New Zealand
Railways Corporation

ANNUAL REPORT 2013

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1. Chairman’s Report

I am pleased to present the first annual report for the New Zealand Railways Corporation following the restructure of the Crown's investment in rail operations and a change to the Corporation's role that took effect from 31 December 2012. That restructure transferred the KiwiRail business into a new corporate group separate from the Corporation, leaving the Corporation holding railway land but no railway infrastructure assets.

Preparation of this report and the accompanying financial statements for the year ended 30 June 2013 has been complicated by the fact that the restructure took effect at financial half year and was carried out via a combination of both asset and share transfers.

The Corporation’s financial statements include the financial performance of the Infrastructure & Engineering, Corporate and Property units of the KiwiRail business for the first six months of the financial year, before the restructure occurred, as those business assets were held directly by the Corporation during that period. This report does not, however, include a narrative description of the activities of those KiwiRail business units. Readers should refer to the 2013 annual report of KiwiRail Holdings Limited for that information.

This report and the financial statements do not report at all on the financial performance or activities of the Rail Freight, Interislander, and Passenger business units of the KiwiRail business because these units are held by a subsidiary, KiwiRail Limited, that the Corporation no longer owned or controlled as at the balance date. Again, readers should refer to the 2013 annual report of KiwiRail Holdings Limited for that information.

For the second half of the financial year, following the restructure, the Corporation’s financial statements record the financial performance of the Corporation in carrying out its role in the new structure.

The Corporation's new role is to make available railway land to KiwiRail, in accordance with its powers under the New Zealand Railways Corporation Act 1981 and other legislation, and to account for the value of the land in its financial statements. As set out in its Statement of Corporate Intent, the Corporation is not expected to derive any return from the land and is not expected to operate a rail business. It has leased the railway land to KiwiRail for a long-term and for nominal consideration, to enable KiwiRail to enjoy the commercial benefit of the land and support the Crown's investment in rail operations as a whole. To minimise its costs and avoid duplication of work with KiwiRail, the Corporation has also entered into a Management Agreement under which KiwiRail provides corporate and administrative services to the Corporation for a nominal charge.

The year has seen significant change for the structure of the Crown’s investment in rail operations. With the new structure now in place the Corporation can look forward to performing its role in supporting the creation of a sustainable rail business in New Zealand.

John Spencer CNZM, Chairman

2. Board of Directors

Chair, John Spencer, CNZM

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

Director, Rose Anne MacLeod

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

Director, Sharon Shea

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

3. Governance

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

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

Executive management

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

The Corporation is required by the New Zealand Railways Corporation Act 1981 to have a General Manager. This role is performed by an employee of KiwiRail at no cost to the Corporation.

Statutory compliance

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

- preparing financial statements and arranging for their audit by the Auditor-General;
- submitting an annual report, half-yearly report and Statement of Corporate Intent to Shareholding Ministers each year in accordance with the State Owned Enterprises Act 1986;
- dealing with any requests for information made to the Corporation under the Official Information Act 1982 (though most information previously held by the Corporation has been vested in KiwiRail); and
- maintaining adequate records in accordance with the Public Records Act 2005.

General governance

The Board also:

- ensures there are 'no surprises' for the Shareholding Ministers (in accordance with the SOE Owner's Expectation Manual);
- manages any conflicts of interest;
- monitors the performance of KiwiRail under the Management Agreement;
- arranges for directors' and officers' insurance cover and directors' indemnities, in accordance with s.7A of the New Zealand Railways Corporation Act 1981; and
- holds Board meetings as it deems necessary to perform its role.

Following the restructure and in view of the limited activities of the Corporation:

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

4. Activities of the Corporation

Railway land

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

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

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

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

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

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

- relies on KiwiRail to find a prospective buyer and negotiate sale terms conditional on satisfaction of all requisite statutory approvals and clearances for sale (and the Corporation is not expected to evaluate the value of the proposal against any alternatives);
- seeks a report from KiwiRail on the effect of the proposal on the future development of the railway;
- complies with applicable statutory obligations, including obtaining the consent of the Minister responsible for the New Zealand Railways Corporation Act 1981;
- seeks confirmation from KiwiRail that all requisite statutory approvals and clearances for sale have been met; and
- complies with its obligation under the lease to provide to KiwiRail proceeds from the sale of land surrendered from the lease.

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

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

Wellington Station Building

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

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

The Corporation expects that in the event the Trust does not exercise its purchase option the building will be retained by NZRC, sold to a third party or transferred to KiwiRail.

5. Performance & Comparative Information

Section 15(2) of the State Owned Enterprises Act 1986 requires that the annual report include a comparison of the performance of the Corporation with its Statement of Corporate Intent.

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

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

By way of comparison to these measures:

- No dividend will be paid to the Crown in respect of the financial year ended 30 June 2013.
- For the financial year ended 30 June 2013 the Corporation has made an accounting loss of $71.8m, of this $71.1m related to the first half of the year prior to the restructure. From 1 January to 30 June 2013 all operating costs incurred by the Corporation were covered by the management fee from KiwiRail, the loss of $0.7m for the period is due to depreciation of the Wellington Railway Station and Social Hall buildings.
- The Corporation has complied with its obligations under the lease and relevant legislation in all material respects.
- The Corporation has not incurred expenditure that it has been unable to meet when due.

6. Additional Information

Former Directors:

The following people ceased to be directors of the Corporation during the financial year to 30 June 2013.

- Bob Field;
- John Leuchars;
- Paula Rebstock;
- Guy Royal;
- Kevin Thompson;
- Rebecca Thomas; and
- Mark Tume.

Each of them resigned as a director effective 31 December 2012 in connection with the restructure of the Corporation, except for Mark Tume whose appointment as a director of the Corporation ended on 31 October 2012.

Director Remuneration

Refer to note 22 to the financial statements for the total remuneration paid to directors and former directors during the financial year to 30 June 2013.

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

The Corporation indemnifies the directors and liabilities for acts or omission made in their capacity as directors, to the extent permitted by s.7A of the New Zealand Railways Corporation Act 1981.

Employee Remuneration

The Corporation had a number of employees in the six months to 31 December 2012 who received remuneration the value of which exceeded $100,000 per annum.

In the restructure the employment of all of the Corporation's employees was transferred to KiwiRail effective 31 December 2012. Readers should therefore refer to the annual report of KiwiRail Holdings Limited for information regarding the remuneration of such employees.

As at 30 June 2013 the Corporation does not have any employees.

