

KiwiRail 

**annual
report
2011**



KIWI RAIL OVERVIEW

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

We have five business units:

- KiwiRail Freight provides rail freight services and locomotives for passenger services
- KiwiRail Interislander operates the ferry passenger and freight services
- KiwiRail Mechanical manages the rolling stock including workshop operations of design, build and refurbishment
- KiwiRail Network maintains and improves the rail network and controls the operation of trains on the network
- KiwiRail Passenger provides urban passenger services in Wellington under contract to the Greater Wellington Regional Council through the Tranz Metro team, and the Tranz Scenic team operates the long distance passenger rail services.

> Operations

Each week, train control operations manage the movement of:

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

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

- 785,000 passengers
- 53,000 rail wagons
- 73,000 trucks
- 210,000 cars.

> Assets

- 4,000 kms track
- 1,656 bridges
- 18,000 ha of land managed
- 175 mainline locomotives
- 4,264 freight wagons
- 2 owned and 1 leased ferry
- 4,100 staff approximately.



> Further information

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

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KIWRAIL AT A GLANCE

Group

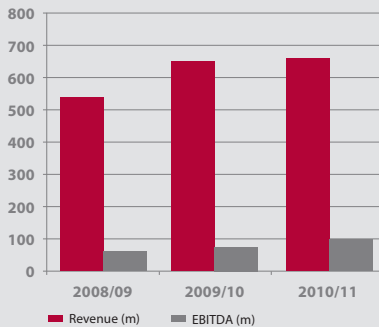


> Overview

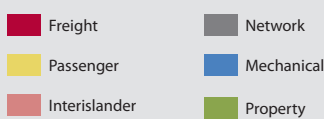
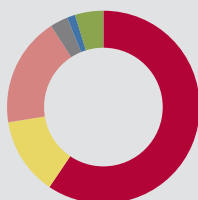
- Revenue of \$667m
- EBITDA \$100.3m*
- 4,100 staff
- 4,000km rail network

> Results

Revenue and EBITDA



Revenues by Business Unit



* EBITDA = Operating surplus before depreciation, amortisation and grant income

Freight

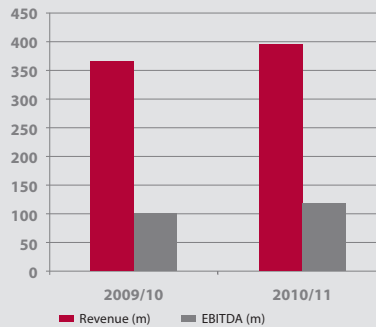


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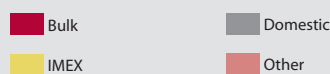
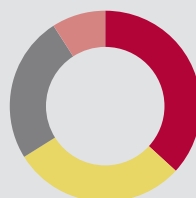
- Revenue of \$397m
- EBITDA \$118m
- 60% of group revenue
- IMEX increased revenue by 13%

> Results

Revenue and EBITDA*



Segment Revenue



* 2008/2009 figures have not been included as they are not easily comparable due to ownership changes.

Passenger

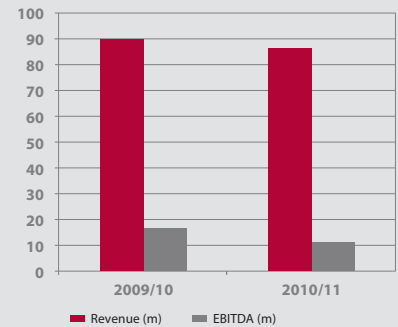


> Overview

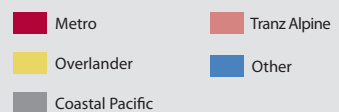
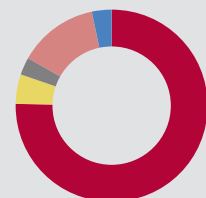
- Revenue of \$87m
- EBITDA \$10.5m
- Delivery of Matangi trains to Wellington
- Increase in on-time performance to 84%
- Total assets \$52m

> Results

Revenue and EBITDA



Segment Revenue



Network

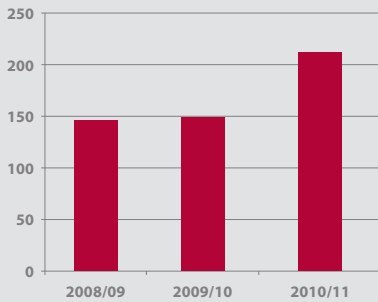


> Overview

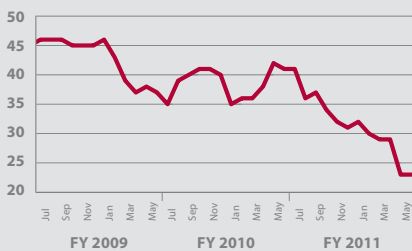
- Revenue of \$20m
- Investment of \$216.6m*
- Wellington and Auckland upgrades largely completed
- Number of derailments at 10 year low
- 10% reduction in speed restrictions

> Results

Network Investment (\$m)



Number of Derailments



■ 12 Month Rolling Sum

* Excludes funding for DART and WRRP Metro projects

Interislander

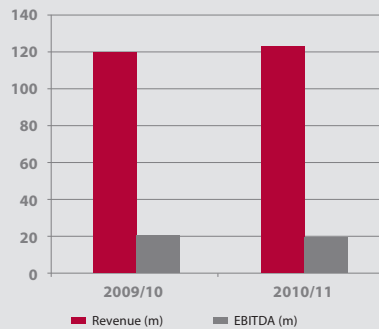


> Overview

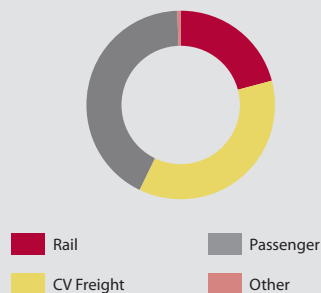
- Revenue of \$123m*
- EBITDA of \$19.2m
- Assets of \$106m
- Aratere stretch project with 30% increase in freight capacity

> Results

Revenue and EBITDA



Segment Revenue



* Excludes rail deck

Mechanical

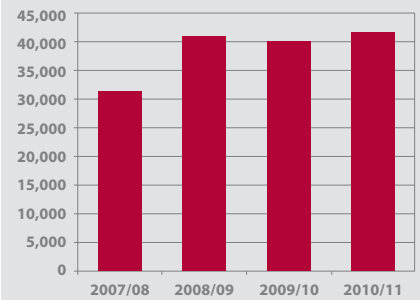


> Overview

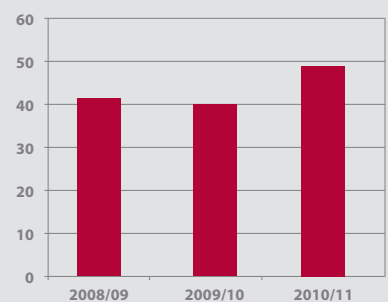
- Revenue of \$9m
- Assets of \$59m
- 20 new freight locomotives
- 535 new container wagons

> Results

MDBF* (kms)



Cost of Maintenance (\$m)



* Mean distance between failures

HIGHLIGHTS

Lifted revenue to **\$667 million** and delivered EBITDA of \$100 million an increase of

29%

from 2010.

Improved track reliability with a

10%

reduction in speed restrictions and

41%

decrease in derailments, a 10-year low.

Brought together over

300

staff into our new Stanley Street offices in Auckland



Freight revenue increased to almost

\$400 million.

Import/Export freight increased revenue by

13%



Customers are receiving



more responsiveness
better on-time performance
increased reliability

Aratere stretch project increased freight volume by

30%

and passenger capacity by almost

100%

Auckland and Wellington metro networks benefitted from investment of

\$2.5 billion

in infrastructure upgrades over the last few years

20

new locomotives arrived ready to improve capacity for our customers



535

new container wagons purchased



New Matangi trains started on the Wellington network



CHAIR AND CHIEF EXECUTIVE'S REPORT



John Spencer, Chairman



Jim Quinn, Chief Executive

The past year was one of challenge, opportunity and some forward steps for KiwiRail in the first year of our plan to create a financially self-sustaining business.

Because of their impact on New Zealand, the challenges are well documented. The two Christchurch earthquakes and the Pike River mine disaster had an enormous social and economic impact on communities as well as consequences for us. The two rock slides in Kaikoura and Manawatu, and a drought followed by floods in the central North Island, were other challenges we met in the course of the year.

To lift revenue by 2.6 percent and EBITDA by 29 percent in these circumstances, combined with generally flat trading conditions, is a considerable achievement.

While the focus of this report is on our business, we can't ignore the fact that we are an integral part of the communities that were affected by these events. In the case of the Christchurch earthquakes and Pike River, the impact of what occurred will be long-lasting. Our thoughts remain with these communities as they work towards recovery and rebuilding their lives and businesses.

From KiwiRail's perspective these events had the effect of disrupting revenue and diverting our attention and resources away from our Turnaround Plan while we made repairs and carried out support tasks. They also showed the resilience of rail, our capacity to respond to our customers' needs and the work our team does to

Revenue by Business Unit (\$m)

Measure	Freight	Interislander	Passenger	Mechanical	Network	Corporate	Group
External revenue	396.7	122.9	87.0	9.0	20.0	31.8	667.4
EBITDA ¹	117.7	19.2	10.5	(2.2)	(58.2)	13.3	100.3
Grants	-	-	-	-	332.1	12.5	344.6
EBIT ²	86.9	12.8	4.5	(4.7)	46.6	15.7	161.8
Total assets	523.2	106.4	51.8	59.2	12,589.3	240.2	13,570.1

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

² Excludes loss on transfer of assets to Greater Wellington Regional Council (GWRC).

keep the network going through the most challenging circumstances. Having dealt with these issues our singular focus is on driving our plan and the trends outlined in it.

Our customers have responded to the plan we have set by supporting it and enabling us to grow. They tell us they are seeing improved responsiveness from our team, more proactivity and flexibility in approach, and greater willingness to find solutions in times of both pressure and business as usual. Many are keen to position their own businesses closer to rail. The new Mainfreight site in our Wellington rail yards opens in September, the first of several new customer premises that are under construction or negotiation. Rail can be more effective for our customers if we help reduce the time and cost of modal switching.

Our capability is improving. We have reduced the transit time between Wellington and Auckland for our premier trains. That means we are more reliable and we will be able to launch some new direct services on the North Island Main Trunk in November to capitalise on that improvement.

Interislander ship the Aratere was back in service in October having been in Singapore to be stretched by 30 metres, re-bowed and re-powered. This creates about 30 percent more capacity for rail and trucks on the ship and more capacity and better facilities for our passengers.

We are modernising our rolling stock with our new locomotives, new wagons, new log bolsters and new

intermodal containers. We are working with the Greater Wellington Regional Council to upgrade the Wellington metro fleet of electric multiple units. The first new Matangi units have been introduced into service, with others to arrive in the future.

The Ganz Mavag fleet that has been Wellington metro's work-horse for many years will begin overdue refurbishment in the New Year. The completion of most of the major Wellington network projects associated with the introduction of Matangi trains has increased network reliability. Funding has been secured for the continued network improvements so we can deliver the service our Wellington customers deserve and have been waiting for.

In Auckland we are near completion of the DART project for the western rail network, well advanced on the AEP project for electrification, and about to select the successful manufacturer for the new electric units, which will be owned by Auckland Transport.

Improvements in rolling stock deliver only limited benefits unless accompanied by investment in network infrastructure. In the 2010-11 year, almost \$197 million has been invested in the network outside the Auckland and Wellington metros. The result has been a reduction of temporary speed restrictions (TSRs) on all lines, meaning less disruptions for customers.

In considering the results achieved in implementing the first year of the Turnaround Plan, it's useful to look at where we've come from. Eighteen months ago, rail was at a crossroads, wondering what future it might have. Looking even further back, it's impossible to escape the fact that the industry has lived hand-to-mouth for decades, surviving on a 'No.8' wire approach.

The service-delivery problems that frustrated both freight and passenger customers are the direct result of under-investment in both network infrastructure and rolling stock over many years. Investment in the Turnaround Plan has given rail certainty about its future and given customers confidence they will receive the efficient and reliable service they want.

> Financial results

We have achieved an increase in EBITDA, from \$77.8 million in 2009/2010 to \$100.3 million. This is a satisfactory result considering the direct impacts of the events mentioned above. We estimate that these events,



and restructuring costs, resulted in a \$15 million reduction in EBITDA performance against our budget.

This result is consistent with the re-forecast provided in February 2011, but below the Statement of Corporate Intent (SCI) targets.

Operating revenue of \$667 million is 2.6 percent lower than the SCI projection, with an EBITDA result of just over \$100 million, compared to \$120.8 million in the SCI.

The performance of the freight business was particularly encouraging. We experienced growth in all freight trading categories, bulk, domestic and import/export. Freight revenue increased by eight percent to almost \$400 million, approximately 60 percent of the company's overall revenue.

The Mechanical business recorded a 67 percent reduction in revenue as a result of the completion the previous year of a major project to build SA and SD carriages for the Auckland metro network.

> Business performance

The stand-out performer was import/export freight which increased revenues by 13 percent.

Dairy products moved from factories or storage centres to port are a key component of import-export business. Dry pre-Christmas weather reduced milk volumes which had a flow-on effect on product volumes after Christmas.

Domestic freight is consigned by freight forwarders, in the past often fierce competitors. Increasingly, they are becoming customers who understand the value rail can add to their business, to the extent that several have negotiated to establish freight transfer stations at major rail terminals. Domestic freight also improved, increasing volume by six percent.

Interislander was hampered during the year by the need to send Aratere to Singapore for lengthening. Despite this, revenues were two percent up on last year. The two Christchurch earthquakes increased the flow of both rail and commercial vehicle traffic across Cook Strait. It's critical that we increase ferry capacity in the coming years to cope with rising freight volumes. This will involve further consideration of the future of existing ships and the berths they currently use in Wellington and Picton.

The earthquakes' major impact was on the long-distance passenger business. Passenger numbers were down overall by 19 percent. Coastal Pacific forward bookings



dropped dramatically after the second Christchurch earthquake to levels that left us with little option but to cancel services until mid August.

Both services are closely linked to tourism in the upper part of the South Island. It will take time for confidence and tourist numbers to rise. We expect the introduction of new carriages on both the TranzAlpine and Coastal Pacific to help drive a revival in the fortunes of a business we believe has considerable potential for growth.

In Wellington, the metro business increased passenger numbers by only one percent over last year, due to the slower-than-expected introduction of new Matangi electric units and on-going mechanical problems with the ageing Ganz Mavag and English Electric units. Despite this, on-time performance within five minutes of schedule rose to 90 percent.

A major focus in metro during the year was negotiating an agreement to transfer ownership of rolling stock, the metro train maintenance depot, and all stations owned by KiwiRail to the Greater Wellington Regional Council. The agreement also includes refurbishment of the Ganz Mavag units at a cost of \$80 million and further investment in improving network infrastructure.

One of the most challenging tasks during the year has been a review of the Mechanical business. Getting new locomotives and wagons into service as quickly as possible has significant implications for the business.

The review has involved a reduction in jobs at Hillside, Hutt, and in the team that provides design skills to the Mechanical Group.

We have great respect for the ability of the staff at Hillside to produce good work. However we have to face economic reality. We have to get the greatest number of locomotives, wagons and EMUs we can for the money we have available. We also need to get equipment onto the network quickly to generate the revenue we need to continue investing in the Turnaround Plan.

As new rolling stock enters service, the task of maintaining it changes. Apart from the obvious reduction in servicing needs, it makes sense to operate more regionally. By working more closely with Freight and Network at a regional level, Mechanical will be able to provide faster and more pro-active support.

> Challenges and opportunities ahead

There are a number of reasons to be optimistic about the coming year. The economy is showing some signs of strengthening, which will benefit not only us but also our customers. It is difficult to gauge what impact Rugby World Cup will have, but we expect the event will stimulate freight, ferry and passenger revenue.

In the competitive trading environment, major customers are looking to create efficiencies in the way

they move their goods. The creation of Kotahi by Fonterra and Silver Fern Farms is an example of the approach exporters are taking. Initiatives like these should create opportunities because they are based on larger ships visiting fewer ports.

The feedback from our customers has been positive. They appreciate the work we have been doing to improve reliability and reduce transit times. We know we have some distance to go in providing them with the kind of service they want, but their commitment to work in partnership with us gives us confidence that our business will grow with theirs.

Our focus during the first half of the 2011-12 year is to develop the capacity that will enable us to take advantage of the new business we are gaining and hold on to our existing customers. Deadlines are tight but we are confident at this stage that we can establish the platform for growth later in the current year and in subsequent years.

