge relationship, at fair value through other comprehensive income. The Group uses discounted cash flow techniques. In estimating the fair value of an asset or liability, the Group uses market-observable data to the extent it is available. Where observable inputs are not available, the Group engages banking counterparties to support the establishment of appropriate valuation inputs. A Credit Value Adjustment is made to the underlying interest rate swap curve to adjust for counterparty credit risk.

Transfer between categories

There were no transfers between categories during the year.

Sensitivity analysis

The sensitivity analyses performed, should changes to market prices occur, are detailed in note 30.

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

29. FAIR VALUE (continued)

ii. Non-financial assets

The fair value of the non-financial assets as well as the methods used to estimate the fair value is summarised below:

	Valuation technique – market observable inputs (Level 2)	
	Group 2014	**Parent 2014**
	$m	$m
Assets held for sale	1.6	-
Property, plant and equipment	411.5	117.6
Investment property	39.9	5.2
	453.0	**122.8**

NZ IFRS 13 requires that the fair value measurement of non-financial assets take into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible. It is determined from the perspective of market participants, even if the Group intends a different use.

The valuation techniques used in determining the fair value of non-financial assets are as follows:

- *Assets held for sale (classified as Level 2 on fair value hierarchy)*
  A parcel of land held by Group was identified to be sold as at 30 June 2014. A valuation has been performed to determine its fair value. An asset held for sale is required to be measured at the lower of the carrying value and the fair value less cost to sell.

  In order to determine the highest and best use for the asset, the investment activity within the area considered to be directly comparable to the asset in question was analysed and assessed. As at 30 June 2014, this asset was valued by an independent valuer, CBRE Limited. The valuer has elected to use the 'market approach' to determine the asset's fair value. It has used market multiples derived from a set of comparables. The investment activities within the area which are considered to be directly comparable to the asset in question were analysed and assessed. The valuation approach taken was direct comparison on a rate per stock unit, rate per hectare and a componentised rate analysis.

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

29. FAIR VALUE (continued)

- *Property, plant and equipment (classified as Level 2 on fair value hierarchy)*
  Rail CGU except non-leased buildings
  In determining the fair value less cost to sell of the rail CGU, the Group adopted a market approach assuming an orderly liquidation of the assets to arrive a net realisable or scrap value. The higher of the scrap value or the net realisable value is adopted to determine the individual asset's fair value less cost to sell. Market values such as steel prices and scrap metal rates are taken into account in determining the asset's fair value . For assets in which scrap value is lower than the cost of removal such as culverts, bridges, tunnels, lighting towers, signals and telecommunications and level crossings, the assigned fair value less cost to sell was set to nil. As at 30 June 2014, the valuation was carried out by EY Australia who have relevant qualifications and experience.

  Non-leased buildings
  Non-leased buildings are properties held to carry-out the Group's entity-speficific operations. As at 30 June 2014, the valuation for non-leased buildings that form part of the rail CGU is carried out by Darroch Limited who has recognised and relevant qualifications.

  In carrying out the valuation, the valuers take into account the likely sale price of the property but also assumed that the highest and best use is the properties' current use.

- *Investment property (classified as Level 2 on fair value hierarchy)*
  Each property is treated as an individual CGU. Investment properties are valued accounting for market derived assumptions. When the fair value is determined, Darroch has utilised valuers located nationwide that are familiar with the local property market in which the property is situated. They have factored local inputs into the valuation such as rentals, capitalisation rates and land values. The market valuation methodology used for investment properties was the income approach.

29. FAIR VALUE (continued)

Sensitivity analysis

The following represents the financial impact of changes in fair value of non-financial assets:

Non-financial assets	Increase in fair value by 5%	Decrease in fair value by 5%
Assets held for sale	Increase in profit or loss of $0.03m	Decrease in profit or loss of $0.08m
Property, plant and equipment	Increase in profit or loss of $0.4m	Decrease in profit or loss of $0.4m
Investment properties	Increase in profit or loss of $3.5m	Decrease in profit or loss of $3.5m

30. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group principal financial instruments comprise cash and cash equivalents, receivables, payables, loans, trade payables and derivatives.