7. Audited Annual Financial Statements and Auditor's Report
For the financial year ended 30 June 2013

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NEW ZEALAND RAILWAYS CORPORATION
Statement of Financial Performance
For the financial year ended 30 June 2013

	Note	2013	2012
		$m	$m
Operating revenues	2	89.1	202.7
Operating expenses	3	(70.3)	(155.7)
Operating surplus		**18.8**	**47.0**
Grant income	4	100.9	129.7
Depreciation and amortisation expense	6	(5.6)	(220.7)
Foreign exchange and commodity net gains and losses	7	0.5	(1.0)
Finance income	8	7.4	13.6
Finance costs	8	(8.1)	(43.1)
Net loss on sale of land	5	-	(18.1)
Impairment losses	14	(185.7)	(2,252.8)
Revaluation of property, plant and equipment	13	-	(10.4)
Gain on transfer of EMU FX contracts to Auckland Council Group		-	42.8
Cumulative foreign exchange loss on EMU FX contracts		-	(40.2)
Net loss		**(71.8)**	**(2,353.2)**

The accompanying notes form part of these financial statements

NEW ZEALAND RAILWAYS CORPORATION
Statement of Comprehensive Income
For the financial year ended 30 June 2013

	Note	2013	2012
		$m	$m
Net loss		**(71.8)**	**(2,353.2)**
Other comprehensive (loss)/income			
Items that can be reclassified into profit or loss:			
Gains/(Losses) from Cash flow hedges		0.8	22.2
Items that cannot be reclassified into profit or loss:			
Revaluation of property, plant and equipment	13	-	321.6
Reversal of asset revaluations	14	-	(7,502.7)
Transfer to asset carrying value from cash flow hedge reserve		(2.0)	(0.7)
Vesting of assets and liabilities to KiwiRail Holdings Limited	24	(595.3)	-
Transfer of Electrical Multiple Unit FX contracts to Auckland Council Company		-	40.2
Total comprehensive loss		**(668.3)**	**(9,472.6)**

The accompanying notes form part of these financial statements.

NEW ZEALAND RAILWAYS CORPORATION
Statement of Financial Position
As at 30 June 2013

	Note	2013	2012
		$m	$m
Current assets			
Cash and cash equivalents	9	-	9.5
Trade and other receivables	10	-	212.9
Financial assets	11	-	0.4
		-	**222.8**
Non-current assets			
Property, plant and equipment	13	3,273.4	3,561.0
Investment property	12	-	5.0
Intangible assets	15	-	-
Financial assets	11	-	276.3
Trade and other receivables	10	-	-
Investment in subsidiary		-	93.5
		3,273.4	**3,935.8**
TOTAL ASSETS		**3,273.4**	**4158.6**
Current liabilities			
Trade and other liabilities	16	-	123.3
Financial liabilities	11	-	456.1
Provisions	17	-	1.0
		-	**580.4**
Non-current liabilities			
Trade and other liabilities	16	-	1.5
Financial liabilities	11	-	120.6
Provisions	17	-	-
		-	**122.1**
TOTAL LIABILITIES		**-**	**702.5**
NET ASSETS		**3,273.4**	**3,456.2**
Equity			
Equity capital		1,532.4	1,046.9
Retained earnings		(1,395.0)	(753.4)
Asset revaluation reserve		3,136.0	3,164.3
Cash flow hedge reserve		-	(1.6)
TOTAL EQUITY		**3,273.4**	**3,456.2**

John Spencer
Chairman
30 August 2013

Rose Anne MacLeod
Director
30 August 2013

The accompanying notes form part of these financial statements.

NEW ZEALAND RAILWAYS CORPORATION
Statements of Changes in Equity
For the financial year ended 30 June 2013

	Note	Equity Capital	Retained Earnings	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Total
		$m	$m	$m	$m	$m
As at 1 July 2011		**796.9**	**1,433.6**	**10,511.6**	**(63.3)**	**12,678.8**
Net loss for the period		-	(2,353.2)	-	-	(2,353.2)
Other comprehensive income						
Release of revaluation reserve to retained earnings		-	168.1	(168.1)	-	-
Revaluation of property, plant and equipment	13	-	-	321.6	-	321.6
Reversal of prior period revaluations	14	-	(1.9)	(7,500.8)	-	(7,502.7)
Transfer to asset carrying value from cash flow hedge reserve		-	-	-	(0.7)	(0.7)
Transfer of Electrical Multiple Unit FX contracts to Auckland Council Group		-	-	-	40.2	40.2
Gains from cash flow hedges		-	-	-	22.2	22.2
Total comprehensive income		**-**	**(2,187.0)**	**(7,347.3)**	**61.7**	**(9,472.6)**
Transactions with owners						
Capital Investment		250.0	-	-	-	250.0
As at 30 June 2012		**1,046.9**	**(753.4)**	**3,164.3**	**(1.6)**	**3,456.2**
Net loss for the period		-	(71.8)	-	-	(71.8)
Other comprehensive (loss)/income						
Release of revaluation reserve to retained earnings		-	1.3	(1.3)	-	-
Gains/(Losses) from Cash flow hedges		-	-	-	(2.0)	(2.0)
Transfer to asset carrying value from cash flow hedge reserve		-	-	-	0.8	0.8
Vesting of assets and liabilities to KiwiRail Holdings Limited	24	-	(571.1)	(27.0)	2.8	(595.3)
Total comprehensive (loss)/income		**-**	**(641.6)**	**(28.3)**	**1.6**	**(668.3)**
Transactions with owners						
Capital investment		163.0	-	-	-	163.0
Conversion of debt to equity		322.5	-	-	-	322.5
As at 30 June 2013		**1,532.4**	**(1,395.0)**	**3,136.0**	**-**	**3,273.4**

The accompanying notes form part of these financial statements.

NEW ZEALAND RAILWAYS CORPORATION
Statement of Cash Flows
For the financial year ended 30 June 2013

	Note	2013	2012
		$m	$m
Cash flows from operating activities			
Proceeds from:			
Receipts from customers		103.9	185.6
Interest received		7.4	13.6
Proceeds utilised for:			
Payments to suppliers and employees		(164.4)	(188.8)
Interest expense		(12.1)	(41.3)
Net cash from operating activities	21	**(65.2)**	**(30.9)**
Cash flows from investing activities			
Proceeds from:			
Sale of property, plant and equipment		2.2	9.4
Capital grant receipts		100.9	129.7
Repayment of loan from subsidiary		44.1	-
Proceeds utilised for:			
Purchase of property, plant and equipment		(190.2)	(354.2)
Purchase of intangibles		-	(5.7)
Vesting of cash balance to KiwiRail Holdings Limited		(64.9)	-
Net cash used in investing activities		**(107.9)**	**(220.8)**
Cash flows from financing activities			
Proceeds from:			
Short term loan from subsidiary		-	20.0
Crown capital investment		163.0	250.0
Finance lease		2.0	0.2
Proceeds utilised for:			
Repayment of borrowings		(1.4)	(0.5)
Repayment of short term loan from subsidiary		-	(25.0)
Net cash from financing activities		**163.6**	**244.7**
Net increase/(decrease) in cash and equivalents		**(9.5)**	**(7.0)**
Cash and cash equivalents at the beginning of the period		**9.5**	**16.1**
Effect of exchange rate fluctuations on cash held		-	0.4
Cash and cash equivalents at the end of the period	9	**-**	**9.5**

The accompanying notes form part of these financial statements.