John Spencer
Chairman

Jim Quinn
Chief Executive



BUSINESS REVIEWS

FREIGHT



MECHANICAL



INTERISLANDER



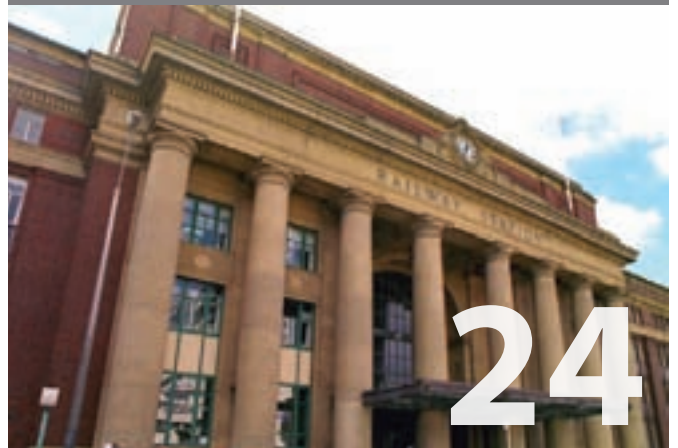
NETWORK



PASSENGER



PROPERTY



FREIGHT

In brief

Rail freight produces approximately 60 percent of KiwiRail's revenue

KiwiRail operates approximately 900 freight trains a week

There are three key market segments – bulk commodities, import-export and domestic freight

Rail carries approximately one-third of New Zealand's export goods

Moving bulk goods such as coal, logs and milk continues to be the most significant freight earner

The domestic market is expected to grow as the Turnaround Plan improves reliability and transit times



Good progress in meeting customers' needs

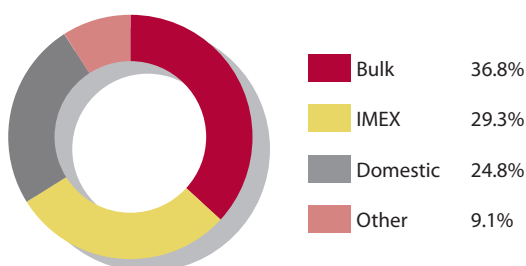
"Two years of real top-line growth for freight represents a message from our customers that we are making good progress in meeting their needs. It also indicates we are on the right track to provide sustainable services that connect to customers.

The introduction of our new locomotives, wagons and intermodal containers is a demonstration of our determination to rigorously increase business in this segment.

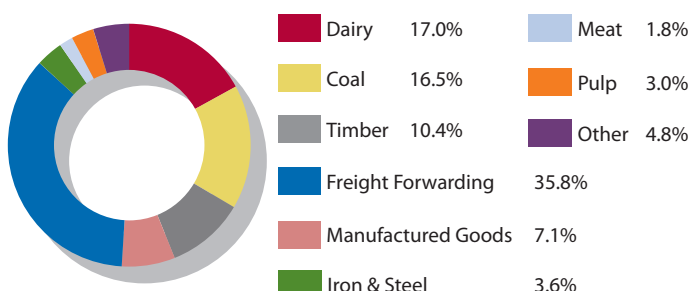
Freight forwarders establishing a presence on rail land is helping us achieve efficiencies as well as an expression of confidence in rail's intermodal potential."

Iain Hill, General Manager, Freight

REVENUE SPLIT



FREIGHT MOVEMENTS BY COMMODITY GROUPS - ALL MODES



> Overview

Moving our customers' freight is the backbone of the KiwiRail business. It represents 60 percent of the revenue we generate. Add the freight carried by Interislander ferries – an integral part of meeting our customers' needs – and its value to the business is even more apparent.

Increasing the amount of freight we move is critical to meeting the goals we have set ourselves to stand on our own feet financially within 10 years. To meet this goal, we need to increase revenue by an average of 10 percent a year.

Achieving eight percent growth in the 2010-11 year can be interpreted two ways. We fell slightly short of our target. But we take considerable heart from the fact that we generated significant growth in such difficult circumstances.

The Pike River Mine disaster, the Canterbury earthquakes and a dry spring that affected milk production combined to reduce volumes of key coal and milk commodities. The slower-than-expected economic recovery affected customers in the domestic market.

We were also constrained by limited wagon capacity and a shortage of locomotive engineers. New wagons arriving and an increased emphasis on driver training will significantly improve capacity in the current year.

We place considerable importance on EBITDA as a measure of our progress in generating the income that we are able to reinvest in the business. An increase in EBITDA of 17 percent is an outstanding result considering the issues the business had to contend with during the period.

We know we will only meet our targets when we are satisfying our customers. For some time to come this will continue to be 'work in progress'. But there are positive signs that the work we have been doing as part of the Turnaround Plan is addressing the issues that most concern our customers.

Mainline derailments, which have the capacity to disrupt services, were reduced by 41 percent. This is a result of the work being done on the network infrastructure and by the Mechanical team in maintaining the ageing wagon fleet. On-time performance, critical to maintaining the confidence of customers, improved for the all-important premier freight trains by five percent.

Just as important has been the growing recognition by staff throughout the business that a late freight train can frustrate dozens of customers. The expression, 'We live by the clock' is becoming ingrained in every member of the KiwiRail team.

Natural disasters during the year in the form of earthquakes and slips tested the growing awareness of customer needs. Our response in restoring services as quickly as possible earned us the appreciation of customers and, in the case of the first Christchurch earthquake, a major new customer.

> Bulk goods

The bulk business carries commodities such as coal, logs, minerals and fertiliser. It represents 37 percent of freight revenue and 43.5 percent of net tonnes per kilometre (NTK) carried.

Bulk revenue was up almost six percent on last year despite volumes being down by two percent. Coal constitutes almost half of the NTK volumes carried while logs represent more than 25 percent.

Coal volumes were one percent below last year's tonnages. We carried less imported coal for electricity generation while the Pike River Mine disaster also impacted on volume as did the two Canterbury earthquakes and Solid Energy production issues.

Forestry continues to be a stand-out performer. Log volumes grew seven percent across key commodities – logs, pulp and paper. New train services were introduced in the Bay of Plenty to meet demand and new log traffic was gained to the Port of Napier.

Bulk milk is a smaller but still significant traffic. Lower milk production in the lower North Island as a result of unfavourable weather early in the season reduced bulk milk volumes by 19 percent although the comparison is with a record season the previous year.

Volume for other commodities – LPG, cement, steel and mineral ore also grew.

> Import-export

Containerised goods carried to and from ports earned 29 percent of freight revenue. Fonterra and Port of Tauranga are the largest IMEX customers.

IMEX increased revenues by almost 13 percent on the 2009-10 year and the number of TEUs (20ft containers) kilometres by nine percent.

The IMEX business has benefited from Fonterra's policy of creating centralised cool and dry-stores and its preference for using rail to move product to and from these facilities.

We achieved significant increases in dairy produce volumes (up 27 percent) and other agricultural produce (up 18 percent). Rail traffic carrying dairy product increased significantly as a result of the expansion of Fonterra's Edendale factory and the opening of the new storage facility in the former Fisher & Paykel plant at Mosgiel.

Meat and wool volumes declined as a consequence of lower sheep and lamb numbers.

We achieved encouraging increases in goods moved to port (up 22 percent) particularly growth in Metroport (Port of Tauranga) traffic, Wiri Inland Port shuttles to Ports of Auckland, and South Canterbury shuttles to Lyttelton Port.

> Domestic traffic

The domestic market has been identified as a key opportunity for growth as freight forwarders find rail a reliable and cost-effective option for moving goods around the country.

The market is heavily dependent on economic conditions within New Zealand. At a time of subdued economic activity, revenue from the domestic market still grew by seven percent and represents a quarter of the revenue result.

Lack of wagon capacity has been a constraint at times during the year. This will be remedied in the coming months and years as new flat-deck and intermodal wagons come into service.

Domestic freight volumes grew six percent with increased support from key freight forwarders and new customers. The Canterbury earthquakes also impacted some customer supply chains with rail assisting in their recovery.

Domestic is the market that is most time-sensitive. We are working with Network and Mechanical staff and in our own freight terminals to achieve improvements and efficiencies that make services for customers both faster and more reliable.

We have also been working with KiwiRail's property team to help freight forwarders develop an intermodal presence at major freight terminals.

> Outlook

A 2011-12 year less challenging in terms of natural disasters and weather-related events, combined with improved wagon and locomotive capacity will give us every chance of meeting the targets we have set ourselves. But this can only happen if we continue to put the interests of our customers first.

We are expecting to carry higher coal volumes this year. Bathurst Resources announced they would rail 25 percent of production (up to 500,000 tonnes a year of coal) to Lyttelton for export from their proposed Buller coal project near Westport. We are working with Bathurst on railing the other 75 percent of coal volume to Buller port.

Increased milk volumes are also expected this year with more typical weather patterns prevailing and new South Island milk traffic emerging. The outlook for forestry is positive with export log demand expected to continue and new log wagon capacity being introduced in late 2011.

Mainfreight's new Wellington terminal adjacent to the rail yard opens in late 2011. The outlook for 2012 year is very



positive, with 258 new intermodal containers for domestic freight, new container wagons and the extension to the Aratere, increasing rail capacity across key freight corridors.

Following the introduction of the new rolling stock and the return to service of the extended Aratere, Freight will be introducing a series of revised services on the core Auckland to Christchurch domestic route. These services are aimed at providing our customers with a shortened

transit time between Auckland and Wellington.

Rugby World Cup 2011 promises to deliver a longer end-of-year peak than normal for moving domestic freight and the current global financial crisis may have an impact on economic activity later in the year. But with the new wagons and intermodal containers and an increase in locomotive numbers, we are confident of improving our performance on the 2010-11 year.

Volume of Freight Carried

Measure	2010/2011	2009/2010	2008/2009
Net tonnes (000)	15,700	14,764	14,412
Net tonnes/km (m)	4,178	3,919	3,962

Market Segment

	Bulk	Import/Export	Domestic
Net tonnes (000)	8,288	5,269	2,143
Net tonnes/km (m)	1,819	1,098	1,262

Performance Measures

Measure	2010/2011	2009/2010	2008/2009
Freight premium train on-time (%<30mins)	79%	79%	76%
Freight operating cost/NTK	\$0.081	\$0.084	\$0.083
Freight labour cost/NTK	\$0.022	\$0.022	\$0.020

Financial Performance (\$m)

	2010/2011	2009/2010	2008/2009
External revenue	396.7	367.1	These figures have not been included as they are not easily comparable due to ownership changes
EBITDA	117.7	100.7	
EBIT	86.9	55.7	
Total assets	523.2	471.5	

INTERISLANDER

In brief

Contributed over 18 percent of KiwiRail revenue

Operates three ships, two of which have dedicated rail decks

Serves three markets – rail freight, commercial vehicle transport and private passenger transport

Good results in a tough year

“I’m delighted we have increased revenue in what was a very tough year for us. The increase in rail freight and commercial vehicles was particularly encouraging.

Having a bigger, stronger Aratere back with us for the end of Rugby World Cup and the seasonal peak will be a great asset.

The Christchurch earthquakes knocked a hole in passenger numbers, but we should see those numbers start to recover this year.”

Thomas Davis
General Manager, Interislander

> Overview

Interislander did well to increase revenue on last year, in spite of the Christchurch earthquakes and the departure of the Aratere to Sembawang shipyard in Singapore for an extension.

EBITDA of \$19 million was comparable to the previous year and revenue (excluding rail deck charges) at almost \$123 million, was two percent higher than last year.

Rail freight and commercial vehicle (CV) traffic contributed strongly to the result. Rail freight volumes were almost eight percent ahead of the previous year, the biggest gain in 10 years and consistent with the increase in freight carried by rail during the year.

Interislander increased its share of the CV market from 63 to 66 percent, lifting CV revenue by 15 percent in the process. Both commercial vehicle and rail freight



volumes increased significantly after each of the two Christchurch earthquakes.

However, the opposite was true of the passenger market where revenue declined by seven percent and foot passenger numbers declined by almost eight percent. Passenger numbers were affected by general economic conditions, the Christchurch earthquakes and the absence of Aratere from April.

The Aratere went to Singapore to have a 30-metre new section inserted, that will increase capacity by about 30 percent. The management of the project and the consequent disruption to customer service has been a major focus for our team over the past year. It resulted in a three percent increase in un-budgeted ship operating costs as a result of the need to operate four ships for part

of the year including a replacement ship, Monte Stello, in Aratere's absence. The ship was also not returned in time for the start of the Rugby World Cup. But there was enough capacity to manage the 15 percent increase in traffic.

Work is now being done on further development of Interislander's fleet strategy to accommodate the expected growth in freight traffic in coming years. This involves working towards a replacement for the 27 year-old Arahura and reviewing options for Kaitaki which currently does not have a rail deck.

Consideration is also being given to the future of the current terminals in Wellington and Picton which, in their current form, will be unable to accommodate larger ships.

> Outlook

While the Aratere upgrade will be over budget by approximately \$12 million due to changes in the design of additional generators, transformers and power management systems, and the need for additional strengthening, we will deliver to the market a vastly improved ship with an extended life and additional benefits to our customers.

With increasing rail freight volumes and a recovery of the passenger market from Rugby World Cup onwards, we will improve on the 2010-11 performance.

Interislander Ships

Ship	Age (years)	Tonnage	Ownership	Freight Vol (lane metres)	Passenger Numbers	Crew
Arahura	27	12,735	Owned	756	539	50
Aratere	12	17,816	Owned	1,212	670	39
Kaitaki	15	22,365	Leased	1,780	1,650	60

Performance Measures

Measure	2010/2011	2009/2010	2008/2009
Passenger journeys	785,076	845,411	854,689
Commercial vehicle lane metres	1,214,681	1,055,280	1,060,632
On-time performance (%<15 minutes)	77%	89%	82%
Labour cost/revenue	30.7%	31.8%	25.8%

Financial Performance (\$m)

	2010/2011	2009/2010	2008/2009
External revenue	122.9	120.2	These figures have not been included as they are not easily comparable due to ownership changes
Total revenue	155.3	149.5	
EBITDA	19.2	19.8	
EBIT	12.8	13.0	
Total assets	106.4	83.0	

PASSENGER

In brief

Passenger contributed 13 percent of KiwiRail's revenue during the year

Operates three long-distance and iconic passenger trains, the TranzAlpine, Coastal Pacific and Overlander

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

Also operates the Capital Connection (intercity commuter) and charter services, the latter sometimes in association with heritage rail groups



A tough year, bring on Rugby World Cup and new rolling stock

"What a tough year it has been for Passenger. The Christchurch earthquake heavily impacted tourism in the South Island and our long-distance passenger trains with it.

We are looking forward to the introduction of new carriages for the TranzAlpine and Coastal Pacific in the coming year helping us to improve this performance.

On Wellington metro we have made solid progress in improving performance, including progressing the introduction into service of the new Matangi trains which are now operating on both the Hutt and Kapiti lines."

Deborah Hume
General Manager, Passenger

> Overview

While passenger numbers on the Wellington services improved slightly on the previous year, the impact of the two Christchurch earthquakes on the long-distance market dominated the overall result.

Long-distance passenger numbers were 19 percent down on last year. While both the September and February earthquakes disrupted passenger services, the February quake in particular heavily affected the South Island tourism market, and with it, bookings on the TranzAlpine and the newly renamed Tranz Coastal Service, the Coastal Pacific.

Low forward bookings and entry into the off-peak season for the Coastal Pacific after the February earthquake prompted services to be cancelled for the remainder of the financial year, with the service restarting on August 15 ahead of the Rugby World Cup.

The North Island long-distance passenger service, the Overlander, was not affected to the same extent but passenger numbers did not maintain the growth experienced in the previous year, reflecting a softening of tourism and the economy across the country.

Not surprisingly, the fall in passenger revenue affected Tranz Scenic's revenue result, down 24 percent on last year at \$21.5 million.

Rugby World Cup tourists, the revival of the South Island tourism market and the introduction of new, purpose-built passenger carriages are expected to improve Tranz Scenic's financial performance in coming years. However, the speed of recovery in Christchurch-based tourist

services is uncertain, making it more important than ever for the North Island services to become stronger and more lucrative.

The long distance services, particularly the TranzAlpine, continue to earn praise from passengers for the customer service and overall experience they offer.

Metro operator Tranz Metro recorded a one percent increase in passenger numbers and a four percent

Rail Passenger Services

Service	No. of services	Passengers 2010/2011	Passengers 2009/2010	Passengers 2008/2009
Tranz Metro	108,458	11,243,000	11,134,000	11,876,000
Overlander	536	63,000	72,000	58,000
Coastal Pacific	533	49,000	75,000	67,000
TranzAlpine	700	137,000	193,000	181,000
Capital Connection	504	170,000	178,000	185,000
Long-distance passenger total	2,273	419,000	518,000	491,000

Performance Measures

Measure	2010/2011	2009/2010	2008/2009
Tranz Metro on-time performance (%<3 mins)	84%	82%	88%
Long-distance operating cost/passenger	\$53.70	\$45.69	\$48.41

Financial Performance (m)

	2010/2011	2009/2010	2008/2009
External revenue	87.0	91.3	These figures have not been included as they are not easily comparable due to ownership changes
EBITDA	10.5	16.4	
EBIT*	4.5	10.4	
Total assets	51.8	87.9	

* Excluding loss on transfer of assets to GWRC.

increase in revenue. It benefitted from an improvement in network reliability following the completion of most projects associated with the introduction of new Matangi electric multiple units.

A major achievement during the year was the extension of metro services to Waikanae following completion of double-tracking of the line from McKay's Crossing and electrification from Paraparaumu. Associated work included construction of a new Waikanae Station and improvements to Paraparaumu station.

The Waikanae extension has been popular with passengers, and has modestly impacted on the popularity of the Capital Connection passenger service between Palmerston North and Wellington. Approximately half the service's passengers originate and end their journeys on the Kapiti Coast.

Slower than expected commissioning of the new Matangi units, and on-going mechanical problems with the ageing Ganz Mavag and English Electric units, created a rolling stock shortage and resulting passenger disruption, particularly after the introduction of new services associated with the Waikanae extension.

But there has been solid progress and Matangi units are now operating on both the Hutt and Waikanae lines. It is expected that Matangi units will be operating on the Johnsonville line by early 2012.

On-time performance has also improved from last year, achieving 84 percent within three minutes of timetable and 90 percent within five minutes.

