

STATEMENT OF CORPORATE INTENT 2010-13



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This statement has been submitted by the Board of KiwiRail in accordance with Section 14 of the State-Owned Enterprises Act, 1986. It sets out the Board's intentions and objectives to June 2013.

1 INTRODUCTION

KiwiRail, a State Owned Enterprise, was formed over the last two years through the Crown purchase of the rail and ferry operations from Toll NZ Ltd and the mechanical services rolling stock operations purchased from United Group. These two purchases were combined with the Crown owned rail network of ONTRACK, previously purchased in 2004, to form KiwiRail. The result is a vertically integrated, state owned, rail and ferry business similar to that in place in the early 1990s.

The formation of KiwiRail in itself did not result in a stand-alone, financially viable operation. It is well documented that due to a number of factors, including low levels of investment in capital and declining utilisation, KiwiRail would not be a financially viable entity unless a dramatic change in performance was realised.

The Crown, as the shareholder, delivered a clear message to KiwiRail. Future investment support in KiwiRail would only be forthcoming on the basis of strong commercial principles.

It was from this background that the Turnaround Plan for KiwiRail was developed. The Turnaround Plan is a ten-year strategic plan that outlines what KiwiRail must do to deliver a sustainable business. While seeking shareholder contribution to kick start the investment in the business, the plan outlines a path to make KiwiRail financially self-sufficient in the next ten years with EBITDA covering an appropriate long-term infrastructure investment programme.

The Turnaround Plan has been subject to independent due diligence by the Crown and while noting the plan is not without significant risk, the Government has supported the Turnaround Plan objectives with a \$750 million investment in principle over the next three years. KiwiRail will be under a Crown monitoring regime as the \$750 million is invested.

To that end, success for KiwiRail will be realised through meeting and exceeding our customers' expectations of time reliable services and this will be based on a prioritised investment plan in our network, rolling stock, plant, equipment, facilities and systems. From this we expect to grow volumes, drive yields and realise productivity improvements.



THE KIWI RAIL BUSINESS

KiwiRail operates as a single entity with multiple business units. Key elements of the business are:

- **KiwiRail Freight** – provides rail freight services and locomotives for passenger services. This includes:
 - The movement of bulk freight such as export coal, milk, steel, meat, horticultural products and forestry
 - The movement of containerised freight for import and export and domestic full container load customers
 - Auckland Metro Maintenance, which provides locomotive engineers and provides and maintains rolling stock (through KiwiRail Mechanical Services) for Veolia Auckland Transport Ltd
- **Interislander** – operates the ferry passenger and freight services. This includes:
 - Three “roll-on, roll-off” ferries (two of which have rail capacity) carrying rail freight, commercial vehicles, passenger vehicles and foot passengers
- **KiwiRail Passenger** – provides urban passenger services in Wellington and long distance passenger rail services. This includes:
 - Tranz Scenic, which operates the TranzAlpine, TranzCoastal, Overlander and Capital Connection long distance passenger services as well as special charter services
 - Tranz Metro, which provides urban passenger services under contract to the Greater Wellington Regional Council
- **KiwiRail Mechanical** which includes:
 - The Hillside and Hutt Workshops, for rail and heavy engineering based manufacturing and maintenance
 - Maintenance and service repairs to all rolling stock (locomotives, wagons, EMUs, DMUs and carriages) for Freight, Tranz Scenic, and the Wellington and Auckland metros
 - Mechanical Design, the rail engineering design house
- **KiwiRail Network**
 - maintains the rail network and controls the operation of trains on the network.
- **KiwiRail Corporate**
 - provides support services to all business units
 - manages KiwiRail’s extensive property portfolio including both operational and commercial property holdings.