REPORTING ENTITY

New Zealand Railways Corporation (“NZRC” or “the Corporation”) is a statutory corporation established pursuant to the New Zealand Railways Corporation Act 1981 and is included within the First Schedule of the State Owned Enterprises Act 1986. The Corporation is domiciled in New Zealand. The Corporation has been designated as a Public Benefit Entity (“PBE”).

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

The financial statements of NZRC are for the year ended 30 June 2013 and were authorised for issue by the Board of Directors on 30 August 2013. As the restructure resulted in a change in the Board of Directors from 31 December 2012, the current Board have received a letter of comfort from the previous Board in order to authorise the financial statements.

Primary Objective

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

Prior to 31 December 2012 it was to establish, maintain and operate, or otherwise arrange for, safe and efficient rail, road and ferry freight and passenger transport services within New Zealand in such a way that revenue exceeds costs, including interest and depreciation; and to provide for a return on capital as specified by the Minister of Finance from time to time.

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

ESTIMATION UNCERTAINTY

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

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

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.

CRITICAL JUDGEMENTS

Asset revaluations

The Corporation’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. For further details please refer to note 13.

BASIS OF PREPARATION

Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and comply with the New Zealand Railways Corporations Act 1981, the State-Owned Enterprises Act of 1986 and New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") 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 cost, modified by the revaluation of certain non-current assets and certain financial instruments (including derivative instruments).

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

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

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

Changes in accounting policies

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

SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable by the corporation 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.

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

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

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

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

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

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

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

(b) Property, plant and equipment

(i) Recognition and Measurement

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

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

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

(ii) Revaluation

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

- *Specialised buildings and railway infrastructure* –valued using optimised depreciated replacement cost.
- *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. The gain or loss is calculated as the difference between the carrying amount of the asset and the sale proceeds received (if any). Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

(iv) Impairment.

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

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

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

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

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

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 & bridges	75 - 200 years
Track & ballast	40 – 50 years
Overhead traction	20 – 80 years
Signals & communications	15 – 50 years
Buildings	35 – 80 years
Plant and Equipment	
Plant & equipment	5 – 35 years
Motor vehicles	5 – 10 years
Furniture & fittings	5 years
Office equipment	3 - 5 years

(vii) Assets held for sale

Where an asset's carrying amount is to be recovered through a sale transaction rather than continuing use it is classified as held for sale and separately identified on the Statement of Financial Position. Assets held for sale are held at the lower of their carrying amount and fair value less costs to sell. Assets held for sale are not depreciated.

(c) 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.

(d) Net Finance Costs

Borrowing costs – Interest expense on borrowings 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 Corporation has elected not to capitalise borrowing costs on capital projects.

(e) Leases

Operating leases

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

Finance leases

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

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

(f) Income tax

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

(g) Goods and services tax (GST)

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

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

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

(h) Provisions

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

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

(i) ACC Partnership Programme

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

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

(j) Employee entitlements

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

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

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

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

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

(k) Contributions to superannuation plans

Certain employees were members of defined contribution schemes and the Corporation contributes to those schemes. A defined contribution scheme is a plan under which the employee and the Corporation pay fixed contributions into a separate entity. The Corporation 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.

(l) Joint Venture

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

(m) Financial assets

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

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

Cash and cash equivalents

Cash and cash equivalents 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 amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

(n) 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 Corporation becomes obliged to make future payments resulting from the purchase of goods and services. Payables are initially measured at fair value and subsequently measured at amortised 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 Corporation has an unconditional right to defer settlement of the liability for more than 12 months after the balance sheet date.

(o) Derivative financial instruments and hedging activities

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

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

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

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

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

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

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

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

Cash flow hedges

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

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

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

(p) Foreign currency translation

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

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

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

NEW STANDARDS ADOPTED

There were no new standards adopted during the financial year ended 30 June 2013.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards and amendments were available for early adoption but have not been applied by the Corporation 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 financial results of the Corporation.

1. TOTAL INCOME

	Note	2013	2012
		$m	$m
Revenue	2	89.1	202.7
Grant income	4	100.9	129.7
Total income		**190.0**	**332.4**

2. REVENUE

	2013	2012
	$m	$m
Property & Corporate	73.2	174.4
Infrastructure & Engineering	15.9	28.3
Total revenue	**89.1**	**202.7**

3. OPERATING EXPENSES

	2013	2012
	$m	$m
Salaries and wages	17.6	33.5
Defined contribution plan employer contributions	0.4	0.8
Employee entitlements	1.8	3.0
Other employee expenses	0.4	1.4
Total staff costs	20.2	38.7
Materials and supplies	5.5	10.7
Fuel and traction electricity	-	0.1
Lease and rental costs	4.4	7.0
Incidents, casualties and insurance	4.3	7.3
Contractors expenses	26.5	72.9
Fees paid to auditors: Audit fees	0.1	0.4
Impairment of receivables	(0.1)	(0.2)
Directors’ fees	0.2	0.3
Loss on disposal of property, plant and equipment	-	0.1
Other expenses	9.2	18.4
Total operating expenses	**70.3**	**155.7**

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

4. GRANT INCOME

	2013	2012
	$m	$m
Capital grants for metro projects		
Auckland rail development	23.1	0.5
Wellington rail development	-	-
Auckland electrification project	64.0	124.6
Other capital grants		
Rail upgrade and growth	-	(32.3)
Other	13.5	36.4
Public policy grant	0.3	0.5
Total grant income	**100.9**	**129.7**

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

5. NET LOSS ON SALE OF LAND

From time to time the Corporation may sell parcels of railway land. Under the lease agreement with KiwiRail Holdings Ltd entered into on 31 December 2012, KiwiRail Holdings Ltd may identify railway land that should be sold and request the Corporation to sell it or surrender it from the lease. The sale proceeds are provided to KiwiRail Holdings Ltd to support its business as the SOE responsible for the financial performance of the Crown's investment in rail operations. The Corporation may incur an accounting loss following a sale of railway land because the value of the land is in the Corporation’s asset base. There were no sales of land from 31 December 2012 to 30 June 2013.

NZRC received the proceeds on any land sales prior to 31 December 2012. Where land has previously been revalued any gain or loss is based on the valuation and any revaluation reserve relating to the land sold is released through the statement of changes in equity.