Funding of \$88 million to continue the rehabilitation of overhead wiring and signalling equipment, along with \$80 million for the refurbishment of the Ganz Mavag units, are expected to further improve reliability.

During the year, KiwiRail and Greater Wellington Regional Council completed agreement for KiwiRail-owned trains and stations to transfer ownership to Greater Wellington Regional Council and for performance-based agreements to be introduced for network performance, the metro operator and rolling stock maintenance.

> Outlook

If, as expected, confidence returns to the South Island tourism market, long-distance passenger volumes, particularly on the TranzAlpine and Coastal Pacific should increase significantly. The pace of this improvement is unknown and likely to occur over a number of years. In the meantime, KiwiRail is exploring partnership opportunities to assist in growing the business, and will be reviewing each of its trains to capture any possible business advantage – with particular focus on the North Island.

Improving network quality and service reliability on the Wellington metro network as more Matangi trains come into service is expected to further increase passenger numbers. Negotiation of new performance targets and a risk/reward framework with Greater Wellington Regional Council will introduce greater transparency and accountability.



Photo: Michael Kilgour

MECHANICAL

In brief

Provides mechanical services to the freight and passenger businesses, and to Auckland Transport through the Freight group

Major workshops at Woburn in the Hutt Valley and Hillside in Dunedin

Servicing depots in Auckland, Mt Maunganui, Palmerston North, Wellington and Christchurch



A year of change for a new future

“The mechanical business has experienced a year of restructure and change as we prepare ourselves for the needs of a new rolling stock fleet. This means our business needs to implement new and improved work practices and position ourselves where our customers need us to be.

Change is always hard, but this work is essential as new locomotives, wagons and passenger trains enter service and help improve the overall business.”

Lloyd Major
General Manager, Mechanical

> Overview

Mechanical exists primarily to support the Freight and Passenger businesses. The business contributed \$9 million dollars to KiwiRail revenue during the year, down 67 percent on the previous year. The business EBITDA loss of \$2.2 million was down on last year due to the completion of the Auckland SA/SD carriages.

The business has been the subject of an extensive review during the year as the introduction of new locomotives and wagons over coming years changes its role and focus. For a number of years, Mechanical staff have worked to maintain increasingly ageing locomotives, freight wagons and passenger rolling stock.

To replace this rolling stock we have gone offshore as we seek to gain the most we can from our available capital. Our requirements from Workshops will change over time as a result of this new rolling stock arriving and there will be the opportunity to add value to the business in different ways.

The addition over time of 100 new locomotives, 3,000 new freight wagons and new electric multiple units in both Auckland and Wellington will significantly reduce workloads and change the nature of the work carried out.

In the course of the year, we identified positions at Hillside, Woburn and in the Wellington-based professional services group that will not be needed in the future. We have worked with staff and the Rail and Maritime Services Union to manage this rationalisation.

We accept this is a difficult reality for staff and local communities to accept. We are committed to working with them to manage the transition as professionally as we can.

Managing the re-equipping of our fleets has been a major task for the Mechanical business. The biggest milestone was the delivery of 20 new diesel electric locomotives built by CNR Corporation in China. In the course of the year, six were commissioned and the remaining 14 landed and prepared for commissioning in the current year.

We also managed the procurement of 535 new wagons which have been delivered in time to enter service to cope with peak freight flows in November and December.

At arms-length, a separate team has been managing the process to buy what started as 38 new electric multiple units, and is now 57 units, for the Auckland network. Two international suppliers have been short-listed and the selection process to build and deliver the new trains will be complete before the end of 2011.

While the focus has been on the purchase of new locomotives, wagons and passenger units, both Hillside and Hutt have worked on significant projects during the past year as well as carrying out their maintenance function.

Hillside has been building 17 new AK passenger carriages for Tranz Scenic's South Island passenger fleet while Hutt completed the refurbishment of 36 DXB locomotives which included the installation of Brightstar technology. From the DX fleet, they turned their attention to 10 EF electric locomotives which are this year being fitted with new Translog event recorders.

> Outlook

We will have aligned our business to ensure we deliver the rolling stock assets the Freight and Passenger businesses need to deliver to the market. We will do this by continually challenging our processes and costs, to maximise our effectiveness.

Performance Measures

	2010/2011	2009/2010	2008/2009
New wagons	535	55	100
Wagon wheelset changes	1,360	1,420	1,088
Wagon bogie changes	637	640	467
Wagons brought back into service	15	40	58
Wagon conversions	12	40	14
New locomotives	20	0	0
Locomotive bogie changes	30	25	21
Locomotive overhauls	6	10	9
Locomotive engine overhauls	6	9	6
Locomotive reinstatements	0	0	4

Financial Performance (\$m)

	2010/2011	2009/2010	2008/2009
External revenue	9.0	27.9	These figures have not been included as they are not easily comparable due to ownership changes
EBITDA	(2.2)	6.5	
EBIT*	(4.7)	4.3	
Total assets	59.2	70.2	

* Excluding loss on transfer of assets to GWRC.

NETWORK

In brief

Enables our businesses to deliver on customer promises by ensuring a robust network.

Manages the movement of traffic on the network

Maintains, renews and upgrades network infrastructure

Manages major infrastructure projects



A busy year with great progress

“Our team continues to work hard on our ongoing programme to improve the national and metropolitan rail networks after many years of neglect. It is a fact that our overall business, and in particular the reliability of services, can’t improve if the supporting infrastructure isn’t at the standard needed.

We have completed the work to upgrade Wellington’s metro network and it is ready for the new trains. There is further work required and this will be completed over the next eight years. We are also well underway with the Auckland improvements, including the vast electrification programme.

We are particularly proud of the work done on the network to enable our freight business to deliver improvements in speed and reliability to our customers.

None of this would have been possible except for the continued dedication and professionalism of the Network team in maintaining network availability in all conditions and delivering exceptionally complex and vast projects on-time and to budget.”

Rick van Barneveld, General Manager, Network

> Overview

Network’s role is to operate and maintain the rail infrastructure, rather than operate as a trading entity. The business also manages major infrastructure projects that are essential to KiwiRail achieving its goal of financial self-sufficiency and operating efficient metro networks in Auckland and Wellington.

The goal is to improve network robustness so rail services can improve transit times and reliability for our customers. Performance can be assessed by the progress Network makes in meeting its targets for infrastructure work as well as the number and extent of temporary speed restrictions and the number of derailments.

In the 2010-11 year, Network increased the amount of new rail laid from 19 kilometres last year to 21 kilometres. The number of new sleepers laid increased from 53,000 to 106,000.

Network staff achieved reductions in temporary speed restrictions (TSRs) on all key lines. Significant achievements were a 10 percent reduction in TSRs on the time-critical North Island main trunk line and consistently achieving targeted performance on the Main South Line, an increasingly busy route for dairy, coal and meat traffic.

Mainline derailments are mostly caused by track or wheel faults or some combination of the two. Derailment numbers are therefore a useful indicator of track condition. It is significant that derailments in the 2010-11 year reduced by 41 percent on the previous year and reached a 10-year low of 24. Ten years ago, there were in the order of 60 derailments a year on the network.

One of Network’s priorities during the year has been to improve productivity. One measure being introduced to achieve this is Project Sirius, an information technology initiative which improves the quality of asset management recording and work flows. This project is in the process of being implemented across the business and is scheduled for commissioning in 2012.

Performance Measures*

	2010/2011	2009/2010	2008/2009
New rail laid (km)	21.2	19.0	33.4
New sleepers laid (000)	106.1	53	103
Line de-stressed (km)	264	218	156
Bridges replaced (m)	411	550	575
Timber spans replaced (m)	169	215	368
Timber piers replaced	71.0	92	132
Derailments	24	41	36

* Track renewals only. Does not include projects.

Financial Performance (\$m)

	2010/2011	2009/2010	2008/2009
External revenue	20.0	13.7	Prior year figures have not been included as they are not easily comparable due to ownership changes
EBITDA	(58.2)	(75.2)	
Grants	332.1	455.1	
EBIT*	46.6	174.1	
Total assets	12,589.3	12,365.9	

* Excluding loss on transfer of assets to GWRC.

> Rail projects

North-South Junction

A section of the North Island main trunk line approximately 30 kilometres north of Wellington had been a bottleneck for both freight and metro services. The single-line track passes through six narrow tunnels and rises steeply from sea level south of Paekakariki to a peak at Pukerua Bay.

Tight clearances in tunnels prevented larger containers being moved into and out of Wellington and trains could only travel at 25km/hr, creating a risk of stalling for south-bound freight trains. An \$11 million project involving a three-week block of line from late December 2010 enabled the tunnels to be lowered to improve clearances and, together with a further \$10 million of renewal of rail, sleepers, ballast, drainage and communications, has reduced transit times by more than doubling train speeds through the section.

Auckland rail upgrade

Preparing the Auckland network for the arrival of new electric multiple units has been the major focus of infrastructure work in the city. The most important elements have been work to electrify the network and to renew the signalling system.

The first masts to support overhead wiring were installed mid-year and signalling is being progressively renewed. By the end of the financial year, approximately half of the network had been re-signalled with state-of-the-art equipment.

Preparation for the new trains has also included lowering track, or raising and replacing bridges. The project is scheduled for completion by the end of 2013 in time for the commissioning of new trains.

Other work carried out during the year included building the line that will link Manukau City to the Auckland rail

network, redeveloping stations at Newlands and Baldwin Avenue, and building platform extensions at Remuera, Green Lane and Otahuhu stations.

Work during the year has left the network prepared to meet future demands of Auckland rail commuters. It has included new signalling on the key routes to Eden Park – Westfield to Britomart and Newmarket to Morningside.

Wellington rail upgrade

The Wellington Region Rail Programme has been carried out in conjunction with Greater Wellington Regional Council and is to prepare the Wellington network for the arrival of new Matangi electric multiple units. The programme included lowering tunnels on the Johnsonville Line, building a third main line into Wellington station, renewing power supply to trains, building new maintenance facilities for trains, extending electrification to Waikanae, and double tracking the North Island main trunk line between McKay’s Crossing and Waikanae.

Most of the programme was completed by June 2011 in time for the first Matangi units to begin operating on the network. Key milestones during the year included the opening of

the line extension to Waikanae in February 2011 and the improvement to power supply and signalling systems.

The value of the work on the network is evident in a marked reduction in infrastructure issues disrupting passenger services.

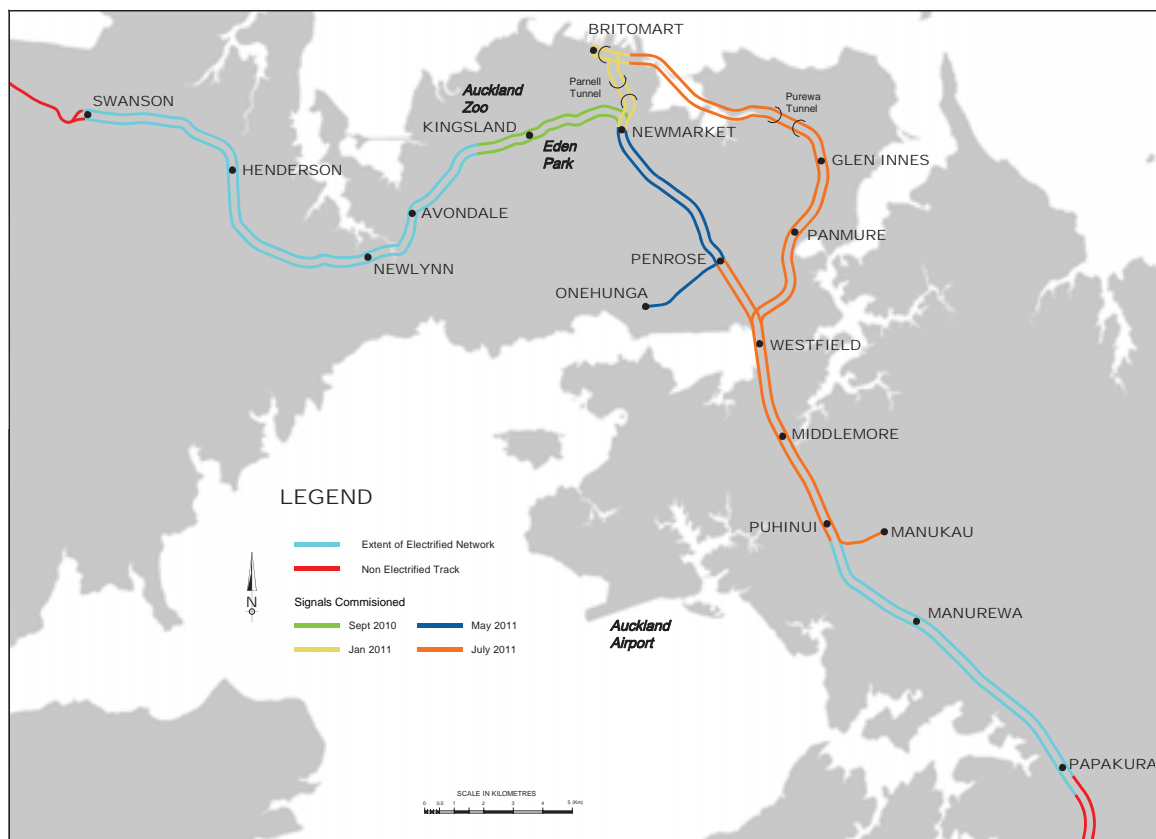
Level Crossing Upgrades

While the number of stand alone level crossing upgrades initially planned for 2010-11 were not achieved, a record number of 14 crossings were upgraded mostly in conjunction with the metro rail programmes in Auckland and Wellington. An accelerated programme of stand alone crossing upgrades is underway in 2011-12.

> Outlook

We have an on-going list of projects and renewals to continue lifting the standard and capacity of our network where our customers need it.

We plan to invest another \$207 million in network renewals and upgrades to improve reliability and speed on the core network during 2011-12.



Auckland Network Electrification Map

PROPERTY

In brief

Property management contributed 4.2 percent to KiwiRail revenue during the year

Part of the KiwiRail Corporate business

Administers approximately 18,000 hectares of railway land and buildings

Administers approximately 7,000 land leases, licences and grants held by third parties

> Business activity

The property team is responsible for managing the KiwiRail land and building portfolio. The priority is to optimise the use of rail land for increased freight and passenger use as well as to gain an optimal return on railway land through leases and development arrangements.

Property contributed \$27.5 million in revenue during the 2010-11 financial year, a 3.3 percent increase on the \$26.8 million it contributed the previous year.

A major focus during the year was on assisting major freight-forwarding customers to develop terminals on rail land in major freight centres. Developments in Palmerston North, Wellington and Dunedin all started during the year, bringing freight forwarders onto the rail corridor and therefore enabling more efficient intermodal freight distribution.



Mainfreight Terminal Wellington Rail Yards

OUR PEOPLE

With just over 4,100 staff in locations across the country, KiwiRail is one of New Zealand's largest transport industry employers. Our people are the core of our business and are committed to meeting the challenge to make KiwiRail a sustainable business. We are committed to ensuring they have the tools, resources and training they need for us to meet our customer promise – we will deliver.

Like a lot of organisations in New Zealand, we have the challenges of an ageing workforce, staff retention and competition for skilled staff both here and overseas.

With over half the workforce over 45, KiwiRail is not alone in facing the challenge of an ageing workforce and competition for skilled staff. Our biggest challenge is to retain new staff, as approximately half leave within three years, and attract people to rail specialist roles in competition with increased overseas demand.

We are an experienced, diversified commercial organisation with a national footprint. This means we can offer our people a career with many opportunities for change and development, a competitive advantage we will start promoting.

> Workforce capability

Building the ideal workforce capability is one of our priorities. In the last year we have established a Language, Literacy and Number (LLN) programme featuring development solutions and instructional design advice while starting on the path to establishing in-house LLN resources. We also run extensive technical training programmes across all disciplines.

After some research and analysis we have designed a leadership model that reflects the needs of the organisation and the variance in leadership capability that exists now. From that model a range of development solutions has been designed or sourced, including a new, contextualised front-line leadership programme to provide the leadership capabilities required to deliver a sustainable, customer-focused business.

Over the year we have recruited people into many areas of the business, including those critical growth roles such as locomotive engineers and train controllers.

We have also implemented more rigorous pre-employment screening to ensure the calibre and capability of potential employees is assessed.

We have continued our programme of summer

internships for engineering students. Last summer four engineering students were able to gain experience working with KiwiRail staff on the Auckland DART project which they all found invaluable.

A focus on staff training has continued. During the year 23 KiwiRail employees graduated with the National Certificate in First Line Management Level 4. This training focuses on developing self and team-management skills needed to successfully lead people and projects, which is a vital part of helping our company improve. Another important training programme was the introduction of a service excellence course for our Tranz Metro customer facing staff. With over 216 having attended so far we are already seeing improvements in customer communication as our staff have better skills to cope when faced with customer issues.

Performance review programmes are being implemented throughout the organisation. This has begun with individual performance management plans, to help ensure more accountability and, therefore, productivity.



Simulator training, Woburn

> Staff survey

For the third year running we conducted an annual staff survey to assess how our people feel about KiwiRail, how engaged and positive they are about the business and how it's going. This year we had a response rate of 72.4 percent which is the highest response achieved since the survey began. The initial analysis shows a slight increase in some areas, however we still have a lot of work to do to achieve a strongly engaged workforce.

> Succession planning

The new leadership model and associated solutions provide developmental stepping stones for use in identifying and/or unleashing potential across a range of leadership competencies. A key element in that process is our newly established in-house leadership assessment and coaching resource. The assessment provides individuals with an opportunity to understand their current leadership effectiveness and the coaching provides direction for how they can develop their effectiveness. Career progression plans are being implemented through the business as a retention and development tool.