The Group manages its exposure to key financial risks, including market risk, credit risk and liquidity risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

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 or Currency Risk

Foreign exchange risk is the risk of cash flow volatility arising from the 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 numbers in the notes to the Financial Statements are expressed in millions unless otherwise stated.

30. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

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

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

	Group As at 30 June 2014			
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	(0.5)	(1.4)	(0.5)	(1.1)
Net balance sheet exposure before hedging activities	(0.5)	(1.4)	(0.5)	(1.1)
Gross forecast sales	-	-	-	-
Gross forecast purchases	(37.8)	(1.1)	(20.0)	(0.7)
Net Exposure (NZD)	**(38.3)**	**(2.5)**	**(20.5)**	**(1.8)**
Foreign currency derivatives				
Notional principal (NZD)				
Cash flow hedges	13.2	-	18.7	0.6
Non-hedge accounted	15.3	1.1	1.0	0.1
Balance*	**(9.8)**	**(1.4)**	**(0.8)**	**(1.1)**
Cash flows in respect of foreign currency cash flow hedges are expected to occur:				
Not later than 1 year	13.2	-	6.9	0.6
Later than 1 year not later than 2 years	-	-	11.8	-
	13.2	**-**	**18.7**	**0.6**

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

30. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

	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.

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

30. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued).

As at 30 June 2014, the Group has hedged 98.3% of its foreign currency purchases that are firm commitments up to 30 June 2017.

Foreign currency sensitivity on financial instruments

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

	Group June 2014		Group June 2013		Parent June 2014		Parent June 2013	
In NZ $m	Equity	Profit	Equity	Profit	Equity	Profit	Equity	Profit
Foreign currency sensitivity								
Impact of a 10% strengthening of the NZD	(5.1)	(2.2)	(6.6)	(1.9)	(1.0)	(1.0)	(6.6)	(1.9)
Impact of a 10% weakening of of the NZD	6.3	2.7	8.1	2.3	1.2	1.2	8.1	2.3

ii. Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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 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 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 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 (bp) movement in interest rates (based on financial assets and liabilities held at the reporting date) is as follows:

	Group June 2014	Group June 2014	Parent June 2014	Parent June 2013
In NZ $m	Profit	Profit	Profit	Profit
Impact of a 100 bp interest rate increase	2.9	5.5	2.9	5.5
Impact of a 100 bp interest rate decrease	(3.2)	(6.0)	(3.2)	(6.0)

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

30. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

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.

Fuel Price risk

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

Fuel price sensitivity on financial instruments

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

	Group June 2014	Group June 2013	Parent June 2014	Parent June 2013
In NZ $m	Profit	Profit	Profit	Profit
Impact from a 10% increase in fuel	0.9	1.4	-	1.4
Impact from a 10% decrease in fuel	(0.9)	(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 2013/14.

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 consist primarily of cash at bank, accounts receivable, financial instruments, loans extended and bank guarantees issued.

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.

Concentration of credit risk

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.

30. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

Credit quality of assets not impaired or not yet due

The Group does not rate its individual debtors as it has a large number of customers. The incident of default on financial assets not impaired or not yet due is minimal. The Group has no other significant exposure to credit risk from financial assets not impaired or not yet due, nor has there been any renegotiation of terms on any of these assets.

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 2014	Group 2013	Parent 2014	Parent 2013
	$m	$m	$m	$m
Cash at bank and term deposits	15.4	64.8	0.7	44.9
Trade and other receivables	79.7	88.5	342.7	275.7
Derivative instrument assets	2.9	4.2	2.8	3.6
Intercompany advances	-	-	183.7	197.4
Total	**98.0**	**157.5**	**529.9**	**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.