	2013	2012
	$m	$m
Carrying value of land sold	(2.2)	(27.0)
Proceeds received	2.2	8.9
Net loss on sale of land recognised in Statement of Financial Performance	**-**	**(18.1)**
Release of revaluation reserve	**2.2**	**24.5**
Net gain on original cost	**2.2**	**6.4**

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

6. DEPRECIATION AND AMORTISATION EXPENSE

	2013	2012
	$m	$m
Depreciation expense	5.2	216.8
Amortisation expense	0.4	3.9
Total depreciation and amortisation expense	**5.6**	**220.7**

7. FOREIGN EXCHANGE AND COMMODITY GAINS AND LOSSES

	2013	2012
	$m	$m
Net realised foreign exchange and commodity gains/(losses)	(0.1)	(9.4)
Net change in the fair value of derivatives not designated as cash flow hedges	0.6	8.4
Total foreign exchange gains and (losses)	**0.5**	**(1.0)**

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

8. NET FINANCE COSTS

	2013	2012
	$m	$m
Finance income		
Interest income on bank deposits	0.8	1.1
Interest income other	6.6	12.5
Net change in fair value of derivatives	-	-
Total finance income	**7.4**	**13.6**
Less Finance costs		
Interest expense on borrowings	(7.3)	(34.0)
Interest expense on finance lease	-	-
Interest expense – other	(4.1)	-
Net change in fair value of derivatives	3.3	(9.1)
Total finance costs	**(8.1)**	**(43.1)**
Net finance costs	**0.7**	**29.5**

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

9. CASH AND CASH EQUIVALENTS

	2013	2012
	$m	$m
Current accounts	-	4.4
Call deposits	-	5.0
Foreign currency accounts	-	0.1
Total cash and cash equivalents	**-**	**9.5**

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

The Corporation's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 23.

10. TRADE AND OTHER RECEIVABLES

	2013	2012
	$m	$m
Trade receivables	-	11.5
Accrued and other receivables:		
Prepayments	-	5.2
Related party receivables	-	177.8
Other	-	18.9
Gross receivables	-	213.4
Less provision for impairment	-	(0.5)
Total trade and other receivables	**-**	**212.9**
Current assets	-	212.9
Non-current assets	-	-
	-	**212.9**

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 (2012 $nil). There are no overdue receivables at 30 June 2013 and no provision for impairment has been made.

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

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

	2013	2012
	$m	$m
Balance at 1 July	0.5	0.7
Vested to KHL		
Amounts written off during the year	-	(0.3)
Additional provisions made/(reversed) during the year	(0.1)	0.1
Vested to KiwiRail Holdings Limited	(0.4)	-
Provision for impairment of receivables at 30 June	**-**	**0.5**

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

The Corporation 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 23.

11. FINANCIAL ASSETS AND LIABILITIES

	2013	2012
	$m	$m
Current financial assets		
Foreign currency forward contracts	-	0.4
Total current financial assets	-	0.4
Non-Current financial assets		
Intercompany advances	-	276.3
Total non-current financial assets	-	276.3
Total financial assets	**-**	**276.7**
Current financial liabilities		
Loans	-	453.0
Interest rate swaps	-	0.6
Foreign currency forward contracts	-	2.5
Total current financial liabilities	-	456.1
Non-Current financial liabilities		
Loans	-	101.3
Finance leases	-	0.2
Interest rate swaps	-	19.1
Total non-current financial liabilities	-	120.6
Total financial liabilities	**-**	**576.7**

There are no financial assets or financial liabilities in NZRC at 30 June 2013. They were vested to KiwiRail Holdings Ltd on 31 December 2012.

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

12. INVESTMENT PROPERTY

	2013	2012
	$m	$m
Balance at 1 July	5.0	-
Recognition of correct opening balance	-	4.9
Additions	-	0.1
Vested to KiwiRail Holdings Ltd	(5.0)	
Disposals	-	-
Fair Value Gains / (Losses) on Valuation	-	-
Investment property at 30 June	**-**	**5.0**

Investment property comprises land and rail designation assets acquired as part of the joint venture arrangement with Northland Regional Council. The joint venture was established to advance a proposed rail corridor in the Oakleigh to Marsden Point area. A number of properties along the proposed corridor have been purchased by the Northland Regional Council and whilst the Council has full legal title and full ownership rights to these properties the accounting treatment is based on the economic substance of the agreement. The land and rail designation asset are deemed to be jointly controlled, therefore the Corporation and the Council each recognise a 50% share of these assets. At 31 December 2012 the Corporation vested its interest in this joint venture arrangement to KiwiRail Holdings Limited.

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

NEW ZEALAND RAILWAYS CORPORATION
Statements of Changes in Equity
For the financial year ended 30 June 2013

	Note	Equity Capital	Retained Earnings	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Total
		$m	$m	$m	$m	$m
As at 1 July 2011		**796.9**	**1,433.6**	**10,511.6**	**(63.3)**	**12,678.8**
Net loss for the period		-	(2,353.2)	-	-	(2,353.2)
Other comprehensive income						
Release of revaluation reserve to retained earnings		-	168.1	(168.1)	-	-
Revaluation of property, plant and equipment	13	-	-	321.6	-	321.6
Reversal of prior period revaluations	14	-	(1.9)	(7,500.8)	-	(7,502.7)
Transfer to asset carrying value from cash flow hedge reserve		-	-	-	(0.7)	(0.7)
Transfer of Electrical Multiple Unit FX contracts to Auckland Council Group		-	-	-	40.2	40.2
Gains from cash flow hedges		-	-	-	22.2	22.2
Total comprehensive income		**-**	**(2,187.0)**	**(7,347.3)**	**61.7**	**(9,472.6)**
Transactions with owners						
Capital Investment		250.0	-	-	-	250.0
As at 30 June 2012		**1,046.9**	**(753.4)**	**3,164.3**	**(1.6)**	**3,456.2**
Net loss for the period		-	(71.8)	-	-	(71.8)
Other comprehensive (loss)/income						
Release of revaluation reserve to retained earnings		-	1.3	(1.3)	-	-
Gains/(Losses) from Cash flow hedges		-	-	-	(2.0)	(2.0)
Transfer to asset carrying value from cash flow hedge reserve		-	-	-	0.8	0.8
Vesting of assets and liabilities to KiwiRail Holdings Limited	24	-	(571.1)	(27.0)	2.8	(595.3)
Total comprehensive (loss)/income		**-**	**(641.6)**	**(28.3)**	**1.6**	**(668.3)**
Transactions with owners						
Capital investment		163.0	-	-	-	163.0
Conversion of debt to equity		322.5	-	-	-	322.5
As at 30 June 2013		**1,532.4**	**(1,395.0)**	**3,136.0**	**-**	**3,273.4**

The accompanying notes form part of these financial statements.

Vesting of Assets

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

Information for comparatives

Valuation of Assets

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

In June 2012 Darroch Limited (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.

Impairment
Details of impairments for the year are provided in Note 14.