> Employee communication

KiwiRail is dedicated to improving communication with our staff. A new initiative that began during the year was the Staff Roadshow, which saw the executive team travelling the country in pairs providing staff with information about how the organisation was performing and the importance of their contribution. This was also an opportunity for those staff to ask questions. This event will be repeated every six months.

Every week an internal newsletter, *The Express*, is distributed to all staff. This is a popular publication that achieves a high-level of readership in our widespread and diverse workforce.

Another method to ensure all staff get the information they need to do their job properly is the Toolbox Talks segments in their regular team meetings. This verbal

report is a short, to-the-point list of items staff need to be aware of, including health and safety information.

> Workplace relations

KiwiRail recognises the importance of constructive and mutually beneficial relationships with the unions. In partnership with the Rail and Maritime Union, Maritime NZ Union, NZ Merchant Guild, and Aviation and Marine Engineers Association, we signed four new Collective Agreements, half the number we were working to previously.

We will continue our commitment to constructive engagement through a consultative relationship which supports collective bargaining. This strategy is supported by industrial councils in each of the business units where the participants are able to table business and productivity initiatives.

> Organisational health and wellbeing

Health initiatives

KiwiRail has run a number of initiatives aimed at improving the health and wellbeing of our staff. Following the Healthy Hearts initiative a couple of targeted programmes were run for a set number of employees. These included Power of Three, a team weight loss programme over 12 weeks, and Challenge Me, four challenges over four weeks in areas of exercise, nutrition, lifestyle and work. These programmes saw employees achieving weight loss and most participants reported adopting a healthier lifestyle.



Staff Roadshow



10,000 Steps

Seven hundred and fifty six employees participated in The KiwiRail 10,000 Steps Challenge, an eight-week programme walking the 'virtual' KiwiRail tracks around New Zealand, wearing a pedometer. The aim was to achieve at least 10,000 steps per day. Research shows that 10,000 steps per day is the ideal target for adults to reduce long-term health risks such as cardiovascular disease.



Quit@Work

KiwiRail in conjunction with Quit@Work trained 31 employees from different business units in smoking cessation. These employees are available to promote stop smoking programmes and can support employees when they decide to quit by prescribing the appropriate method of assistance i.e. patches, gum etc.

Movember

KiwiRail participated in the New Zealand Movember campaign, supported by Jim Quinn and the KiwiRail Executive Team, including KiwiRail's Board representative Mark Tume. KiwiRail had a number of teams who joined together halfway through the competition to become 'MORail' and won the Team Mo category by raising over \$26,000 for the Cancer Society and Mental Health Foundation.



Network training team

SAFETY

All KiwiRail staff are responsible for safety and security, and we take this responsibility seriously. In the past year we committed to Zero Harm – encompassing the belief that all injuries are preventable. Safety experts within KiwiRail are leading this project which includes developing a workplace safety culture where safety and injury prevention is everyone’s responsibility, where rehabilitation at work is the usual course of action, and where excellence in health and safety is integral to all of KiwiRail’s activities.

> Employee safety

KiwiRail uses a number of indices to measure workplace safety and health. The two most important are Lost Time Injury Frequency Rate (LTIFR) and Medical Treatment Injury Frequency Rate (MTIFR).

Both have been trending down over time. The LTIFR for the 2010-11 year was 6.1 per million hours worked, a reduction on last year’s figure of 6.3, but the index stood at almost eight three years ago. The MTIFR was also down to 49.1 per million hours worked. Three years ago, this index stood at just over 60.

Eighty percent of injuries were either muscular strains from physical tasks or bruises. KiwiRail has been working to reduce workplace injuries with education programmes implemented through toolbox sessions, the TalkSAFE programme and publicity material such as Railsafe and Express.

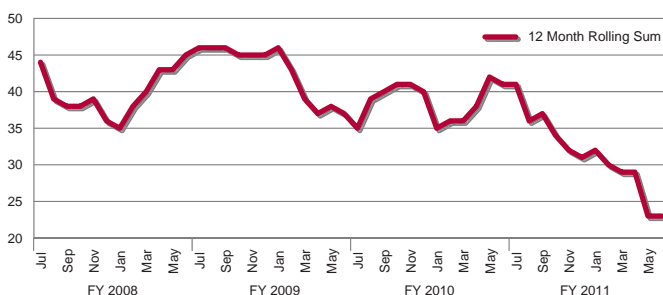
Most incidents are the direct result of human behaviour. TalkSAFE encourages staff to watch each others’ safety and give feedback. By encouraging and discussing the good behaviours, staff help to discourage the bad.

> Operational safety

Train derailments

The frequency of train derailments continued to reduce during the year resulting in the best recorded result in recent history. This outcome has been achieved largely due to safety improvement strategies implemented in rolling stock and network maintenance.

Mainline derailments



> Plimmerton collision

On Thursday 30 September 2010 at 3pm, Tranz Metro Wellington commuter train No.6250 collided with a land slip that had blocked the up line between Plimmerton and Pukerua Bay. The collision with the landslip derailed the leading car which fouled the opposing line. Just two seconds after it came to a halt, opposing train No.6247 travelling in the down direction collided with the leading car of the derailed train causing significant damage to the leading cars of both trains. One passenger required transport to hospital for assessment.

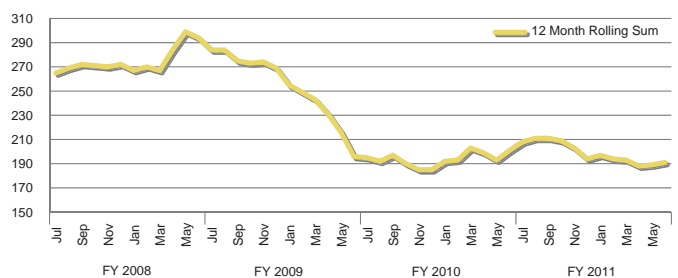
Shunting accidents

No fatalities to shunting personnel occurred during the year, with the last recorded fatality being in October 2005. Further work to reduce risk to shunting personnel is in progress through improved hazard identification and shunting safe working procedures.

Freight handling

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

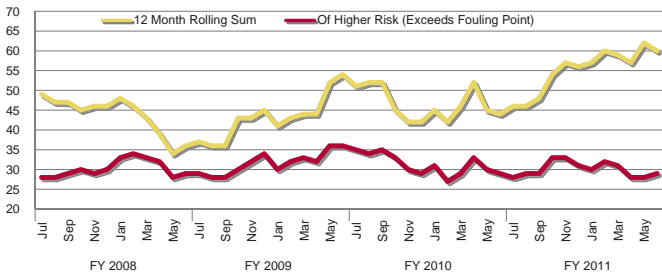
Freight handling incidents



> Risk resulting from signals passed at danger

There has been an increase in signals passed at danger (SPAD) due to a 30 percent expansion in Auckland passenger train services. Although this trend is undesirable the risk of a serious SPAD caused by a train over running the “safety buffer” (fouling point) has remained static. Automatic train protection technology is being introduced on the Auckland metropolitan network to further mitigate SPAD risk.

Signals passed at danger



> Passenger safety

There were no fatal or serious injuries to passengers during the year. Seven minor injuries to passengers were reported. The majority of these were slips, trips and falls that occurred on station platforms and passenger ramps or when alighting or boarding stationary trains.

> Public safety

Trespassers continued to expose themselves to risk of death and serious injury. Eight collisions with trespassers were recorded, with a further 37 near collisions reported. Each of these events results in significant distress to the locomotive engineer involved.

Fifty one incidents of materials theft were reported, primarily relating to infrastructure materials. At least one of these incidents had the potential to cause a serious derailment

when rail fastenings were removed. Most thefts resulted in delays to train services while track safety inspections were completed and temporary repairs made.

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

> Level crossings

Twenty seven collisions and 138 near collisions with motor vehicles were reported. Significantly, although there were no actual collisions with heavy vehicles that had potential to derail a train, there were 32 near collisions of this category.

One collision with a cyclist and 15 near collisions with other pedestrians were reported.

Public behaviour at level crossings is the primary focus of the Chris Cairns Foundation and Australasian Rail Safety Week supported by KiwiRail.

We are close to completing a survey of all public level crossing risk using the Australian Level Crossing Assessment Model (ALCAM), and dialogue with the NZ Transport Agency for surveying the many private level crossings has commenced.



> Safety programmess

Long-term programmes to retrofit locomotive and electric multiple units with flashing ditch lights, modern event recorders and upgraded vigilance systems, begun up to 10 years ago, were completed.

Current programmes include:

- installation of random non-predictive locomotive vigilance systems
- fitting of event recorders to shunting locomotives in yards
- replacement of aged rolling stock including wagons, electric multiple units and passenger cars,
- resignalling of the Auckland metropolitan network to improve train headways, multi-direction running,
- simplified operating and track safety rules
- re-engineering of the train radio system, to

provide a more reliable and future-proofed communications network.

Slip-risk management, a project which had commenced prior to the Plimmerton passenger train collision, received significant attention. Focusing initially on the Wellington metropolitan network, this work is being extended to cover the complete network.

> Excellence and safety recognition

Freight was selected as one of three national finalists in the annual Safeguard Workplace Safety Awards for the category of 'best significant health and safety initiative by a large organisation'. This commendation recognised the 'shunting and hazard identification' safe working animation project, its innovative approach and employee engagement achieved.

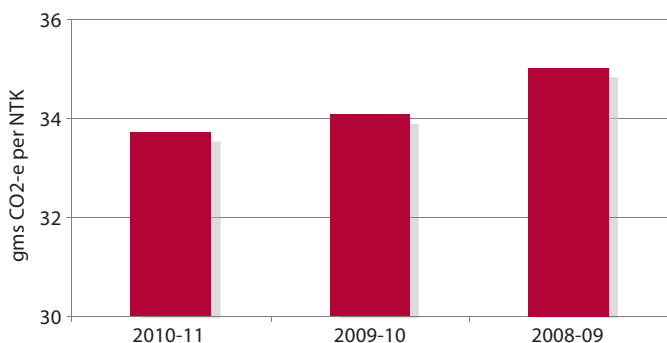


ENVIRONMENT

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

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

Freight carbon intensity *



* Based on emissions from traction energy (fuel + electricity) only

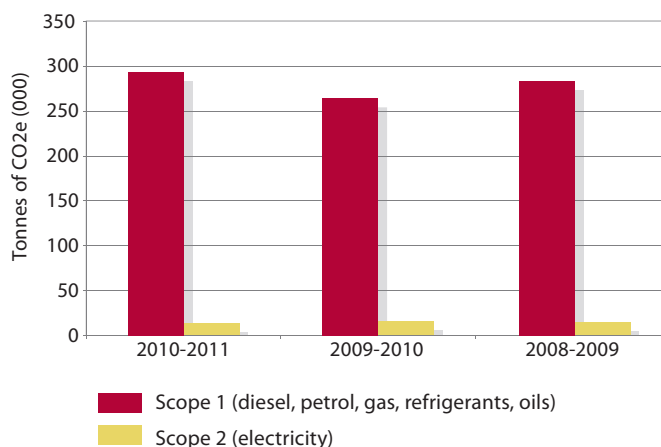
Specific initiatives to reduce fuel consumption and improve fuel efficiency include:

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

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

We measure carbon emissions from Scope One and Two activities (refer to following chart) across the KiwiRail Group on an annual basis and report on these in line

Total gas emissions



with the Greenhouse Gas Protocol. These emissions are directly linked to fuel and electricity consumption and are therefore reflective of our activity levels.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



RAIL IN THE COMMUNITY

KiwiRail has both a visible and active presence in the community through its 4,000 km of rail network, Interislander ferries and over 4,100 employees. Community projects are focused on improving awareness of rail safety and on improving the appearance of the rail corridor.

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

As a consequence of this work staff and communities surrounding the rail corridor are more proactive in reporting issues of trespass, graffiti and dumping. Issues are dealt with quickly and feedback provided to complainants. We have also increased community clean up days, opening up the corridor to proactive members of the community supervised by KiwiRail Staff.

KiwiRail has also been instrumental in producing a Graffiti Rail Partnering guide with the Ministry of Justice, Auckland Councils, Trusts and Community Corrections. This generic guide can be used as an internal and external tool nationally to encourage Councils, community groups and organisations across New Zealand to partner with KiwiRail to reduce graffiti vandalism, vegetation issues, dumping and littering.

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

KiwiRail's passenger services were used to provide relief for those involved in the Christchurch earthquakes and for the families of Pike River miners. These included discounted Interislander fares for the weeks following the earthquakes and a special TranzCoastal service for the Pike River Mine Memorial service.

Our rail network was only slightly damaged by the Christchurch earthquakes and became a key route for

much-needed supplies to the city. KiwiRail contributed through the provision of free freight services to enable water, civil defence equipment and other relief supplies to reach the city in the aftermath of both earthquakes.

KiwiRail has provided support for the electronic waste collection day run nationwide since its inception. E-day helps to ensure that electronic waste such as computers, monitors and printers are disposed of in a manner that recovers valuable resources and ensures an environmentally and safe disposal process. KiwiRail provides freight services free of charge to transport e-waste to the major centres. Staff from KiwiRail also helped out at the Wellington e-day collection.

Rail heritage projects and community groups were also donated sleepers and other rail components. This type of contribution has always been a feature of KiwiRail's community involvement.

2010-11 Value of Travel Services Provided to Community Groups

Interislander - \$288,600

Tranz Scenic - \$16,890

Freight – Equivalent of 244 20-foot containers



GOVERNANCE

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

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

Rail policy is the responsibility of the Minister of Transport.

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

> Shareholder Expectations

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

> Accountability

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

> Board

Directors are appointed by the relevant Minister who is made responsible for the administration of the New Zealand Railways Corporation Act 1981 by authority

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

At the start of the financial year, on 1 July 2010, the Board of NZRC (the 'KiwiRail Board') consisted of John Spencer (Chair), Paula Rebstock (Deputy Chair), John Leuchars, Bob Field, Mark Franklin, Bryan Jackson, and Mark Tume.

The term of the appointment of Mark Franklin and Bryan Jackson to the KiwiRail Board ended on 30 April 2011. Rebecca Thomas and Kevin Thompson were each appointed to the KiwiRail Board from 1 May 2011.

The KiwiRail Board would like to thank Mark Franklin and Bryan Jackson for the valuable contribution they have made to the governance of NZRC.

> Role

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

> Committees

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

At the start of the year the members of the AFR Committee were Paula Rebstock (Chair of the committee), John Spencer, Mark Tume and Mark Franklin. Rebecca Thomas joined the committee from 1 May 2011 following the end of Mark Franklin's appointment to the KiwiRail Board. This committee met five times during the year. The role of the AFR Committee is to assist the Board with the discharge of its responsibilities in relation to audit, finance and risk management. The committee monitors the roles, responsibility and performance of management and the auditors in financial reporting, business risk management systems and internal control systems.

At the start of the year, the members of the Safety Committee were Bob Field (Chair of the committee), Mark Franklin, Bryan Jackson, and John Leuchars. Rebecca Thomas and Kevin Thompson joined the committee from 1 May 2011 following the end of the appointment of Mark Franklin and Bryan Jackson to the KiwiRail Board. This committee met three times during the year. The role of the Safety Committee is to assist the Board to monitor compliance with safety licences and other legal requirements to protect the health and safety of employees and to reduce the environmental footprint of NZRC. In addition, the committee provides oversight on human resource strategies and policies.

At the start of the year, the members of the Infrastructure Committee were John Leuchars (Chair of the committee), Bryan Jackson and Mark Tume. Kevin Thompson joined the committee from 1 May 2011 following the end of the appointment of Bryan Jackson to the KiwiRail Board. The committee met four times during the year. The role of the Infrastructure Committee is to advise the Board on the performance and management of, and risks associated with, KiwiRail's material assets.

During the year the Chairman John Spencer was the Chair of the Remuneration Committee and the other members of that committee were Paula Rebstock and Bob Field. This committee met three times during the year. The role of the committee is to assist the Board in establishing remuneration strategies and policies for the Chief Executive and his direct reports that support an increase in productivity and the retention of staff.

> Insurance and indemnity

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

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

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

1993 that are incurred in any proceedings of the type referred to in section 162(3) of the Act.

> Subsidiaries

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

> Reporting against the 2010 -13 Statement of Corporate Intent

A comparison against the 2010 performance targets and measures as set out in the New Zealand Railways Corporation 2010-13 Statement of Corporate Intent, as required under Section 15(2)(a) of the State Owned Enterprises Act is set out in the Business Review section of this annual report.



BOARD



> Chair, John Spencer

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



> Deputy Chair, Paula Rebstock, CNZM

Paula Rebstock is an Auckland-based economist and company director. She is Chairwoman of the Insurance and Savings Commission, Director of Synergia Ltd, Health Benefits Ltd, ACC, Health Alliance Limited, and a Director/Shareholder of Phoenix Limited. She is a Member of the University of Auckland Business School Advisory Board and the Probation Service Governance Board. She is also the Financial Performance Auditor for Nga Puhī Trust Board, the Lead Reviewer for the Review of the Crown Law Office, Ministries of MPIA, MWA, CLO, DOL, DOC and ERO.



> Director, Bob Field, ONZM

Bob Field is currently Chair of Toyota New Zealand after 40 years international experience in the motor industry, including 25 years as Toyota's CEO in New Zealand. He is Chair of the NZ Business Council for Sustainable Development, Chair of CMD Nominees Ltd and an alumnus member of the NZ Business Roundtable. He is also a Director of both the NZ Rugby Union and NZ Rugby Promotions Ltd, and an Advisor for Emirates Team NZ.