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

30. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

GROUP 2014	Carrying amount	Contractual cash flows	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
	$m	$m	$m	$m	$m	$m
Financial Liabilities						
Trade and other payables	188.7	188.7	151.4	37.3	-	-
Net settled derivative liabilities	11.5	11.5	5.2	0.5	2.3	3.5
Finance Leases	18.1	22.7	3.3	3.2	8.7	7.5
Borrowings	205.7	243.7	26.3	38.5	178.9	-
Total	**424.0**	**466.6**	**186.2**	**79.5**	**189.9**	**11.0**
Derivative Financial Instruments						
outflow	(54.9)	(54.9)	(41.5)	(6.8)	(6.6)	-
inflow	50.5	50.5	38.3	6.3	5.9	-
Total	**(4.4)**	**(4.4)**	**(3.2)**	**(0.5)**	**(0.7)**	**-**

GROUP 2013	Carrying amount	Contractual cash flows	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
	$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						
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.

30. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

PARENT 2014	Carrying amount	Contractual cash flows	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
	$m	$m	$m	$m	$m	$m
Financial Liabilities						
Trade and other payables	72.3	72.3	64.2	8.1	-	-
Net settled derivative liabilities	9.0	9.0	2.9	0.2	2.3	3.6
Finance Leases	12.7	16.5	1.9	1.9	5.2	7.5
Borrowings	205.8	243.7	26.3	38.5	178.9	-
Total	**299.8**	**341.5**	**95.3**	**48.7**	**186.4**	**11.1**
Derivative Financial Instruments						
outflow	(12.7)	(12.7)	(12.7)	-	-	-
inflow	11.7	11.7	11.7	-	-	-
Total	**(1.0)**	**(1.0)**	**(1.0)**	**-**	**-**	**-**

PARENT 2013	Carrying amount	Contractual cash flows	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
	$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						
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.

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

30. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

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, cash and cash equivalents 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.

31. CONTINGENCIES

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 its 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.

CONTINGENT ASSET

(d) Compensation for Asbestos

Asbestos has been identified as an issue with locomotives commissioned between 2009 and 2011. KiwiRail expects to receive future compensation from the suppliers.

32. ACTUAL COMPARATIVE INFORMATION

The below comparatives are comparing the 2014 year end actuals to the 2013 NZRC/KHL year end actuals.

(a) Operating revenue

Operating revenue from our trading operations was flat year on year. Our growth was limited by the impacts of the issues associated with the Interislander vessel, Aratere, the withdrawal from service of some of our locomotive fleet and other market factors such as shipping schedule changes between ports.

(b) Operating expenses

Our operating costs increased from the prior year due to significant costs associated with the Aratere outage including the charter of a replacement vessel, higher levels of maintenance activity rather than capital projects and costs associated with building seismic assessments and remediation.

(c) Grant income

KiwiRail receives grant income from the Crown and Regional Councils to complete specific rail projects on their behalf. The decrease in grant income represents a relatively lower grant received for the Auckland Electrification Project (AEP). This is due to less capital spending incurred during the year as compared to last year for this project as the project nears completion.

(d) Cash and cash equivalents

Year end cash is down on prior year due to the timing of our equity appropriation received at the end of 2013.

(e) Financial liabilities

Financial liabilities have increased by $11.3m since last year. This is predominantly due to an increase in finance leases for major items of plant and equipment.

The mix of current and non-current liabilities has changed as a result of DMO debt maturing within the next financial year.

33. EVENTS SUBSEQUENT TO BALANCE DATE

There were no material events subsequent to balance date.

Audit New Zealand
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of KiwiRail Holdings Limited and group's financial statements for the year ended 30 June 2014

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. The corresponding figures in 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 49 to 127, that comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion

Financial statements

In our opinion the financial statements of the company and group on pages 49 to 127:

- 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 2014; and
  - financial performance and cash flows for the year ended on that date.

Validity of the going concern basis on which the financial statements have been prepared

Without modifying our opinion, we draw your attention to the disclosure made on page 71 that the Board of Directors' assessment of the company and group's ability to continue as a going concern is dependent on continuing support from the shareholder. We consider the disclosures to be adequate.

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 28 August 2014. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the 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 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	**Peter Reidy**
General Manager Freight	Iain Hill
General Manager Corporate & Finance	David Walsh
General Manager Interislander	Thomas Davis
General Manager Passenger	Deborah Hume
General Manager Infrastructure & Engineering	Rick van Barneveld
General Manager Human Resources	Andrew Norton
General Manager Zero Harm	Bob Stacy

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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