Reconciliation of Land and Buildings Revaluation to Primary Statements

	Note	2013	2012
		$m	$m
Revaluation decrease on Land		-	(2,357.6)
Revaluation increase on Buildings		-	6.5
Accumulated depreciation reversed on revalued buildings		-	(1.3)
		-	**(2,349.8)**
Disclosed as:			
Revaluation increase to Asset Valuation Reserve		-	321.6
Revaluation loss in Statement of Financial Performance		-	(10.4)
Reversal of prior period revaluations in Statement of Comprehensive Income	14	-	(2,661.0)
		-	**(2,349.8)**

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

14. IMPAIRMENT OF PROPERTY, PLANT & EQUIPMENT

Reconciliation of Impairment Movements to Primary Statements

	Impairment recognised in Statement of Financial Performance 2013	2012
	$m	$m
Impairment of Cash Generating Units (below)	(185.7)	(1,883.8)
Impairment of Joint Venture Investment Property	-	(2.0)
Impairment of investment in subsidiary	-	(367.0)
Impairment losses in Statement of Financial Performance	**(185.7)**	**(2,252.8)**

	Note	Impairment recognised in Asset Valuation Reserve 2013	2012
		$m	$m
Impairment of Cash Generating Units (below)		-	(4,841.7)
Revaluation of Land and Buildings resulting in reversal of Asset Valuation Reserve	13	-	(2,661.0)
Reversal of prior period revaluations in Statement of Comprehensive Income		**-**	**(7,502.7)**

Information for current year

At 31 December 2012 the assets were tested for impairment before vesting and were therefore transferred at their impaired value to KiwiRail Holdings Ltd. The impairment at 31 December 2012 is $185.7m. The following impairments were recorded in relation to each asset class for each CGU in NZRC:

31 December 2012	Carrying amount before impairment	Impairment recognised in Statement of Financial Performance	Impairment recognised in Asset Valuation Reserve	Carrying amount after impairment
	$m	$m	$m	$m
Rail CGU				
Non-Leased Buildings	7.3	-	-	7.3
Railway infrastructure	161.1	-	-	161.1
Plant and equipment	64.9	(0.2)	-	64.7
Assets under construction	211.5	(185.4)	-	26.1
Software	0.1	(0.1)	-	-
	444.9	**(185.7)**	**-**	**259.2**
Leased Building CGUs				
Buildings	24.9	-	-	24.9
	24.9	**-**	**-**	**24.9**
Total	**469.8**	**(185.7)**	**-**	**284.1**

At 30 June 2013 the assets remaining in NZRC have been reviewed for impairment. As a public benefit entity (PBE), NZRC does not hold these assets to generate cash inflows, therefore in accordance with NZIAS 36, the value in use for the purpose of impairment testing is the depreciated replacement cost. No further impairment has been recognised at 30 June 2013.

Information for comparatives

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

The non-leased buildings, railway infrastructure, rolling stock, plant and equipment and intangible assets were considered by management to form one cash generating unit (the Rail CGU). Discussions with the Crown regarding the structure of the KiwiRail Group indicated that the assets within the CGU were impaired. The recoverable amount of these assets was the higher of the value in use and fair value less costs to sell. The value in use for the CGU was the discounted estimated future cash flows that will be derived from the assets. The impairment for the assets held in NZRC was $6,725.5m. The impairment was allocated across each asset class within the CGU, including intangible assets.

Where assets had a readily determinable market value they were impaired to this value. Where a market value was not able to be determined the assets were impaired to their share of the calculated value in use for the CGU. A discount rate of 9.8% was used to calculate the value in use for the CGU. Market values were provided by independent valuers as at 30 June 2012, Darroch Limited for buildings and Ernst and Young for all other asset classes.

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

The following impairments were recorded in relation to each asset class for each CGU in NZRC:

30 June 2012	**Carrying amount before impairment**	**Impairment recognised in Statement of Financial Performance**	**Impairment recognised in Asset Valuation Reserve**	**Carrying amount after impairment**
	$m	$m	$m	$m
Rail CGU				
Non-Leased Buildings	140.1	(48.0)	(64.5)	27.6
Railway infrastructure	6,261.4	(1,319.8)	(4,777.2)	164.4
Plant and equipment	71.3	(4.3)	-	66.9
Assets under construction	519.5	(500.2)	-	19.3
Software	11.4	(11.4)	-	-
	7,003.7	**(1,883.8)**	**(4,841.7)**	**278.2**
Leased Building CGUs				
Buildings	24.5	-	-	24.5
	24.5	**-**	**-**	**24.5**
Total	**7,028.2**	**(1,883.8)**	**(4,841.7)**	**302.7**

In note 13 Property, Plant and Equipment, the impairment is split between cost and accumulated depreciation as appropriate.

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

15. INTANGIBLE ASSETS

	Note	Software
		$m
Gross carrying amount		
Balance at 1 July 2011		17.5
Additions		5.7
Disposals		-
Impairment		(23.2)
Balance at 30 June 2012		-
Additions		0.5
Disposals		-
Impairment		(0.5)
Vesting		-
Balance at 30 June 2013		-
Accumulated amortisation and impairment		
Balance at 1 July 2011		7.8
Amortisation expense	6	3.9
Disposals		-
Impairment		(11.7)
Balance at 30 June 2012		-
Amortisation expense	6	0.4
Disposals		-
Impairment		(0.4)
Vesting		-
Balance at 30 June 2013		-
Net book value		
As at 30 June 2012		-
As at 30 June 2013		**-**

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

Impairment losses of $0.1m were recorded at 31 December 2012 before the vesting. (2012: $11.5m) These are included in the impairment loss in the Statement of Financial Performance. For more details see note 14.

No software is pledged as security for liabilities at the balance date (2012: $nil) and there are no restrictions on title.

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

16. TRADE AND OTHER LIABILITIES

	Note	2013	2012
		$m	$m
Trade payables		-	15.3
Goods and services tax (GST) payable		-	(1.1)
Employee entitlements	a	-	7.6
Unearned revenue		-	4.0
Accrued interest		-	5.1
Amounts payable to related parties		-	56.3
Joint venture payable	19	-	5.5
Other payables and accruals		-	32.1
Total trade and other liabilities		**-**	**124.8**
Current liabilities		-	123.3
Non-current liabilities		-	1.5
		-	**124.8**

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

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

Exposure to credit and currency risks and impairment losses are disclosed in Note 23.

a. EMPLOYEE ENTITLEMENTS

	2013	2012
	$m	$m
Current portion		
Accrued salaries and wages	-	0.7
Annual leave entitlement accruals	-	5.2
Sick leave entitlement accruals	-	-
Retirement and long service leave liability	-	0.2
Total current portion	-	6.1
Non-Current portion		
Retirement and long service leave	-	1.5
Total non-current portion	-	1.5
Total employee entitlements	**-**	**7.6**

Information for current year

There are no employees in NZRC at 30 June 2013. All employment contracts were vested to KiwiRail Holdings Ltd at 31 December 2012.