> **Director, John Leuchars, ME, BCA, FIPENZ**

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



> **Director, Rebecca Thomas**

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



> **Director, Dr Kevin Thompson**

Kevin Thompson comes to KiwiRail after 13 years with OPUS International Consultants Ltd including his role as Chief Executive Officer from 2001 and Managing Director from 2007. Prior to OPUS, Dr Thompson was Chief Executive of Works Civil Construction Ltd, now known as Downer EDI Works Ltd. He is Chairman of both the Security and Reliability Council for Electricity Authority, and the Electricity Industry Group for Business NZ. He is also a Member of the Board of Trustees for the Wellington Catholic Homes Trust, a Member of the New Zealand Institute of Directors, and a Distinguished Fellow of the Institution of Professional Engineers of New Zealand."



> **Director, Mark Tume**

Mark Tume is a professional director with significant experience in the infrastructure sector. He currently holds a number of directorships in New Zealand and Australia, including Infracore, New Zealand Refining Company, Victoria Electricity Pty Ltd and Guardians of The New Zealand Superannuation Fund.

EXECUTIVE TEAM



> Chief Executive, Jim Quinn

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



> Chief Information Officer, Graeme Docherty

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



> Chief Financial Officer, David Walsh

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



> General Manager Freight, Iain Hill

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



> General Manager Interislander, Thomas Davis

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



> General Manager Passenger, Dr Deborah Hume

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



> General Manager Mechanical, Lloyd Major

Lloyd Major took the position of General Manager, Mechanical after 30 years' experience in the rail industry. Lloyd was attracted to rail because of the importance of rail in New Zealand's growth, the nation-wide footprint, the complexity of the operations and the need for change.



> General Manager Network, Rick van Barneveld

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



> General Manager Human Resources, Nicola Brown

Nicola Brown takes the General Manager Human Resources position after having filled a similar position for ONTRACK, the infrastructure arm of New Zealand Railways Corporation.



> General Manager Legal & Governance, Karen Paterson

Karen Paterson was appointed General Manager, Legal & Governance in June 2009. Karen is responsible for board governance, legal, risk and compliance, policy, communications and corporate sustainability. Prior to joining KiwiRail, Karen held similar positions with Genesis Power Limited and Auckland International Airport. In previous years, Karen was a lawyer at two large commercial law firms, one in New Zealand and previously in Australia.

KPIs		
	2011 Actual	2011 Target
Financial Metrics (\$m)		
Total External Revenue	667.4	685.2
EBITDA	100.3	120.8
TAP Capital Expenditure ¹	397.3	530.9
Metro Project Capital Expenditure	261.6	405.4
Key Sales Metrics		
Freight NTK (m)	4,178	4,215
Freight Average Yield (C/NTK)	7.9	8.09
Key Investment Outcomes		
Rolling Stock Replacement		
- Wagons (new) ²	535	317
- Locomotives (new) ³	6	20
Network Renewals		
- New Sleepers Laid (000)	106.1	120
- Lines Distressed (km)	264	250
- Timber Spans Replaced	169	200
- Culverts Replaced	173	100
- Level Crossing Upgrades ⁴	14	14
Customer Service Performance		
Freight – Premium Train (%<30min)	79%	90%
Metro (%<3min)	84%	90%
Interislander (%<15min)	77%	93%
Productivity Measures		
Total Labour Costs as % of Revenue	41%	39%
Freight OPEX to Revenue Ratio	0.71	0.71
Interislander OPEX to Revenue Ratio	0.88	0.86

¹ The full year target for capital expenditure is the re-prioritised forecast as per the business case submitted to Government in November 2010.

² During the year a commitment was made to purchase 535 wagons for delivery in 2012.

³ During the year six locomotives were commissioned from the order of 20 made in 2010.

⁴ The SCI target for level crossing upgrades has been revised from 8 to 14 to include all upgrades regardless of funding sources.

KPIs		
	2011 Actual	2011 Target
Health and Safety		
LTIFR (per million man hours)	6.1	3.0
MTIFR (per million man hours)	49.1	30
Staff Engagement		
Engagement Index	72.4	75
Ratio of Shareholder's Funds to Total Assets		
Shareholder's Funds to Total Assets	93.1%	93.3%
The Crown's Investment in KiwiRail (\$m)		
Total Shareholder's Funds (TSF)	12,638	12,967
Average Shareholder's Funds (ASF)	12,529	12,693
Financial Performance Measures for SOE Portfolio		
Crown Investment in KiwiRail		
- Total Shareholder's Return	TBD once commercial valuation agreed	
- Dividend Yield	Nil	Nil
- Dividend Payout	Nil	Nil
- Return on Equity	-1.8%	-1.5%
- Return on Equity Adjusted for IFRS fair valuation movements and asset revaluations	-10.8%	-9.2%
Profitability/Efficiency Measures		
- Return on Capital Employed	-7.5%	-1.7%
-Operating Margin	15%	18%
Leverage/Solvency Measures		
- Gearing Ratio (net)	0.04	0.04
- Interest Cover	2.74	-
- Solvency (current assets/current liabilities)	0.50	0.73

AUDITED ANNUAL FINANCIAL STATEMENTS

For the financial year ended 30 June 2011

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STATEMENT OF FINANCIAL PERFORMANCE

For the financial year ended 30 June 2011

	Note	Group 2011	Group 2010	Parent 2011	Parent 2010
		\$m	\$m	\$m	\$m
Operating revenues	2	667.4	650.4	168.2	98.5
Operating expenses	3	(567.1)	(572.6)	(118.8)	(120.1)
Operating surplus/(deficit) before depreciation, amortisation and grant income		100.3	77.8	49.4	(21.6)
Grant income	4	344.6	455.1	324.7	455.1
Loss on transfer of assets to GWRC	15	(107.6)	-	(36.4)	-
Depreciation and amortisation expense	5	(283.1)	(281.0)	(212.7)	(206.9)
Net surplus after depreciation and grant income		54.2	251.9	125.0	226.6
Foreign exchange and commodity net gains and losses	6	(15.9)	(14.1)	5.5	(22.7)
Finance income	7	4.4	0.8	14.2	6.6
Finance costs	7	(36.6)	(29.9)	(34.8)	(25.3)
Net surplus before taxation		6.1	208.7	109.9	185.2
Taxation (expense)/credit	8	27.9	(14.2)	-	-
Net surplus after taxation		34.0	194.5	109.9	185.2

The accompanying notes form part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

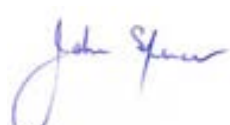
For the financial year ended 30 June 2011

	Note	Group 2011	Group 2010	Parent 2011	Parent 2010
		\$m	\$m	\$m	\$m
Net surplus after taxation		34.0	194.5	109.9	185.2
Other comprehensive income					
Revaluation of property, plant and equipment		-	(321.9)	-	(357.4)
Tax effect of revaluation		-	(10.0)	-	-
Release of revaluation on asset disposals		(1.8)	-	(2.1)	-
Impact of change in tax rate on deferred tax on prior year revaluations		-	3.2	-	-
Cash flow hedge losses	26c	(63.3)	-	(63.3)	-
Total comprehensive income/(loss)		(31.1)	(134.2)	44.5	(172.2)

STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Note	Group 2011	Group 2010	Parent 2011	Parent 2010
		\$m	\$m	\$m	\$m
Current assets					
Cash and cash equivalents	9, 26f	81.1	32.0	16.1	17.2
Trade and other receivables	10	115.5	112.8	169.8	64.2
Inventories	12, 26g	73.4	66.6	-	-
Financial assets	13	1.2	0.4	1.2	0.4
		271.2	211.8	187.1	81.8
Non-current assets					
Property, plant and equipment	14	13,284.3	13,023.9	12,519.4	12,264.4
Intangible assets	16	14.6	13.0	9.7	5.7
Financial assets	13	-	0.1	274.5	185.0
Trade and other receivables	10	-	-	-	-
Investment in subsidiary		-	-	460.6	388.3
		13,298.9	13,037.0	13,264.2	12,843.4
Total Assets		13,570.1	13,248.8	13,451.3	12,925.2
Current liabilities					
Trade and other liabilities	17	198.1	189.7	122.0	70.4
Financial liabilities	13, 26d	329.1	19.5	354.2	17.9
Income taxes payable		-	3.1	-	-
Provisions	18	12.7	8.4	3.1	2.3
		539.9	220.7	479.3	90.6
Non-current liabilities					
Trade and other liabilities	17	35.5	37.2	0.8	0.7
Financial liabilities	13, 26d	292.2	484.0	292.4	449.6
Provisions	18	4.0	2.5	-	-
Deferred taxation	19	60.2	85.0	-	-
		391.9	608.7	293.2	450.3
Total Liabilities		931.8	829.4	772.5	540.9
Net Assets		12,638.3	12,419.4	12,678.8	12,384.3
Equity					
Equity capital	26f	796.9	546.9	796.9	546.9
Retained earnings		1,364.2	1,170.7	1,433.6	1,164.3
Asset revaluation reserve		10,540.5	10,701.8	10,511.6	10,673.1
Cash flow hedge reserve	26c	(63.3)	-	(63.3)	-
Total Equity		12,638.3	12,419.4	12,678.8	12,384.3



John Spencer
Chair
25 August 2011



Paula Rebstock
Deputy Chair
25 August 2011

The accompanying notes form part of these financial statements

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 30 June 2011

	Note	Equity Capital	Retained Earnings	Asset Valuation Reserve	Cash Flow Hedge Reserve	Total
		\$m	\$m	\$m	\$m	\$m
GROUP						
As at 1 July 2009		546.9	800.5	11,206.2	-	12,553.6
Net surplus for the period		-	194.5	-	-	194.5
Other comprehensive income						
Revaluation of property, plant and equipment	14	-	-	(321.9)	-	(321.9)
Deferred taxation on revaluation		-	-	(10.0)	-	(10.0)
Deferred taxation adjustment due to change in tax rate		-	-	3.2	-	3.2
Release of revaluation reserve to retained earnings		-	175.7	(175.7)	-	-
Total comprehensive income		-	370.2	(504.4)	-	(134.2)
As at 30 June 2010		546.9	1,170.7	10,701.8	-	12,419.4
Net surplus for the period		-	34.0	-	-	34.0
Other comprehensive income						
Release of revaluation reserve to retained earnings		-	152.0	(152.0)	-	-
Release of revaluation reserve on transfer of Metro assets to GWRC		-	7.5	(7.5)	-	-
Release of revaluation reverse on disposal of other assets		-	-	(1.8)	-	(1.8)
Losses from cash flow hedges	26c	-	-	-	(63.3)	(63.3)
Total comprehensive income		-	193.5	(161.3)	(63.3)	(31.1)
Transactions with owners						
Capital Investment		250.0	-	-	-	250.0
As at 30 June 2011		796.9	1,364.2	10,540.5	(63.3)	12,638.3

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 30 June 2011

	Note	Equity Capital	Retained Earnings	Asset Valuation Reserve	Cash Flow Hedge Reserve	Total
		\$m	\$m	\$m	\$m	\$m
PARENT						
As at 1 July 2009		546.9	803.4	11,206.2	-	12,556.5
Net surplus for the period		-	185.2	-	-	185.2
Other comprehensive income						
Revaluation of property, plant and equipment	14	-	-	(357.4)	-	(357.4)
Release of revaluation reserve to retained earnings		-	175.7	(175.7)	-	-
Total comprehensive income		-	360.9	(533.1)	-	(172.2)
As at 30 June 2010		546.9	1,164.3	10,673.1	-	12,384.3
Net surplus for the period		-	109.9	-	-	109.9
Other comprehensive income						
Release of revaluation reserve to retained earnings		-	152.0	(152.0)	-	-
Release of revaluation reserve on transfer of Metro assets to GWRC		-	7.4	(7.4)	-	-
Release of revaluation reverse on disposal of other assets		-	-	(2.1)	-	(2.1)
Losses from cash flow hedges		-	-	-	(63.3)	(63.3)
Total comprehensive income		-	269.3	(161.5)	(63.3)	44.5
Transactions with owners						
Capital Investment		250.0	-	-	-	250.0
As at 30 June 2011		796.9	1,433.6	10,511.6	(63.3)	12,678.8

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

For the financial year ended 30 June 2011

	Note	Group 2011	Group 2010	Parent 2011	Parent 2010
		\$m	\$m	\$m	\$m
Cash flows from operating activities					
Proceeds from:					
Receipts from customers		657.6	666.4	168.7	149.7
Interest received		4.3	0.7	14.2	6.6
Operating grant		-	90.0	-	90.0
Proceeds utilised for:					
Payments to suppliers and employees		(585.4)	(595.2)	(170.5)	(137.8)
Interest expense		(28.9)	(26.6)	(33.0)	(20.3)
Income tax paid		-	(1.2)	-	-
Net cash from operating activities	22	47.6	134.1	(20.6)	88.2
Cash flows from investing activities					
Proceeds from:					
Sale of property, plant and equipment		14.4	0.5	5.9	-
Capital grant receipts		344.6	364.3	324.7	364.3
Proceeds utilised for:					
Purchase of property, plant and equipment		(653.2)	(549.3)	(506.3)	(456.1)
Purchase of intangibles		(7.4)	-	(7.0)	-
Loan to subsidiaries		-	-	(89.5)	(185.0)
Capital investment in subsidiary		-	-	(72.3)	-
Net cash used in investing activities		(301.6)	(184.5)	(344.5)	(276.8)
Cash flows from financing activities					
Proceeds from:					
Long term borrowings		90.8	40.0	90.8	180.0
Short term loan from subsidiary		-	-	25.0	-
Crown capital investment	26f	250.0	-	250.0	-
Proceeds utilised for:					
Repayment of finance lease liability	26e	(36.0)	(1.4)	-	-
Repayment of borrowings		(1.7)	(0.5)	(1.8)	(0.5)
Net cash from financing activities		303.1	38.1	364.0	179.5
Net increase/(decrease) in cash and equivalents		49.1	(12.4)	(1.1)	(9.1)
Cash and cash equivalents at the beginning of the period		32.0	44.5	17.2	26.3
Cash and cash equivalents at the end of the period	9	81.1	32.0	16.1	17.2

STATEMENT OF ACCOUNTING POLICIES

For the financial year ended 30 June 2011

> REPORTING ENTITY

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

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

The financial statements of the Group are for the year ended 30 June 2011 and were authorised for issue by the Board of Directors on 25 August 2011.

> BASIS OF PREPARATION

Statement of compliance

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

Measurement base

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

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

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

Unless otherwise specified, all dollar amounts in these financial statements and accompanying notes are stated in New Zealand dollars. The functional and presentation currency is New Zealand dollars.

Going concern

The successful transformation of KiwiRail to a long term, self sustaining railway business is outlined in the ten year turnaround plan and the three year business case presented to the shareholder through 2010. These plans outline the support required from the shareholder to contribute to the proposed investments that will provide the opportunity to drive long term, sustainable earnings. This shareholder support is expected to provide \$250.0m equity funding in each of the 2011/12 and 2012/13 years and to address \$325.0m of Government debt that falls due within 12 months of the signing of these financial statements. The shareholder has subsequently confirmed the \$250.0m of equity funding in 2011/12 and, through the 2011 Budget, announced support for the rollover of the \$250.0m debt funding falling due in November 2011. We have completed these financial statements on a "going concern" basis based on the assumption the shareholder support will continue largely in line with those plans.

Changes in accounting policies

The group has changed the accounting policy for derivative financial instruments and hedging activities with effect from 1 July 2010. Hedge accounting is now applied to certain transactions as detailed below.

There have been no further material changes in accounting policies. All other policies have been applied on a basis consistent with those used in previous periods.

> NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES

The Group carries out the following activities:

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

> ESTIMATION UNCERTAINTY

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

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

Asset revaluations

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

Employee entitlements

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

Inventory obsolescence

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

> CRITICAL JUDGEMENTS

Impairment of Minor Lines

No impairment on the minor lines will be recognised until such time as the consultation with local communities is completed and alternative commercial uses for lines have been investigated. For further information please refer to Note 25.

Asset revaluations

The Group's land is held at fair value and other assets are carried at depreciable replacement cost. Assets are revalued on a cyclical basis by independent valuers. The valuation of land is based on 'across the fence' methodology.

> SIGNIFICANT ACCOUNTING POLICIES

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

(a) Consolidated financial statements

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

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

(b) Revenue recognition

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

- (i) Freight revenue is recognised based on the date of freight acceptance.
- (ii) Mechanical revenue is comprised of manufacturing revenue and maintenance revenue. Manufacturing revenue is recognised by reference to the stage of completion of the contract activity at the balance date, if the outcome of the contract can be reliably estimated. The stage of completion is assessed by reference to surveys of work performed. Manufacturing revenue includes revenue from design services. Maintenance revenue is recognised at the date that the maintenance service is provided.
- (iii) Interislander revenue is comprised of freight revenue and passenger revenue. Freight revenue is recognised based on the date of freight acceptance. Passenger revenue is recognised at the date of travel.
- (iv) Tranz Metro and Tranz Scenic revenue is recognised at the date of travel.
- (v) 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.