NATURE AND SCOPE OF THE BUSINESS

The business activities of KiwiRail over the next three years will be:

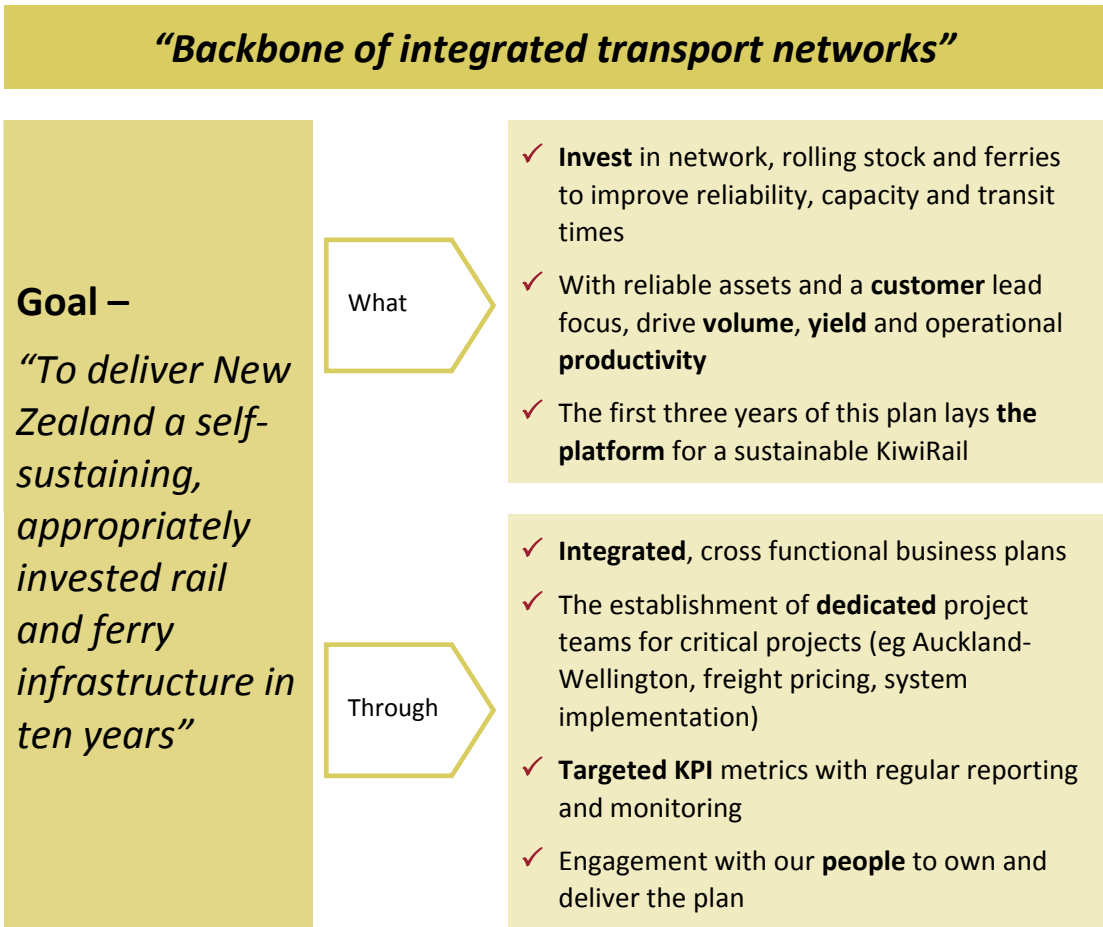
- To own and operate a national rail network
- To provide for the transport of bulk and consolidated freight
- To provide inter-island ferry services (forming the 'bridge' between the North and South Islands) for rail, commercial freight and passenger services and their vehicles
- To provide rail passenger services in metro areas and long distance services for both domestic and tourist markets
- To develop, where appropriate, rail and ferry services and rail and ferry intellectual property in expanded markets
- To undertake or participate in business activities which add value for customers and leverage the capabilities of KiwiRail.

Within all these areas, KiwiRail undertakes activities that permit profitable utilisation of its existing assets, including intellectual property and the expertise of its people. These activities will be developed as part of the operation of KiwiRail, through subsidiary and associated companies and through alliances with business partners.