Information for comparatives

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

The present value of the retirement and long service leave obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. The assumptions used by the actuaries in arriving at the retirement and long service leave liabilities were a salary increase rate of 3.0% per annum and term specific risk-free discount rate between 2.4% and 6.0% per annum. The discount rate is derived from the yields on government bonds as at 30 June 2012, which have terms to maturity that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns.

17. PROVISIONS

	2013	2012
	$m	$m
ACC partnership programme	-	0.4
Other provisions	-	0.6
Total provisions	**-**	**1.0**
Represented by:		
Current		1.0
Non-current	-	-
	-	**1.0**

Movements in each class of provision are as follows:

2013	Balance at 1 July 2012	Provisions made during the year	Provisions utilised during the year	Provisions vested to KiwiRail Holdings Ltd	Balance at 30 June 2013
	$m	$m	$m	$m	$m
ACC partnership programme	0.4	-	(0.3)	(0.1)	-
Other provisions	0.6	-	(0.6)	-	-
	1.0	-	(0.9)	(0.1)	-

Information for comparatives

ACC partnership programme

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

Liability valuation- The liability of the Corporation at 30 June 2012 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.

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

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

18. LEASE COMMITMENTS

(a) Finance lease commitments

Information for current year

There are no finance lease commitments in NZRC at 30 June 2013. All finance leases and related assets were vested to KiwiRail Holdings Ltd on 31 December 2012.

Information for comparatives

In May 2012 the Corporation entered into an agreement with Westpac Banking Corporation to lease 69 Hi-Rail Trucks and 15 Hi-Rail Light Inspection Vehicles. The approved limit of the agreement is $13.1m to be drawn down between May 2012 and December 2014. The Corporation had the following commitments under this lease agreement:

	2013	2012
Present value of minimum lease payments payable	$m	$m
Not later than one year	-	-
Later than one year but not later than five years	-	0.2
Later than five years	-	-
Total present value of minimum lease payments	**-**	**0.2**
Represented by:		
Current	-	-
Non-current	-	0.2
Total finance lease liability	**-**	**0.2**

(b) Operating lease commitments as lessee

Information for current year

NZRC does not have any operating lease commitments as lessee at 30 June 2013. All operating lease agreements were vested to KiwiRail Holdings Ltd on 31 December 2012.

Information for comparatives

The Corporation leased vessels and plant and equipment in the normal course of its business. Included in these lease commitments was the Corporation'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 expired on 30 June 2013. Motor vehicle leases generally had 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:

	2013	2012
	$m	$m
Total minimum lease payments due:		
Not later than one year	-	3.7
Later than one year but not later than five years	-	11.5
Later than five years	-	14.1
Minimum lease payments due	**-**	**29.3**

The total minimum future sublease payments expected to be received under non-cancellable subleases at balance date is $nil (2012: $nil).

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

(c) Operating lease commitments as lessor

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

NZRC does not have any other operating lease commitments as lessor at 30 June 2013. All other lease agreements were vested to KiwiRail Holdings Ltd on 31 December 2012.

Information for comparatives

The Corporation had certain non-cancellable property leases. The property lease portfolio was made up of a large number of leases with varying terms. The commitment at 30 June 2012 included a significant lease with FX Networks with 29 years remaining of the lease term and a total commitment of $62.2m. The only other significant lease was with Toll Networks (NZ) Limited and had a term of 5 years, with 2 years remaining at balance date. The future aggregate minimum lease payments to be collected under non-cancellable operating leases were as follows:

	2013	2012
	$m	$m
Total minimum lease payments receivable:		
Not later than one year	-	22.3
Later than one year but not later than five years	-	46.3
Later than five years	-	64.4
Minimum lease payments receivable	**-**	**133.0**

For the year ended 30 June 2013 $6.2m (2012: $12.4m) was recognised as revenue in the Statement of Financial Performance for these leases.

19. JOINT VENTURE WITH NORTHLAND REGIONAL COUNCIL

In January 2009 the Corporation entered into an agreement with Northland Regional Council to create a Joint Venture in order to advance the proposed Oakleigh to Marsden Point rail link. The Council entered into voluntary negotiations with landowners who owned land along the existing corridor and to 30 June 2012 had acquired eight properties with a total acquisition cost of $11.3m. The process of designating the rail corridor started in the 2009 financial year and to 30 June 2012 $1.3m had been spent to designate the land as rail corridor. This designation constitutes an asset and was included in investment property at 30 June 2012(see Note 12).

Both the land and designation assets are accounted for based on the economic substance of the joint venture agreement. The land and designation asset are deemed to be jointly controlled so each party to the agreement recognises a 50% share of each asset.

The Corporation's interest in the Joint Venture arrangement was vested to KiwiRail Holdings Ltd on 31 December 2012.

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

20. CAPITAL AND OTHER COMMITMENTS

In the previous financial year the Corporation had 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. All of the Corporation's commitments at 31 December 2012 were vested to KiwiRail Holdings Ltd. The Corporation has no commitments for capital purchases at 30 June 2013.

	2013	2012
	$m	$m
Capital expenditure commitments:		
Not later than one year	-	81.8
Later than one year but not later than five years	-	9.9
Later than five years	-	-
Total capital commitments	**-**	**91.7**

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

	2013	2012
	$m	$m
Net loss	(71.8)	(2,353.2)
Add / (deduct) items classified as investing or financing activities		
Loss on sale of assets	-	17.6
Fair value movement in derivatives	(3.9)	(3.8)
Capital grant receipts	(100.9)	(129.7)
	(176.6)	(2,469.1)
Add non-cash flow items		
Depreciation and amortisation expense	5.6	225.7
Movements in provisions	(1.0)	(2.2)
Effect of exchange rate changes on cash balances	-	(0.4)
Impairment of property, plant and equipment	185.7	2,252.8
Revaluation of property, plant and equipment	-	10.4
	13.7	17.2
Add / (deduct) movements in working capital		
Decrease in trade receivables	0.3	1.9
Increase in other receivables	(90.3)	(46.6)
(Increase)/decrease in inventories	-	-
Increase in trade payables	7.2	1.1
Increase/(decrease) in other payables	3.9	(4.5)
Net cash flows from operating activities	(65.2)	(30.9)

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

22. RELATED PARTY TRANSACTIONS

The beneficial shareholder of the Corporation is the Crown. Prior to the vesting on 31 December 2012 the Corporation controlled two subsidiaries, KiwiRail Investments Limited (KIL) and Ontrack Infrastructure Limited (OIL). The Corporation's shareholdings in each of these entities were vested to KiwiRail Holdings Limited.

	% holding 2013	% holding 2012	Incorporation	Balance date	Nature of activities
KiwiRail Investments Limited (KIL)	nil	100 %	New Zealand	30 June	Operates a nationwide rail and ferry transportation business
Ontrack Infrastructure Limited (OIL)	nil	100 %	New Zealand	30 June	Provides maintenance services for the national track infrastructure

The Corporation 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.