- (vi) Network revenue comprises track access revenue, Government funding for operating expenditure, and other revenue. Track access revenue is recognised on a straight-line basis over the term of the relevant agreement.
- (vii) Interest income from call and term deposits is recognised as it accrues, using the effective interest method.
- (viii) Dividend income is recognised when the right to receive payment has been established.
- (ix) Other sources of income are recognised when earned and are reported in the financial periods to which they relate.
- (x) Government funding received as reimbursements of operating costs are recognised as income in the period in which the funding is receivable.
- (xi) Government funding received as reimbursements of the costs of capital projects is recognised as income in the period in which the funding is receivable.
- (xii) Grants received in respect of services provided are recognised when the requirements of the relevant grant agreement are met.

(c) Property, plant and equipment

(i) Recognition and Measurement

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

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

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

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

Other additions between revaluations are recorded at cost.

(iii) Disposals

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

(iv) Impairment

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

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

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

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the Statement of Financial Performance.

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

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

(v) Renewals

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

(vi) Depreciation

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

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

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

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

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

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

(d) Valuation of intangible assets

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

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

(e) Net Finance Costs

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

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

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

(f) Inventories

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

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

(g) Leases

Operating leases

Operating leases are defined as leases under which substantially all the risks and rewards of ownership of the applicable asset or assets remain with the lessor. Operating leased assets are not represented in the consolidated balance sheet. Expenses relating to operating leases are charged to the Statement of Financial Performance on a basis that is representative of the pattern of benefits expected to be derived from the leased asset.

Finance leases

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

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

(h) Income tax

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

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

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

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

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

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

(i) Goods and services tax (GST)

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

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

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

(j) Provisions

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

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

(k) ACC Partnership Programme

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

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

(l) Employee entitlements

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

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

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

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

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

(m) Contributions to superannuation plans

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

(n) Financial assets

Financial assets comprise cash and cash equivalents and loans and receivables. Derivatives are measured at fair value through profit and loss unless they are hedge accounted.

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

Cash and cash equivalents

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

Impairment of financial assets

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

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

(o) Financial liabilities

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

Payables

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

Borrowings

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

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

(p) 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
- Copper 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 net gains and losses'
- Interest rate swaps – as part of 'Net finance costs'
- Fuel related foreign exchange forward contracts, fuel commodity hedges and copper 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 ongoing basis, of whether the derivatives used in the hedging transaction are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

Cash flow hedges

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

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

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

(q) 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.

> NEW STANDARDS ADOPTED

The Group has adopted the following new and amended NZ IFRSs as of 1 July 2010:

- *NZIAS 17 Leases* (revised 2009), effective for accounting periods commencing on or after 1 January 2010. The revised standard requires that when a lease includes both land and building elements, the entity should determine the classification of each element based on paragraphs 7 – 13 of the standard.

> NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

- *NZIFRS 9 Financial Instruments* (revised 2010) is the first standard issued as part of a wider project to replace NZIAS39 and is effective for reporting periods beginning on or after 1 January 2013. The revised standard amends measurement categories for financial assets. It is not expected to have any impact on the consolidated financial results of the Group.
- *IFRIC 13 Customer Loyalty Programmes* (amended 2010) is effective for reporting periods beginning on or after 1 January 2011. The revised standard clarify that the fair value of award credits takes into account the amounts of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. This change is not expected to have a material impact of the consolidated financial results of the Group as award programmes is a relatively small part of the business of the Group.
- *NZIAS24 Related Party Disclosures* (revised 2009) is effective for reporting periods beginning on or after 1 January 2011. The revised standard requires further disclosures of transactions with related parties. The additional disclosures will not have any impact on the consolidated financial results of the Group.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 30 June 2011

1. TOTAL INCOME

	Note	Group 2011	Group 2010	Parent 2011	Parent 2010
		\$m	\$m	\$m	\$m
Revenue	2	667.4	650.4	168.2	98.5
Grant income	4	344.6	455.1	324.7	455.1
Total income		1,012.0	1,105.5	492.9	553.6

2. REVENUE

	Note	Group 2011	Group 2010	Parent 2011	Parent 2010
		\$m	\$m	\$m	\$m
Freight	26a	396.7	367.1	-	-
Mechanical	26a	9.0	27.9	-	-
Interislander		122.9	120.2	-	-
Tranz Metro		65.5	63.0	-	-
Tranz Scenic	26a	21.5	28.3	-	-
Property and Corporate Network		31.8	30.2	142.9	21.9
		20.0	13.7	25.3	76.6
Total revenue		667.4	650.4	168.2	98.5

3. OPERATING EXPENSES

	Group 2011	Group 2010	Parent 2011	Parent 2010
	\$m	\$m	\$m	\$m
Salaries and wages	249.8	227.4	23.8	21.4
Defined contribution plan employer contributions	8.3	6.9	0.7	0.5
Employee entitlements	13.9	15.3	2.2	1.4
Other employee expenses	4.2	4.6	0.8	0.9
Total staff costs	276.2	254.2	27.5	24.2
Materials and supplies	67.1	112.9	10.2	5.6
Fuel and traction electricity	105.3	85.9	0.1	-
Lease and rental costs	46.7	46.6	3.3	1.0
Incidents, casualties and insurance	13.9	15.7	4.2	2.5
Contractors expenses	14.2	14.7	45.7	72.2
Fees paid to auditors:				
Audit fees	0.4	0.4	0.2	0.2
Impairment of receivables	(0.5)	(0.1)	(0.3)	0.3
Directors' fees	0.3	0.3	0.3	-
Loss on disposal of property, plant and equipment	1.3	1.2	0.4	0.1
Other expenses	42.2	40.8	27.2	14.0
Total operating expenses	567.1	572.6	118.8	120.1

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

4. GRANT INCOME

	Note	Group 2011	Group 2010	Parent 2011	Parent 2010
		\$m	\$m	\$m	\$m
Operating grants					
Operating support grant		-	90.0	-	90.0
Capital grants for metro projects					
Auckland rail development		46.6	119.6	46.6	119.6
Wellington rail development		79.9	143.0	79.9	143.0
Auckland electrification project		125.0	59.0	125.0	59.0
Other capital grants					
Rail upgrade and growth		70.8	32.1	50.8	32.1
Other		21.8	11.1	21.9	11.1
Public policy grant		0.5	0.3	0.5	0.3
Total grant income	26b	344.6	455.1	324.7	455.1

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

5. DEPRECIATION AND AMORTISATION EXPENSE

	Note	Group 2011	Group 2010	Parent 2011	Parent 2010
		\$m	\$m	\$m	\$m
Depreciation expense	14	277.4	275.0	209.7	204.3
Amortisation expense	16	5.7	6.0	3.0	2.6
Total depreciation and amortisation expense		283.1	281.0	212.7	206.9

6. FOREIGN EXCHANGE AND COMMODITY GAINS AND LOSSES

	Note	Group 2011	Group 2010	Parent 2011	Parent 2010
		\$m	\$m	\$m	\$m
Net realised foreign exchange and commodity gains/(losses)		(18.2)	0.2	(1.0)	(0.7)
Net change in the fair value of derivatives not designated as cash flow hedges		7.6	(14.3)	11.8	(22.0)
Net foreign exchange losses on derivative instruments designated as cash flow hedges	26c	(5.3)	-	(5.3)	-
Total foreign exchange gains and losses		(15.9)	(14.1)	5.5	(22.7)

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

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

7. NET FINANCE COSTS

	Group 2011	Group 2010	Parent 2011	Parent 2010
	\$m	\$m	\$m	\$m
Finance income				
Interest income on bank deposits	4.4	0.8	2.6	0.4
Interest income other	-	-	11.6	6.2
Net change in fair value of derivatives	-	-	-	-
	4.4	0.8	14.2	6.6
Less Finance costs				
Interest expense on borrowings	28.9	21.9	28.9	20.5
Interest expense on finance lease	0.7	3.2	-	-
Interest expense – other	1.1	-	-	-
Net change in fair value of derivatives	5.9	4.8	5.9	4.8
	36.6	29.9	34.8	25.3
Net finance costs	32.2	29.1	20.6	18.7

8. TAXATION

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

	Group 2011	Group 2010
	\$m	\$m
Components of tax expense		
Current tax expense	5.6	(3.1)
Deferred tax expense	24.8	-
Adjustments to current tax relating to prior periods	(0.1)	-
Deferred tax adjustment relating to change in tax on buildings	-	(11.2)
Losses recognised	1.2	-
Tax rate change on current year losses	(1.1)	-
Adjustments to deferred tax relating to prior periods	-	3.5
Deferred tax income relating to temporary differences	(1.5)	(0.3)
Deferred tax income relating to the utilisation of tax losses	(1.0)	-
Deferred tax expense relating to write-down of deferred tax asset	-	(3.1)
Tax benefit / (expense)	27.9	(14.2)
Reconciliation between tax expense and accounting surplus		
Surplus before tax	6.1	208.7
Tax at 30%	(1.8)	(62.6)
Tax effect of:		
Parent company income not taxable	32.9	55.6
Tax rate change on current year losses	(1.1)	-
Deferred tax adjustment relating to change in tax on buildings	-	(11.2)
Deferred tax adjustment relating to change in future tax rate	-	1.4
Non-deductible expenditure	(0.1)	0.2
Previously unrecognised tax losses now recognised	1.2	2.8
Prior year adjustment	(0.1)	-
Tax losses – benefit	(2.0)	2.6
Other temporary differences	(1.1)	(3.0)
Tax benefit / (expense)	27.9	(14.2)

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

9. CASH AND CASH EQUIVALENTS

Note	Group 2011	Group 2010	Parent 2011	Parent 2010
	\$m	\$m	\$m	\$m
Cash on hand	0.1	0.1	-	-
Current accounts	49.9	22.3	6.5	8.9
Call deposits	19.2	7.7	-	7.7
Foreign currency accounts	11.9	1.9	9.6	0.6
26f	81.1	32.0	16.1	17.2

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

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

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 24.

10. TRADE AND OTHER RECEIVABLES

Note	Group 2011	Group 2010	Parent 2011	Parent 2010
	\$m	\$m	\$m	\$m
Trade receivables	62.0	68.7	13.6	24.9
Accrued and other receivables:				
Construction contract accrual	-	1.9	-	-
Prepayments	9.8	5.3	2.0	0.8
Related party receivables	30.1	23.9	149.9	32.5
Other	14.8	14.7	5.0	6.9
Gross receivables	116.7	114.5	170.5	65.1
Less provision for impairment	(1.2)	(1.7)	(0.7)	(0.9)
	115.5	112.8	169.8	64.2
Current assets	115.5	112.8	169.8	64.2
Non-current assets	-	-	-	-
	115.5	112.8	169.8	64.2

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 (2010: \$nil).

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

	2011			2010		
	Gross	Impairment	Net	Gross	Impairment	Net
GROUP	\$m	\$m	\$m	\$m	\$m	\$m
Not past due	53.1	-	53.1	62.2	(0.1)	62.1
Past due 1 – 30 days	5.2	-	5.2	4.4	-	4.4
Past due 31 – 60 days	0.8	-	0.8	0.5	-	0.5
Past due 61 – 90 days	1.2	(0.4)	0.8	0.2	(0.2)	-
Past due > 91 days	1.7	(0.8)	0.9	1.4	(1.4)	-
Total	62.0	(1.2)	60.8	68.7	(1.7)	67.0

	2011			2010		
	Gross	Impairment	Net	Gross	Impairment	Net
PARENT	\$m	\$m	\$m	\$m	\$m	\$m
Not past due	10.5	-	10.5	22.1	-	22.1
Past due 1 – 30 days	1.4	-	1.4	1.7	-	1.7
Past due 31 – 60 days	0.2	-	0.2	0.2	-	0.2
Past due 61 – 90 days	0.1	-	0.1	0.1	(0.1)	-
Past due > 91 days	1.4	(0.7)	0.7	0.8	(0.8)	-
Total	13.6	(0.7)	12.9	24.9	(0.9)	24.0

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

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

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

	Group 2011	Group 2010	Parent 2011	Parent 2010
	\$m	\$m	\$m	\$m
Balance at 1 July	1.7	1.8	0.9	0.7
Amounts written off during the year	(0.3)	(0.1)	(0.2)	-
Additional provisions made/(reversed) during the year	(0.2)	-	-	0.2
Balance at 30 June	1.2	1.7	0.7	0.9

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

The Group holds no collaterals as security or other credit enhancements over receivables that are either past due or impaired. Exposure to credit and currency risks and impairment losses related are disclosed in Note 24.

The average credit period on sales of goods and services is 27.9 days (2010: 25.7 days).

11. CONSTRUCTION CONTRACTS

	Group 2011	Group 2010
	\$m	\$m
Aggregate costs and recognised profits on contracts in progress to date	-	100.2
Progress billings on contracts in progress to date	-	(98.3)
Amounts due from customers (Note 10)	-	1.9

Hillside Engineering is a division of the Group carrying out mechanical maintenance on rolling stock. All the construction work in progress recognised at 30 June 2010 relates to Hillside construction contracts with external customers. At 30 June 2011 there was no construction work in progress for contracts with external contracts.

KiwiRail Mechanical Services Limited, which was a wholly owned subsidiary of KiwiRail Limited until 30 September 2010, carries out mechanical maintenance on rolling stock for the Group and all internal charges have been eliminated on consolidation.

On 1 October 2010 KiwiRail Mechanical Services Limited was amalgamated into KiwiRail Limited. From that date mechanical maintenance on rolling stock was carried out by KiwiRail Limited. All internal charges continue to be eliminated on consolidation.

The Network division of the Group is involved in the construction of large infrastructure projects. These projects are constructed for the Group's own use and not for external customers and are therefore not disclosed as construction contracts.

12. INVENTORIES

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

Note	Group 2011	Group 2010	Parent 2011	Parent 2010
	\$m	\$m	\$m	\$m
Operational Activities				
- Fuel	1.9	1.4	-	-
- Inventory held to maintain railway	32.0	34.3	-	-
- Inventory held to maintain rolling stock and vessels	49.4	48.2	-	-
Inventory held for resale	0.8	0.8	-	-
Contracting Activities – work in progress	-	7.1	-	-
Gross inventory	84.1	91.8	-	-
Less obsolescence provision	(10.7)	(25.2)	-	-
Net inventory	73.4	66.6	-	-

Movement in provision for stock obsolescence during the year

	Group 2011	Group 2010	Parent 2011	Parent 2010
	\$m	\$m	\$m	\$m
Opening balance	25.2	23.0	-	-
Provisions made during the year	-	2.2	-	-
Provisions utilised during the year	(14.5)	-	-	-
Closing Balance	10.7	25.2	-	-

No inventories are pledged as security for liabilities (2010: nil).

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

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

13. FINANCIAL ASSETS AND LIABILITIES

Note	Group 2011	Group 2010	Parent 2011	Parent 2010
	\$m	\$m	\$m	\$m
Current financial assets				
Commodity forward contracts	1.2	-	1.2	-
Foreign currency forward contracts	-	0.4	-	0.4
Foreign currency options	-	-	-	-
Total current financial assets	1.2	0.4	1.2	0.4
Non Current financial assets				
Foreign currency forward contracts	-	0.1	-	-
Interest rate swaps	-	-	-	-
Intercompany advances	-	-	274.5	185.0
Total non current financial assets	-	0.1	274.5	185.0
Total financial assets	1.2	0.5	275.7	185.4
Current financial liabilities				
Commodity forward contracts	-	0.9	-	0.9
Loans	252.2	0.5	277.3	0.5
Finance leases	-	1.6	-	-
Interest rate swaps	0.8	-	0.8	-
Foreign currency forward contracts	76.1	16.5	76.1	16.5
Total current financial liabilities	329.1	19.5	354.2	17.9
Non Current financial liabilities				
Foreign currency forward contracts	1.9	1.4	1.8	1.4
Loans	280.5	443.5	280.8	443.5
Finance leases	-	34.4	-	-
Interest rate swaps	9.8	4.7	9.8	4.7
Total non current financial liabilities	292.2	484.0	292.4	449.6
Total financial liabilities	621.3	503.5	646.6	467.5

26d

Unsecured loans

The notional principal amounts of the outstanding loans for the Group were \$498.5m (2010: \$444.0m).

Secured loans

On 29 September 2010, the Aratere finance lease was collapsed with a loan from Commonwealth Bank of Australia on similar amortising terms secured against the vessel. The amount outstanding as at 30 June 2011 is \$34.5m.

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

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

	Unit	Group 2011	Group 2010	Parent 2011	Parent 2010
Notional principle	\$ m	532.7	444.0	532.7	444.0
Average fixed interest rate	%	4.43	4.34	4.43	4.34
Average term to maturity	years	1.8	2.6	1.8	2.6

Credit card facilities

The Group has a credit card facility with a maximum limit of \$1.5m and \$1.3m was drawn as at 30 June 2011.

Letter of credit facilities

The Group had two outstanding Import Letters of Credit with a total outstanding balance of USD7.3m (USD3.5m for rail purchases and USD3.8m for container purchases) as at 30 June 2011.

Finance leases

The Aratere vessel finance lease with the Commonwealth Bank of Australia was terminated in August 2010 and replaced with a secured loan from the Commonwealth Bank of Australia.

Fair value of derivative instruments

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

Commodity forward contracts

The Group is party to a number of commodity forward contracts for copper and heavy and light fuel oil. The total notional principal amount of outstanding commodity forward contracts is \$7.9m (2010: \$10.7m).

Foreign currency forward contracts

The New Zealand Dollar notional principal amounts of outstanding forward foreign exchange contracts were \$580.2m (2010: \$135.7m).