CORPORATE RESPONSIBILITY COMMITMENT

KiwiRail's commitment to corporate responsibility has been defined across five impact areas:

- To deliver to our **customers** what we have promised; we will listen to them and involve them in our solutions and innovations
- To be a good employer, treating our **people** fairly and with respect, and valuing their diversity. We are committed to creating a workplace that makes people want to join, stay and work to their full potential. Our commitment to the safety and well-being of our people is a priority
- To work with our **suppliers** to develop long term partnerships based on best practice procurement methods which reflect mutually agreeable codes of conduct and respect basic **human rights**
- To recognise the environmental, social and economic needs of the **communities** we work in and endeavour to be a good neighbour. We will involve relevant communities in initiatives we implement
- To help to protect the **environment** by better understanding, managing and measuring our environmental impacts and minimising the carbon footprint of the assets in our care. We will do this by reducing greenhouse gas emissions through the commissioning of new more fuel efficient locomotives and the completion of some of the big Metro Projects including Auckland metro electrification.



Rail moves approximately 30 percent of New Zealand’s exports. It has natural advantages in moving bulk goods, linking export industries to major ports and moving people through congested cities.

An increase in freight volumes of 75 percent over the next 25 years underlines the importance of rail being able to meet its share of this growth.

Many years of under-investment have reduced rail’s relevance to its customers. The 10-year Turnaround Plan aims to restore that relevance.

At its most basic, the Turnaround Plan involves focusing on increasing the movement of freight – on rail and ferry – along KiwiRail’s key freight routes, improving yield from customers and improving productivity from staff.

It is based on the value of maintaining a connected network although conceding that the future of minor lines that carry limited traffic needs to be reviewed.

The plan recognises the importance of improving the “spine” that is the rail link for all sectors through and between the North and South Islands and creating greater capacity on inter-island ferries for rail and general freight demand.

OUTLOOK AND STRATEGY

The role of rail in the New Zealand economy is very different from 150 years ago when trains first started running and has changed significantly in the last 50 years. That means the way we plan our business must adapt to changing times and changing circumstances. At its most basic, it involves focusing on the movement of freight – on rail and ferry – along KiwiRail’s corridors of significance. The rail industry differs from road in the length of its investment timeframes. Locomotives and wagons have working lives of 30 years or more. Bridges and tunnels can last 100 years. This tells us that although the business planning period is three years, our own planning and investment horizons must be much more distant.

The KiwiRail strategic direction was established in the Turnaround Plan. At its core, future success for KiwiRail will be determined by the success of the Freight business unit in meeting the expectations of our current and future customers. Critical to this is improvement in the domestic sector through its key corridor (Auckland to Wellington). Success here will also maintain the viability of the main trunk and therefore a national rail network. To have success in this corridor, meeting our customers’ needs with a time reliable service will be paramount to strengthening our position as a line hauler, enabling them to commit to KiwiRail for the long term.

KiwiRail also provides network access for metro passenger services in Wellington and Auckland. We are committed to working with local authorities accountable for developing integrated passenger transport solutions by giving visibility to the expected future costs to maintain the network at an appropriate level for the services we are asked to support.

Tourism is seen as critical to the KiwiRail business with both the Interislander and the Tranz Scenic business providing world class travel experiences. As one of New Zealand’s biggest tourism operators an increased emphasis on improving the experience element of our travel products will be a key part of our Turnaround Plan.

KiwiRail has identified a number of minor lines where sustainability of freight services will be reviewed. We will consult with the communities and customers around the minor lines as we look to establish whether commercial opportunities can be identified to maintain services in these areas.

The investment in KiwiRail, announced by the Government in May 2010, marks the beginning of the Turnaround Plan that will create a business capable of standing on its own financially.

The planned revenue and volume growth in this three year plan is significant; the future sustainability of that growth is based on seed investment by the Shareholder.

The first three years lays the platform for the long term sustainability of KiwiRail and this investment will be driven by our customers’ needs for KiwiRail to continue to be the backbone to their integrated transport needs.

The investment, subject to business cases, calls for funding into assets rather than an operating subsidy.

The strategy reflects the need to create a viable and efficient rail industry capable of meeting its share of freight traffic which is projected to grow by at least 75 percent by 2031.

Success for KiwiRail will be delivered through increased rail volumes and revenue, increased productivity, modernised assets and through a commercially principled business (which will include full cost recovery for services we provide to other organisations such as the metro passenger owners).