Significant transactions with government-related entities

Up to 31 December 2012 the Corporation has been provided with equity and capital grant funding from the Crown. Equity funding of $163m (2012: $250m) has been received together with capital grant funding of $93.4m. (2012: $111.1m)

Collectively but not individually significant transactions with government-related entities

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

Prior to 31 December 2012 the Corporation also purchased goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. These purchases included the purchase of electricity from Transpower $1.0m (2012: $8.0m) and from Meridian Energy $0.3m (2012: $0.7m), air travel from Air New Zealand $0.8m (2012: $1.2m) telecoms services from Kordia $0.4m (2012: $0.8m) and transport services from NZTA $0.1m (2012: $8.0m).

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

Transactions with key management personnel

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

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

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

	Statement of Financial Performance		Statement of Financial Position	
	Sales 2012	**Purchases 2012**	**Receivable 2012**	**Payable 2012**
	$000	$000	$000	$000
Paula Rebstock (Director)				
ACC	-	149	-	7
	-	**149**	**-**	**7**
Kevin Thompson (Director)				
Opus International Consultants Limited	-	3,107	-	-
	-	**3,107**	**-**	**-**
TOTALS 2012	**-**	**3,256**	**-**	**7**

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

Prior to 31 December 2012, NZRC operated an intercompany account with its subsidiary, Ontrack Infrastructure Limited in the ordinary course of business. As at 31 December 2012 the net balance payable by NZRC of $32.4m was vested to KiwiRail Holdings Ltd. (2012: $50.9m). No debt has been forgiven. For the 6 months to 31 December 2012 Ontrack Infrastructure Limited received $86.7m in payments from the NZRC for services provided (2012: $229.5m).

Prior to 31 December 2012 NZRC provided loans to its subsidiary KiwiRail Limited. As at 31 December 2012 the outstanding balance of the loans of $212.2m was vested to KiwiRail Holdings Ltd. (2012: $256.3m). Interest on the loans is charged at the cost of funds to the parent plus a margin of 0.25%. Interest on the loans for the 6 months to 31 December 2012 amounted to $6.1m (2012: $12.4m).

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

	2013	2012
	$000	$000
Key Management Personnel Compensation		
Short term employee benefits	1,243	3,813
Termination benefits	-	207
Post-employment benefits	-	-
Total Key Management Personnel Compensation	1,243	4,020

Employees' remuneration
Following the restructure of the KiwiRail business at 31 December 2012 the Corporation does not have any employees. The employment contracts of employees previously employed by the Corporation were vested to KiwiRail Holdings Ltd on that date. For the purpose of disclosing the number of employees with total remuneration and benefits in excess of $100,000 we have considered the total remuneration paid by the KiwiRail business in the financial year (i.e. by both the Corporation and KiwiRail Holdings Ltd) and made the disclosure in the financial statements of KiwiRail Holdings Limited. The following table therefore shows information for the comparative period only.

Total remuneration and benefits in $000	2012
100 – 110	43
110 – 120	20
120 – 130	9
130 – 140	14
140 – 150	5
150 – 160	8
160 – 170	4
170 – 180	3
190 – 200	2
200 – 210	2
210 – 220	2
220 – 230	2
240 – 250	2
250 – 260	1
260 – 270	1
270 – 280	1
290 – 300	1
320 – 330	1
400 – 410	2
430 – 440	1
440 – 450	2
810 – 820 *	1
	127

* The remuneration of the Chief Executive Officer is included in this band. On 31 December 2012 all the employment contracts for all employees of the Corporation were vested with KiwiRail Holdings Ltd.

The Directors earned the following fees during the year:

	2013	2012
	$000	$000
John Spencer	43	80
Paula Rebstock (appointment ceased on 31 December 2012)	25	50
Robert Field (appointment ceased on 31 December 2012)	20	40
John Leuchars (appointment ceased on 31 December 2012)	20	40
Rebecca Thomas (appointment ceased on 31 December 2012)	20	40
Kevin Thompson (appointment ceased on 31 December 2012)	20	40
Mark Tume (retired on 1 November 2012)	13	40
Guy Royal (commenced 1 November 2012 and ceased on 31 December 2012)	7	-
Rose Anne MacLeod (commenced 1 January 2013)	3	-
Sharon Shea (commenced 1 January 2013)	3	-
Total Directors' fees	174	330

23. FINANCIAL INSTRUMENTS

Information for current year

The Corporation does not have any Financial Instruments at 30 June 2013. They were vested to KiwiRail Holdings Ltd at 31 December 2012.

Information for comparatives

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 Corporation may be exposed. Prior to 31 December 2012 the Corporation was exposed to foreign exchange risk from normal operating activities and the purchase of capital equipment.

The Corporation'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 Corporation's exposure to foreign exchange risk on financial instruments outstanding at 30 June 2012 is summarised as follows:

	As at 30 June 2012			
In NZ $m	USD	AUD	EUR	Other
Foreign currency risk				
Non-derivative financial instruments				
Cash and cash equivalents	-	-	0.1	-
Trade and other receivables (excluding prepayments)	-	-	-	-
Trade and other liabilities	-	(0.1)	-	-
Net balance sheet exposure before hedging activities	-	(0.1)	0.1	-

Foreign currency derivatives				
Notional principal (NZD)				
Cash flow hedges	51.1	4.1	-	-
Non-hedge accounted	13.7	2.3	4.8	7.2
Balance*	(55.7)	(0.5)	(0.5)	(0.5)
Cash flows in respect of foreign currency cash flow hedges are expected to occur:				
Not later than 1 year	51.1	4.1	-	-
Later than 1 year not later than 2 years	-	-	-	-
	51.1	4.1	-	-

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

From 31 December 2012 the Corporation no longer undertakes transactions in foreign currencies and is no longer exposed to foreign exchange risk.

Foreign currency sensitivity on financial instruments

The following table demonstrates the sensitivity of the Corporation'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.

	June 2013		**June 2012**	
In NZ $m	Equity	Profit	Equity	Profit
Foreign currency sensitivity				
Impact of a 10% strengthening of the NZD	-	-	(7.6)	(2.5)
Impact of a 10% weakening of the NZD	-	-	9.2	3.1

ii. Interest Rate Risk

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

The Corporation borrows a mixture of fixed and floating rate debt in New Zealand Dollars. The Corporation 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 Corporation's benchmark is to ensure 50 percent of the Corporation's funding profile is fixed.

The Corporation treasury policy benchmark requires it to have 50% of its borrowings at fixed rates and 50% at variable rates. The Corporation 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 Corporation 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 Corporation'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:

	June 2013	**June 2012**
In NZ $m	Profit	Profit
Impact of a 100 bp interest rate increase	-	4.8
Impact of a 100 bp interest rate decrease	-	(5.3)

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

b. Credit Risk

Credit risk is the potential loss from a transaction in the event of default by a counterparty during the term of the transaction or on settlement of the transaction. Financial instruments which potentially subject the Company to credit risk consists primarily of cash 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 Corporation may be subjected to losses up to the contract value of the instruments in the event of default by its counterparties, it does not expect such losses to occur. On-going credit evaluation is performed on the financial condition of accounts receivable and customers' compliance with credit terms. The Corporation's policy does not require collateral support for financial instruments subject to credit risk, although personal guarantees may be obtained in support of the financial performance of certain customers.