Interest rate swaps

The notional principal amounts of the outstanding interest rate swaps for the Group were \$350.0m (2010: \$190.0m), with average term to maturity and average fixed interest rate shown in the table below:

	Unit	Group 2011	Group 2010	Parent 2011	Parent 2010
Notional principle	\$ m	350	190	350	190
Average fixed interest rate	%	4.92	5.08	4.92	5.08
Average term to maturity	years	3.9	3.5	3.9	3.5

14. PROPERTY, PLANT AND EQUIPMENT**GROUP****Cost:**

Note	Land	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant and Equipment	Capital Work In Progress	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 1 July 2009	6,017.7	290.7	5,838.2	494.6	60.1	56.7	374.4	13,132.4
Additions	-	7.5	336.1	44.3	0.4	42.7	118.0	549.0
Disposals	-	-	-	(1.8)	-	(0.2)	-	(2.0)
Reclassifications	-	(31.9)	31.9	-	-	-	-	-
Revaluations	(368.8)	14.5	7.4	-	-	-	-	(346.9)
Balance at 30 June 2010	5,648.9	280.8	6,213.6	537.1	60.5	99.2	492.4	13,332.4
Additions	0.2	28.2	401.6	62.4	0.3	13.7	146.9	653.3
Disposals	(7.9)	(4.6)	-	(6.0)	-	(0.2)	-	(18.7)
Assets transferred to GWRC	-	(6.7)	(6.0)	(66.1)	-	(0.9)	(30.1)	(109.8)
Reclassifications	-	(1.9)	1.9	-	-	-	-	-
Balance at 30 June 2011	5,641.2	295.8	6,611.1	527.4	60.8	111.8	609.1	13,857.1

Accumulated depreciation:

Balance at 1 July 2009	-	10.4	4.5	32.9	3.1	8.1	-	58.9
Depreciation expense	-	17.8	190.2	46.9	4.5	15.6	-	275.0
Disposals	-	-	-	(0.4)	-	(0.1)	-	(0.4)
Reclassifications	-	(3.3)	3.3	-	-	-	-	-
Revaluations	-	(24.9)	-	-	-	-	-	(24.9)
Balance at 30 June 2010	-	-	198.0	79.5	7.6	23.5	-	308.5
Depreciation expense	-	16.0	193.8	51.6	3.9	12.2	-	277.4
Disposals	-	-	-	(2.2)	-	(0.2)	-	(2.4)
Assets transferred to GWRC	-	(0.4)	(0.4)	(10.4)	-	(0.3)	-	(11.6)
Reclassifications	-	(0.5)	0.5	-	-	-	-	-
Revaluations	-	0.7	-	-	-	-	-	0.7
Balance at 30 June 2011	-	15.8	391.9	118.4	11.5	35.2	-	572.8

Net book value:

At 30 June 2010	5,648.9	280.8	6,015.6	457.7	52.9	75.6	492.4	13,023.9
At 30 June 2011	5,641.2	280.0	6,219.2	408.9	49.3	76.6	609.1	13,284.3

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

14. PROPERTY, PLANT AND EQUIPMENT**PARENT****Cost:**

	Note	Land	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant and Equipment	Capital Work In Progress	Total
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 30 June 2009		6,016.0	132.5	5,838.2	-	-	39.3	343.0	12,369.0
Additions		-	0.7	336.1	-	-	30.4	100.8	468.0
Disposals		-	-	-	-	-	(0.1)	-	(0.1)
Revaluations		(368.7)	(3.5)	7.4	-	-	-	-	(364.8)
Balance at 30 June 2010		5,647.3	129.7	6,181.7	-	-	69.6	443.8	12,472.1
Additions		0.2	27.4	401.6	-	-	10.5	65.7	505.4
Disposals		(7.9)	-	-	-	-	-	-	(7.9)
Assets transferred to GWRC		-	(2.2)	(6.0)	-	-	-	(28.7)	(36.9)
Revaluations		-	-	-	-	-	-	-	-
Balance at 30 June 2011		5,639.6	154.9	6,577.3	-	-	80.1	480.8	12,932.7

Accumulated depreciation:

Balance at 30 June 2009		-	3.4	1.5	-	-	5.8	-	10.7
Depreciation expense	5	-	3.9	193.2	-	-	7.2	-	204.3
Disposals		-	-	-	-	-	-	-	-
Revaluations		-	(7.3)	-	-	-	-	-	(7.3)
Balance at 30 June 2010		-	-	194.7	-	-	13.0	-	207.7
Depreciation expense	5	-	6.2	191.9	-	-	8.0	-	206.1
Disposals		-	-	-	-	-	-	-	-
Assets transferred to GWRC		-	(0.1)	(0.4)	-	-	-	-	(0.5)
Revaluations		-	-	-	-	-	-	-	-
Balance at 30 June 2011		-	6.1	386.2	-	-	21.0	-	413.3

Net book value:

At 30 June 2010		5,647.3	129.7	5,987.0	-	-	56.6	443.8	12,264.4
At 30 June 2011		5,639.6	148.8	6,191.1	-	-	59.1	480.8	12,519.4

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

Valuation of Assets

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

(i) Railway Infrastructure Assets

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

(ii) Land and Buildings

In June 2010 Darroch Limited (previously DTZ) conducted a valuation of land and buildings. Valuation of specialised land is based on the market values of neighbouring land. The valuation of specialised buildings is calculated on the optimised depreciated replacement cost. Notional replacement cost estimates were supplied to the valuers by internal engineering staff. Non-specialised land and buildings, being severable and stand alone properties, were valued at market value.

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

(iii) Other Assets

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

Impairment

Impairment losses of \$nil (2010: \$nil) are included in the Statement of Financial Performance in the line item 'other expenses'.

Leasing

The MV Aratere classified under the ships asset class was held under a finance lease at 30 June 2010 with a carrying amount of \$43.0m. The vessel was purchased in August 2010 and the finance lease liability was extinguished.

The loan from Commonwealth Bank of Australia, of \$34.5m at 30 June 2011, for the Aratere is secured against the vessel. There are no restrictions on title. In 2010 no property, plant and equipment was pledged as security for liabilities.

15. TRANSFER OF ASSETS

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

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

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

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

16. INTANGIBLE ASSETS

	Note	Group Software	Parent Software
		\$m	\$m
Gross carrying amount			
Balance at 1 July 2009		10.9	7.3
Additions		12.4	4.2
Disposals		(0.2)	-
Balance at 30 June 2010		23.1	11.5
Additions		7.4	7.0
Disposals		(1.0)	(1.0)
Balance at 30 June 2011		29.5	17.5
Accumulated amortisation and impairment			
Balance at 1 July 2009		4.3	3.2
Amortisation expense	5	6.0	2.6
Disposals		(0.2)	-
Balance at 30 June 2010		10.1	5.8
Amortisation expense	5	5.7	3.0
Disposals		(0.9)	(1.0)
Balance at 30 June 2011		14.9	7.8
Net book value			
As at 30 June 2010		13.0	5.7
As at 30 June 2011		14.6	9.7

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

Impairment losses of \$nil (2010: \$nil) are included in the Statement of Financial Performance in the line item 'other expenses'.

No software is pledged as security for liabilities at the balance date (2010: \$nil) and there are no restrictions on title. The Parent and the Group have no internally generated intangible assets.

17. TRADE AND OTHER LIABILITIES

Note	Group 2011	Group 2010	Parent 2011	Parent 2010
	\$m	\$m	\$m	\$m
Trade payables	71.1	65.9	13.9	13.6
Goods and services tax (GST) payable	(2.6)	(0.6)	(0.8)	(2.3)
Employee entitlements	91.3	85.3	6.1	4.7
Unearned revenue	12.1	23.7	6.4	18.9
Accrued interest	4.1	2.4	4.1	2.3
Amounts payable to related parties	0.5	-	55.6	11.9
Other payables and accruals	57.1	50.3	37.6	22.0
Total payables	233.6	226.9	122.8	71.1
Current liabilities	198.1	189.7	122.0	70.4
Non-current liabilities	35.5	37.2	0.8	0.7
	233.6	226.9	122.8	71.1

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

The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. Exposure to credit and currency risks and impairment losses are disclosed in Note 24.

17a. EMPLOYEE ENTITLEMENTS

	Group 2011	Group 2010	Parent 2011	Parent 2010
	\$m	\$m	\$m	\$m
Current portion				
Accrued salaries and wages	4.2	3.8	0.6	0.3
Annual leave entitlement accruals	45.7	40.2	4.5	3.7
Sick leave entitlement accruals	-	0.1	-	-
Retirement and long service leave liability	5.9	4.0	0.2	-
Total current portion	55.8	48.0	5.3	4.0
Non-current portion				
Retirement and long service leave	35.5	37.2	0.8	0.7
Total non-current portion	35.5	37.2	0.8	0.7
Total employee entitlements	91.3	85.3	6.1	4.7

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

discount rate and the salary inflation factor. The assumptions used by the actuaries in arriving at the retirement and long service leave liabilities were a salary increase rate of 3.0% per annum (2010: 3.0%) and term specific risk-free discount rate between 2.8% and 6.0% per annum (2010: 6.0%). The discount rate is derived from the yield on 10 year Government bonds as at 31 May 2011, which have terms to maturity that match, as closely to possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns.

18. PROVISIONS

	Group 2011	Group 2010	Parent 2011	Parent 2010
	\$m	\$m	\$m	\$m
ACC partnership programme	1.2	0.9	-	-
Leased vessel costs	2.9	4.2	-	-
Reclamation costs	2.9	3.6	2.9	2.3
Transition costs	1.1	1.5	-	-
Warranty costs	1.5	-	-	-
Reorganisation costs	5.1	-	0.2	-
Other provisions	2.0	0.7	-	-
	16.7	10.9	3.1	2.3
Represented by:				
Current	12.7	8.4	3.1	2.3
Non current	4.0	2.5	-	-
	16.7	10.9	3.1	2.3

Movements in each class of provision are as follows:

	Balance at 1 July 2010	Provisions made during the year	Provisions utilised during the year	Balance at 30 June 2011	Current	Non- Current
	\$m	\$m	\$m	\$m	\$m	\$m
ACC partnership programme	0.9	0.7	(0.4)	1.2	1.2	-
Leased vessel costs	4.2	0.4	(1.7)	2.9	-	2.9
Reclamation costs	3.6	-	(0.7)	2.9	2.9	-
Transition costs	1.5	-	(0.4)	1.1	0.5	0.6
Warranty costs	-	1.5	-	1.5	1.5	-
Reorganisation costs	-	5.1	-	5.1	5.1	-
Other provisions	0.7	1.3	-	2.0	1.5	0.5
	10.9	9.0	(3.2)	16.7	12.7	4.0

ACC partnership programme

In May 2011 New Zealand Railways Corporation and Ontrack Infrastructure Limited joined the ACC partnership scheme. From 1 October 2010 KiwiRail Mechanical Services Limited was merged into KiwiRail Limited and the KiwiRail Mechanical Services account with ACC was closed.

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

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

- The principal assumption of the Bornheutter-Fergusson (BF) method is that the development pattern of claims payments is the same for all loss periods;
- The BF method assumes that future inflation will be the same as the historical weighted average inflation which is present in the claims data. It is not possible to calculate the inflation rate explicitly;
- Projected future claim payments were discounted for the time value of money based on secondary market government bond yields as at the valuation date;
- The assumed 'loss ratio' of 0.45% of liable earnings was determined by considering the observed loss ratios for earlier loss quarters and having regard to the general downward trend in claims costs since KiwiRail entered the ACCPP;
- Included a provision of 10% for the costs of managing future claims.

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

Leased vessel cost

Redelivery costs: The Group has a charter agreement with Stena Finance B.V. for the Kaitaki roll-on-roll-off ferry until 1 July 2013. The ship commenced in service on 22 August 2005. Redelivery costs are accrued during the period of the lease. At balance date the provision totalled \$2.9m (2010: \$2.5m).

Dry-dock costs: The Group provides for the costs of scheduled maintenance costs for each of the ferries over the period between scheduled dry-dock dates. At balance date the provision for dry-dock costs totalled \$nil (2010: \$1.7m).

Transition costs

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

Reclamation costs

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

19. DEFERRED TAXATION

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

	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
	\$m	\$m	\$m	\$m	\$m	\$m
Property, plant and equipment	20.8	0.3	(124.1)	(128.0)	(103.3)	(127.7)
Inventory	2.5	6.0	-	-	2.5	6.0
Financial instruments	0.1	1.3	(0.4)	-	(0.3)	1.3
Employee entitlements	24.8	18.8	-	-	24.8	18.8
Provisions	6.9	6.6	-	-	6.9	6.6
Other items	0.7	10.7	(6.3)	(0.7)	(5.6)	10.0
Tax Losses	14.8	-	-	-	14.8	-
Net tax assets / (liabilities)	70.6	43.7	(130.8)	(128.7)	(60.2)	(85.0)

The Group has an unrecognised deferred tax asset of \$2.9m (2010: \$3.1m) arising from temporary differences in Ontrack Infrastructure Limited amounting to \$9.6m (2010: \$10.4m).

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

	Balance at 1 July 2010	Recognised in profit or loss	Recognised in equity	Acquired in business combinations	Balance at 30 June 2011
	\$m	\$m	\$m	\$m	\$m
Property, plant and equipment	(127.7)	24.4	-	-	(103.3)
Inventory	6.0	(3.5)	-	-	2.5
Financial instruments	1.3	(1.6)	-	-	(0.3)
Employee entitlements	18.8	6.0	-	-	24.8
Provisions	6.6	0.3	-	-	6.9
Other items	10.0	(15.6)	-	-	(5.6)
Tax Losses	-	14.8	-	-	14.8
	(85.0)	24.8	-	-	(60.2)

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

20. LEASE COMMITMENTS**(a) Finance lease commitments**

On 29 June 2007, Toll Group (NZ) Limited entered into a sub-charter with KiwiRail Holdings Limited, a subsidiary acquired by the Group on 1 October 2008, in terms of which the Aratere ship would be leased from the Commonwealth Bank of Australia by Toll Group (NZ) Limited and then sub-leased to the Group, for a period of nine years, expiring on 29 June 2016. The loan was secured by negative pledge over the assets of the Group. On 26 August 2010 the Aratere ship was purchased from the Commonwealth Bank of Australia by KiwiRail Limited and the finance lease was extinguished.

	Group	
	2011	2010
	\$m	\$m
Total minimum lease payments due:		
Not later than one year	-	4.6
Later than one year but not later than five years	-	18.5
Later than five years	-	28.7
Total minimum lease payments	-	51.8
Future lease finance charges	-	(15.8)
Present value of minimum lease payments	-	36.0

	Group	
	2011	2010
	\$m	\$m
Present value of minimum lease payments payable		
Not later than one year	-	1.6
Later than one year but not later than five years	-	7.9
Later than five years	-	26.5
Total present value of minimum lease payments	-	36.0
Represented by:		
Current	-	1.6
Non-current	-	34.4
Total finance leases	-	36.0

(b) Operating lease commitments as lessee

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

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

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

	Group 2011	Group 2010	Parent 2011	Parent 2010
	\$m	\$m	\$m	\$m
Total minimum lease payments due:				
Not later than one year	26.8	26.7	11.4	6.2
Later than one year but not later than five years	55.6	54.5	26.2	10.5
Later than five years	19.2	10.4	13.6	0.2
	101.6	91.6	51.2	16.9

The total minimum future sublease payments expected to be received under non-cancellable subleases at balance date is \$nil (2010: \$nil).

Exposure to currency risks are included in the currency exposures in Note 24.

(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 only significant lease is with Toll Networks (NZ) Limited and has a term of 5 years.

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

	Group 2011	Group 2010	Parent 2011	Parent 2010
	\$m	\$m	\$m	\$m
Total minimum lease payments receivable:				
Not later than one year	15.3	16.4	9.1	9.3
Later than one year but not later than five years	37.6	42.2	24.6	23.8
Later than five years	14.6	15.8	11.6	15.8
	67.5	74.4	45.3	48.9

For the year ended 30 June 2011 \$24.6m was recognised as revenue in the Statement of Financial Performance (2010: \$26.9m).

21. 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 2011	Group 2010	Parent 2011	Parent 2010
	\$m	\$m	\$m	\$m
Capital expenditure commitments:				
Not later than one year	224.7	216.8	118.5	162.5
Later than one year but not later than five years	88.9	39.1	58.7	36.7
Later than five years	-	17.5	-	17.1
	313.6	273.4	177.2	216.3

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

	Group 2011	Group 2010	Parent 2011	Parent 2010
	\$m	\$m	\$m	\$m
Net surplus after tax	34.0	194.5	109.9	185.2
Add / (deduct) items classified as investing or financing activities				
Loss on sale of assets	0.9	1.2	0.9	0.1
Loss on transfer of assets to GWRC	98.3	-	36.4	-
Fair value movement in derivatives	0.8	18.9	0.8	27.5
Capital grant receipts	(344.6)	(364.3)	(324.7)	(364.3)
	(210.6)	(149.7)	(176.7)	(151.5)
Add non-cash flow items				
Depreciation and amortisation expense	283.1	281.0	209.1	206.9
Movements in deferred tax and provisions	(22.2)	-	0.8	-
	50.3	131.3	33.2	55.4
Add / (deduct) movements in working capital				
Decrease in trade receivables	6.2	0.7	11.0	10.7
(Increase)/decrease in other receivables	(8.9)	2.7	(102.7)	50.4
(Increase)/decrease in inventories	(6.7)	5.0	-	0.1
Increase/(decrease) in trade payables	3.4	8.0	(12.1)	2.8
Increase/(decrease) in other payables	3.3	(13.6)	50.0	(31.2)
Net cash flows from operating activities	47.6	134.1	(20.6)	88.2

23. RELATED PARTY TRANSACTIONS

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

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

	% holding 2011	% holding 2010	Incorporation	Balance date	Nature of activities
KiwiRail Holdings Limited	100 %	100 %	New Zealand	30 June	Operates a nationwide rail and ferry transportation business
Ontrack Infrastructure Limited	100 %	100 %	New Zealand	30 June	Provides maintenance services for the national track infrastructure

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

Transactions with key management personnel

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

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

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

	Statement of Financial Performance		Statement of Financial Position	
	Sales 2010	Purchases 2010	Receivable 2010	Payable 2010
	\$000	\$000	\$000	\$000
James Bolger (Director)				
NZ Post Limited	-	212	-	-
Express Couriers Limited	2,285	128	99	18
	2,285	340	99	18
Bryan Jackson (Director)				
Jaclan Holdings Limited	-	47	-	-
Te Omanga Hospice Foundation	23	-	-	-
Pike River Coal Limited	366	-	60	-
Nees Hardware and Building Supplies Limited	-	3	-	-
New Zealand Transport Agency	3,226	44	512	44
	3,615	94	572	44
Totals 2010	5,900	434	671	62

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

The Parent operates an intercompany account with its subsidiary, Ontrack Infrastructure Limited in the ordinary course of business. As at 30 June 2011 the net balance payable by the Parent was \$14.2m (2010: \$10.7m) and no debt has been forgiven. During the year Ontrack Infrastructure Limited paid the parent \$nil in management fees (2010: \$4.0m) and received \$220.1m in payments from the Parent for services provided (2010: \$204.8m).