The Corporation does not have any significant credit risk exposure to a single counterparty or any company of counterparties having similar characteristics due to the large number of customers included in the Corporation's customer base. The credit risk on cash at bank, short term investments and foreign exchange dealings is limited as the Corporation 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 Corporation's maximum credit exposure for each class of financial instrument is as follows:

	2013	2012
	$m	$m
Cash at bank and term deposits	-	9.5
Trade and other receivables	-	207.7
Derivative instrument assets	-	0.4
Intra Group advances	-	256.3
Total credit risk	-	473.9

c. Liquidity Risk

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

Prior to 31 December 2012 the Corporation accessed funds via Crown appropriations for specified capital projects.

Exposure to liquidity risk

The table below analyses the Corporation's financial liabilities at 30 June 2012 into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate on the instrument at the balance date. The amounts disclosed are the contractual undiscounted cash flows. The Corporation does not have any financial liabilities at 30 June 2013.

FINANCIAL LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

2012

	Carrying amount	Contractual cash flows	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
	$m	$m	$m	$m	$m	$m
Financial Liabilities						
Trade and other payables	113.2	113.2	113.2	-	-	-
Net settled derivative liabilities	22.2	22.2	3.1	2.9	6.3	9.9
Borrowings	534.3	577.0	448.0	10.7	60.2	58.0
Total	669.7	712.4	564.3	13.6	66.5	67.9

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

	Carrying amount $m	Contractual cash flows $m	Less than 1 year $m	1 – 2 years $m	2 – 5 years $m	More than 5 years $m
Derivative Financial Instruments						
Forward exchange contracts						
- outflow	(90.0)	(90.0)	(88.7)	(1.3)	-	-
- inflow	85.5	85.5	84.2	1.3	-	-
Total	(4.5)	(4.5)	(4.5)	(0.0)	-	-

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

d. Capital Risk Management

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

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

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

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

e. Financial Instrument Fair Values and Classification

The classification of each category of financial instruments, and their carrying amounts as at 30 June 2012, are set out below. The Corporation had no financial instruments at 30 June 2013.

2012

In NZ $m	Loans and Receivables	Other Amortised Cost	Non- Hedge Accounted	Hedge Accounted	Carrying Amount	Fair Value
Financial assets						
Cash and cash equivalents	9.5	-	-	-	9.5	9.5
Trade and other receivables (excluding prepayments)	207.7	-	-	-	207.7	207.7
Derivative financial assets – current	-	-	0.4	-	0.4	0.4
Derivative financial assets – non-current	-	-	-	-	-	-
Total financial assets	217.2	-	0.4	-	217.6	217.6
Financial liabilities						
Trade and other liabilities	-	(124.8)	-	-	(124.8)	(124.8)
Interest-bearing liabilities	-	(534.5)	-	-	(534.5)	(549.6)
Derivative financial liabilities – current	-	-	(3.1)	-	(3.1)	(3.1)
Derivative financial liabilities – non-current	-	-	(19.1)	-	(19.1)	(19.1)
Total financial liabilities	-	(659.3)	(22.2)	-	(681.5)	(696.6)

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 23e 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

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

24. VESTING

The following assets and liabilities of the former NZRC Group were vested to KiwiRail Holdings Ltd on 31 December 2012.

	Group Before Restructure	New Zealand Railways Corporation	KiwiRail Holdings Limited Group
	$m	$m	$m
Current assets			
Cash and cash equivalents	119.4	-	119.4
Trade and other receivables	122.6	-	122.6
Inventories	61.0	-	61.0
Financial assets	1.9	-	1.9
	304.9	**-**	**304.9**
Non-current assets			
Property, plant and equipment	4,043.9	3,274.1	769.8
Investment property	5.0	-	5.0
Intangible assets	0.5	-	0.5
Financial assets	-	-	-
Trade and other receivables	-	-	-
	4,049.4	**3,274.1**	**775.3**
TOTAL ASSETS	**4,354.3**	**3,274.1**	**1,080.2**
Current liabilities			
Trade and other liabilities	188.3	-	188.3
Financial liabilities	15.6	-	15.6
Income taxes payable	-	-	-
Provisions	18.8	-	18.8
	222.7	-	**222.7**
Non-current liabilities			
Trade and other liabilities	39.4	-	39.4
Financial liabilities	219.1	-	219.1
Provisions	4.5	-	4.5
Deferred taxation	-	-	-
	263.0	-	**263.0**
TOTAL LIABILITIES	**485.7**	**-**	**485.7**
NET ASSETS	**3,868.6**	**3,274.1**	**594.5**
Equity			
Equity capital	1,532.4	1,532.4	-
Retained earnings	(853.3)	(1,394.3)	541.0
Asset revaluation reserve	3,192.3	3,136.0	56.3
Cash flow hedge reserve	(2.8)	-	(2.8)
TOTAL EQUITY	**3,868.6**	**3,274.1**	**594.5**

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

The total net assets vested from NZRC to the KiwiRail Holdings Group were held in the following legal entities:

	Net Assets
	$m
New Zealand Railways Corporation	595.3
KiwiRail Investments Limited	93.5
KiwiRail Limited	133.2
Clifford Bay Limited	1.6
Ontrack Infrastructure Limited	-
Tranz Rail Limited	-
Elimination of Intra-Group Investments	(229.1)
Total net assets vested from NZRC Group	594.5

25. CONTINGENT LIABILITIES

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

(b) Option to purchase Wellington Railway Station
Included in the Waitangi Treaty Settlement signed by the Crown dated 19 August 2008, Taranaki Whanui Ki Te Upoko O Te Ika and The Port Nicholson Block Settlement Trust, has an option to purchase the Wellington Railway Station and surrounding land. This option was exercised on 1st September 2011 and valuers have been appointed and the parties are currently working through the joint statutory valuation procedure to assess the price and terms of the sale and purchase of the Station.

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

Independent Auditor's Report

To the readers of the New Zealand Railways Corporation's financial statements for the year ended 30 June 2013

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

We have audited the financial statements of the Corporation on pages 11 to 49, that comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion

In our opinion the financial statements of the Corporation on pages 11 to 49:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect the Corporation's:
    - financial position as at 30 June 2013; and
    - financial performance and cash flows for the year ended on that date.

Our audit was completed on 30 August 2013. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

An audit also involves evaluating:

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

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

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

Responsibilities of the Board of Directors

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

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

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

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

Responsibilities of the Auditor

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

Independence

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

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

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