The Parent has provided loans to its subsidiary KiwiRail Limited. As at 30 June 2010 the outstanding balance of the loans amounted to \$274.5m (2010: \$185.0m). Interest on the loans is charged at the cost of funds to the parent plus a margin of 0.25%. Interest on the loans during the year amounted to \$11.5m (2010: \$6.2m).

On 20 June 2011 the Parent entered into an agreement to receive a short term advance of up to \$30.0m from its subsidiary KiwiRail Limited. As at 30 June 2011 the outstanding balance on the loan was \$25.0m. Interest is charged on the loan at the cost of funds and the loan was repaid on 18 July 2011.

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

	Group 2011	Group 2010	Parent 2011	Parent 2010
	\$000	\$000	\$000	\$000
Key Management Personnel Compensation				
Short term employee benefits	4,177	4,227	3,719	3,625
Termination benefits	-	770	-	207
Post employment benefits	-	-	-	-
Balance at end of year	4,177	4,997	3,719	3,832

Employees' remuneration	Group 2011	Group 2010	Parent 2011	Parent 2010
Total remuneration and benefits in \$000				
100 – 110	122	101	30	22
110 – 120	66	66	13	7
120 – 130	60	63	14	12
130 – 140	37	18	7	2
140 – 150	23	25	7	5
150 – 160	23	15	7	1
160 – 170	17	11	4	3
170 – 180	8	14	1	4
180 – 190	15	7	3	-
190 – 200	7	1	2	1
200 – 210	3	6	2	1
210 – 220	6	2	3	-
220 – 230	1	1	-	-
230 – 240	1	3	1	2
240 – 250	3	1	1	-
250 – 260	-	1	-	-
260 – 270	-	2	-	1
280 – 290	3	3	3	3
290 – 300	1	-	1	-
300 – 310	1	2	1	1
320 – 330	1	-	1	-
330 – 340	-	1	-	-
340 – 350	1	-	-	-
390 – 400	1	-	-	-
400 – 410	1	1	1	1
410 – 420	2	-	2	-
420 – 430	-	1	-	1
430 – 440	1	1	1	1
500 – 510	-	1	-	1
520 – 530	-	1	-	-
810 – 820 *	1	-	1	-
820 – 830 *	-	1	-	1
	405	349	106	70

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

The Directors earned the following fees during the year:

	Group 2011	Group 2010	Parent 2011	Parent 2010
	\$000	\$000	\$000	\$000
John Spencer	80	-	80	-
Paula Rebstock	50	50	50	50
Robert Field	40	40	40	40
John Leuchars	40	-	40	-
Rebecca Thomas	7	-	7	-
Kevin Thompson	7	-	7	-
Mark Tume	40	40	40	40
Mark Franklin	33	40	33	40
Bryan Jackson	33	40	33	40
James Bolger	-	80	-	80
Linda Constable	-	40	-	40
	330	330	330	330

24. FINANCIAL INSTRUMENTS

a. Market Risk

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

i. Foreign Exchange Risk

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

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

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

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

In NZ \$m	Group - As at 30 June 2010			
	USD	AUD	EUR	Other
Foreign currency risk				
Non-derivative financial instruments				
Cash and cash equivalents	1.2	-	0.2	0.5
Trade and other receivables (excluding prepayments)	0.1	-	-	-
Trade and other liabilities	(1.6)	(7.4)	(0.4)	(0.1)
Net balance sheet exposure before hedging activities	(0.3)	(7.4)	(0.2)	0.4
Gross forecast sales	-	-	-	-
Gross forecast purchases	(54.5)	(31.4)	(18.7)	(31.1)
Net Exposure (NZD)	(54.8)	(38.8)	(18.9)	(30.7)
Foreign currency derivatives				
Notional principal (NZD)				
Cash flow hedges	-	-	-	-
Non-hedge accounted	54.5	31.4	18.7	31.1
Balance*	(0.4)	(7.4)	(0.2)	0.4
Cash flows in respect of foreign currency cash flow hedges are expected to occur:				
Not later than 1 year	-	-	-	-
Later than 1 year not later than 2 years	-	-	-	-
	-	-	-	-

* 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.

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.

In NZ \$m	Group June 2011		Group June 2010		Parent June 2011		Parent June 2010	
	Equity	Profit	Equity	Profit	Equity	Profit	Equity	Profit
Foreign currency sensitivity analysis								
Impact of a 10% strengthening of the NZD	(41.0)	(15.1)	(11.3)	(11.3)	(41.1)	(15.2)	(11.3)	(11.3)
Impact of a 10% weakening of the NZD	50.6	14.3	13.8	13.8	50.1	13.8	13.8	13.8

ii. Interest Rate Risk

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

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

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

Interest rate risk

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

Interest sensitivity analysis

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

In NZ \$m	Group June 2011	Group June 2010	Parent June 2011	Parent June 2010
	Profit	Profit	Profit	Profit
Impact of a 100 bp interest rate increase	7.1	1.9	7.1	1.9
Impact of a 100 bp interest rate decrease	(7.8)	(2.2)	(7.8)	(2.2)

iii. Price Risk

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

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

Fuel price sensitivity on financial instruments

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

In NZ \$m	Group		Parent	
	June 2011	June 2010	June 2011	June 2010
	Profit	Profit	Profit	Profit
Impact from a 10% increase in fuel	0.8	1.4	0.8	1.4
Impact from a 10% decrease in fuel	(0.8)	(1.4)	(0.8)	(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 2010/11.

b. Credit Risk

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

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

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

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 2011	Group 2010	Parent 2011	Parent 2010
	\$m	\$m	\$m	\$m
Cash at bank and term deposits	81.1	32.0	16.1	17.2
Trade and other receivables	105.7	107.6	167.8	63.3
Derivative instrument assets	1.2	0.4	1.2	0.4
Intercompany advances	-	-	274.5	185.0
Total credit risk	188.0	140.0	459.6	265.9

c. Liquidity Risk

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

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

Exposure to liquidity risk

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

> FINANCIAL LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

	Carrying amount	Contractual cash flows	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
	\$m	\$m	\$m	\$m	\$m	\$m
GROUP 2011						
Financial Liabilities						
Trade and other payables	129.9	129.9	129.9	-	-	-
Net settled derivative liabilities	88.5	88.5	76.9	3.3	5.4	3.0
Borrowings	533.1	593.5	271.8	196.2	63.4	62.1
Total	751.5	811.9	478.6	199.5	68.8	65.1

Derivative Financial Instruments

Forward exchange contracts:

- outflow	(580.2)	(580.2)	(570.0)	(10.2)	-	-
- inflow	497.5	497.5	489.5	8.0	-	-
Total	(82.7)	(82.7)	(80.5)	(2.2)	-	-

	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
PARENT 2011						
Financial Liabilities						
Trade and other payables	110.3	110.3	110.3	-	-	-
Net settled derivative liabilities	88.5	88.5	76.9	3.3	5.4	3.0
Borrowings	533.1	593.5	271.8	196.2	63.4	62.1
Total	731.9	792.3	459.0	199.5	68.8	65.1

Derivative Financial Instruments

Forward exchange contracts:

- outflow	(580.2)	(580.2)	(570.0)	(10.2)	-	-
- inflow	497.5	497.5	489.5	8.0	-	-
Total	(82.7)	(82.7)	(80.5)	(2.2)	-	-

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

> FINANCIAL LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

	Carrying amount	Contractual cash flows	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
	\$m	\$m	\$m	\$m	\$m	\$m
GROUP 2010						
Financial Liabilities						
Trade and other payables	117.9	117.9	117.9	-	-	-
Net settled derivative liabilities	23.5	23.5	17.4	6.1	-	-
Borrowings	444.0	514.5	21.5	268.8	158.2	66.1
Finance leases	36.0	51.8	4.6	4.6	13.8	28.6
Total	621.4	707.7	161.4	279.5	172.0	94.7

Derivative Financial Instruments

Forward exchange contracts:

- outflow	(146.4)	(146.4)	(123.5)	(13.7)	(9.2)	-
- inflow	128.8	128.8	107.3	12.9	8.6	-
Total	(17.6)	(17.6)	(16.2)	(0.8)	(0.6)	-

	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
PARENT 2010						
Financial Liabilities						
Trade and other payables	47.4	47.4	47.4	-	-	-
Net settled derivative liabilities	23.5	23.5	17.4	6.1	-	-
Borrowings	444.0	514.5	21.5	268.8	158.2	66.1
Finance leases	-	-	-	-	-	-
Total	514.9	585.4	86.3	274.9	158.2	66.1

Derivative Financial Instruments

Forward exchange contracts:

- outflow	(146.4)	(146.4)	(123.5)	(13.7)	(9.2)	-
- inflow	128.8	128.8	107.3	12.9	8.6	-
Total	(17.6)	(17.6)	(16.2)	(0.8)	(0.6)	-

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.

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

In NZ \$m	Parent as at 30 June 2010				Carrying Amount	Fair Value
	Loans and Receivables	Other Amortised Cost	Non- Hedge Accounted	Hedge Accounted		
Financial assets						
Cash and cash equivalents	17.2	-	-	-	17.2	17.2
Trade and other receivables (excluding prepayments)	63.3	-	-	-	63.3	63.3
Derivative financial assets – current	-	-	0.4	-	0.4	0.4
Derivative financial assets – non-current	-	-	0.1	-	0.1	0.1
Total financial assets	80.5	-	0.5	-	81.0	81.0
Financial liabilities						
Trade and other liabilities	-	(171.0)	-	-	(171.0)	(171.0)
Interest-bearing liabilities	-	(444.0)	-	-	(444.0)	(444.0)
Derivative financial liabilities – current	-	-	(17.4)	-	(17.4)	(17.4)
Derivative financial liabilities – non-current	-	-	(6.1)	-	(6.1)	(6.1)
Total financial liabilities	-	(615.0)	(23.5)	-	(638.5)	(638.5)

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

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

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

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

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

The financial assets and liabilities outlined in tables in Note 24e above are classified as following:

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

25. Impairment of minor lines**(a) Stratford to Okahukura line**

Following a derailment in November 2009, a decision was made after an extensive consultation period to moth-ball the Stratford to Okahukura line for a period of two years. Over this period the Group will continue to engage with the local communities to assess alternative commercial uses for the line that may warrant continuation of the line.

Until a final decision has been made on the future of this line no impairment will be recognised.

The carry values of the on the Stratford to Okahukura line at 30 June 2011 were:

Land and buildings	\$23.1m
Railway Infrastructure	\$370.8m

(b) Other minor lines

A consultation process is also underway for the North Auckland, Napier-Gisborne and North Wairarapa lines. These lines remain operational and no impairment has been recognised at 30 June 2011.

26. Actual comparative information**(a) Revenue**

The 8.1% increase in Freight revenue from \$367.1m last year to \$396.7m was delivered across all major segments through a mix of volume and yield performance.

The 24% decline in Tranz Scenic revenue from \$28.3m last year to \$21.5m in the current year is a direct result of the ongoing impact of the Christchurch earthquakes. Passenger numbers on the Tranz Alpine were down 29% from the prior year and the Tranz Coastal (relaunched as the Pacific Coastal) was suspended from 22 February to 15 August 2011.

The \$18.9m reduction in Mechanical revenue from the comparable period is due to the completion of the Auckland metro passenger carriages in 2009. Mechanical has primarily completed internal services in the current year.

(b) Grant Income

KiwiRail receives grant income from the Crown and Regional Councils to complete specific rail projects. The most significant projects include the Wellington Regional Rail Plan (WRRP) and the Auckland metro rail developments (DART and AEP).

The \$110.5m reduction in grant income from the prior year reflects the lower levels of activity as some of the metro developments draw to completion (\$20.5m) and a change in the way in which the group is funded (\$90.0m).

In the year ended 30 June 2010 KiwiRail received an operating grant from Government. As part of the Turnaround Plan, KiwiRail receives equity funding for specific capital projects. As part of the transition from an operating grant to equity funding, KiwiRail has drawn down on the rail upgrade and growth appropriation to complete projects commenced before the Turnaround Plan funding was available.

(c) Cash flow hedge losses

The cash flow hedge losses recorded in the Statement of Comprehensive Income represent unrealised foreign exchange losses on asset purchases where hedge accounting is applied and effective. The ineffective portion of these foreign exchange losses (\$5.3m) is recorded in foreign exchange and commodity net gains and losses in the Statement of Financial Performance. These losses are of a non-cash nature.

(d) Financial Liabilities

Financial liabilities have increased over the comparable period by \$117.8m. This is primarily due to increases in unrealised losses on derivatives (\$5.3m) and two further drawdowns under the locomotive funding facility.

The mix of current and non-current liabilities has changed as a result of \$250.0m of DMO debt now maturing within the next financial year. The corresponding movement in the non-current portion has been partially offset by the \$55.0m of further drawdowns under the locomotive funding facility.

(e) Repayment of finance lease liability

In August 2010 KiwiRail purchased the MV Aratere at a cost of \$35.8m and extinguished the finance lease liability with Commonwealth Bank of Australia (CBA). To finance the purchase a \$35.0m loan facility was established with CBA.

(f) Turnaround plan funding & Cash balances

KiwiRail presented to the shareholder a Turnaround Plan business case which was in principal support for \$750.0m equity funding over 3 years. Each budget year KiwiRail presents to the Crown specific programmes for which the equity is invested in. At 30 June 2011 the full equity funding for the first year of the turnaround plan of \$250.0m had been received and \$250.0m for 2011/12 appropriated.

The significant increase in the cash balance at 30 June reflects the amounts committed (but not yet spent) against the agreed programmes for the first year of the turnaround plan. This cash will be spent in the first quarter of the 2011/12 financial year as payments are made against these commitments.

(g) Inventory

The increase in inventory is primarily due to a \$14.5m decrease in the inventory obsolescence provision which was in part offset by the transfer of \$9.3m of inventory to Greater Wellington Regional Council.

27. Contingent Liabilities

(a) Claims

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

(b) Treaty of Waitangi claims

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

(c) Option to purchase Wellington Railway Station

Included in the Waitangi Treaty Settlement signed by the Crown, Taranaki Whanui Ki Te Upoko O Te Ika and The Port Nicholson Block Settlement Trust, dated 19 August 2008, has an option to purchase the Wellington Railway Station and surrounding land. To date the option has not been exercised. This option expires on 2 September 2011.

(d) Removal of contaminated material

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

(e) Marsden Point rail corridor designation

The Group has recently 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 would share the holding costs of such land with the Council.

Independent Auditor's Report

To the readers of the New Zealand Railways Corporation and group's financial statements for the year ended 30 June 2011

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

We have audited the financial statements of the Corporation and group on pages 44 to 96, that comprise the statement of financial position as at 30 June 2011, the statement of financial performance, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion on the financial statements

In our opinion the financial statements of the Corporation and group on pages 44 to 96:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect the Corporation and group's:
 - financial position as at 30 June 2011; and
 - financial performance and cash flows for the year ended on that date.

Our audit was completed on 25 August 2011. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement,

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

An audit also involves evaluating:

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

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

Responsibilities of the Board of Directors

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

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

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

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

Responsibilities of the Auditor

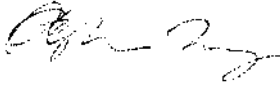
We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 19(1) of the State-Owned Enterprises Act 1986.

Independence

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

In addition to the audit we are carrying out a special purpose audit relating to the Funding Agreement for Suburban Rail Services between a subsidiary of the Corporation, Kiwirail Limited, and the Greater Wellington Regional Council; and an assurance engagement in

respect of the opening balance sheet acquired by the Corporation from Toll Group (NZ) Limited. The special purpose audit and the assurance engagement are compatible with those independence requirements. Other than the audit and the special purpose audit and the assurance engagement, we have no relationship with or interests in the Corporation or any of its subsidiaries.



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

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of New Zealand Railways Corporation (the Corporation) and group for the year ended 30 June 2011 included on the Corporation's website. The Board is responsible for the maintenance and integrity of the Corporation's website. We have not been engaged to report on the integrity of the Corporation's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements as well as the related audit report dated 25 August 2011 to confirm the information included in the audited financial statements presented on this website.

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

DIRECTORY

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