To succeed, KiwiRail must take into account:

- The views of our customers who say they need an efficient and reliable rail network to serve their businesses and meet future freight growth
- The need to develop partnerships and alliances with our customers, stakeholders and suppliers
- The need to restore rail's relevance – eroded through lack of maintenance investment that has resulted in poor transit times and unreliable services
- That we will need the support and engagement of our staff.

Key elements of our future business approach:

ONE: WE NEED TO MAINTAIN A CONNECTED NETWORK

The KiwiRail network extends over 4,000 km – a mixture of main lines, secondary lines and minor lines. Growing the business depends on us maintaining a connected network. A connected network doesn't necessarily mean the network as it is today. Minor lines that carry little or no traffic will only survive if they have proven future potential and/or an imminent anchor customer.

Our core network capital expenditure is part of the Turnaround Plan programme outlined in Table 7.1(c) and specifically for network expenditure in Table 7.2(c) with the physical outputs for that expenditure in Table 7.1(h).

For the minor lines we will:

- Review business on North Auckland, Stratford-Okahukura, Napier-Gisborne and North Wairarapa lines
- Consult with communities, customers and staff
- Close or mothball by 2012 if viable alternatives do not emerge

TWO: GROWTH IN VOLUME AND REVENUE QUALITY IS ESSENTIAL

Freight is critical to the financial success of KiwiRail. It currently generates more than 75 percent of KiwiRail's revenue from carrying bulk commodities, import-export goods and domestic freight. The predicted near doubling of the freight task over the next thirty years and the opportunity to increase rail's market share on some routes underpins its importance to the business.

We have targeted year on year KiwiRail Freight revenue growth of \$45.1 million (2011), \$60.6 million (2012) and \$35.1 million (2013) through a mix of volume and yield initiatives and based on improved infrastructure assets. These revenue targets are reported in table 7.1 (a) with Freight Group specific targets in 7.2(a).

THREE: INVESTMENT IN INFRASTRUCTURE IS CRITICAL TO IMPROVING TRANSIT TIMES AND RELIABILITY

Under-investment in infrastructure and rolling stock over many years has reduced reliability and with it, rail's ability to compete. Targeted investment in key routes – particularly Auckland-Christchurch – will restore reliability and give the freight business the opportunity to win back domestic market share.

We will invest \$228.5 million in 2011, \$243.8 million in 2012 and \$243.5 million in renewals and upgrades to improve reliability and speed on the core network as reported as part of the KiwiRail Network Capex in Table 7.2(c).



FOUR: GREATER FERRY CAPACITY IS NEEDED FOR THE AUCKLAND-CHRISTCHURCH ROUTE TO BE COMPETITIVE

Greater rail deck capacity will be needed from Interislander to support freight business growth.

The Aratere will be extended through 2011 to provide increased rail deck capacity, commercial vehicle and passenger space. The capital expenditure for this exercise is included in the Interislander section in Table 7.2(c) – this expenditure covers the vessel modifications as well as terminal improvements.

FIVE: THE AUCKLAND-CHRISTCHURCH ROUTE IS THE KEY ROUTE ON THE NETWORK

Increasing the amount of domestic freight carried on the Auckland-Christchurch route is critical to the growth of the freight business. Other routes are busy and important. But in many cases, rail has already claimed significant modal share, or growth depends on some other factor – like natural growth in the economy. Rail carries 18 percent of domestic traffic between Auckland and Christchurch. In 1995 it carried approximately 60 percent. We intend to focus on removing Auckland and Wellington metro bottlenecks and making the North Island Main Trunk more robust.

Over the next two years we expect to improve by two hours the transit times of premium rail services between Auckland and Wellington. The investment for these improvements are part of the Network and Interislander investment totals in table 7.2(c) and the annual premium train transit improvements targets are covered in table 7.1(i).

SIX: LONG DISTANCE PASSENGER BUSINESS GROWTH WILL COME FROM CREATING RAIL EXPERIENCES

Few tourists or New Zealanders use long distance trains as a means of travel from place to place. However, they value trains as a travel experience. Future growth in long distance passenger travel depends on improving the quality of the experience.

Through 2011 and 2012, 17 new rail carriages will be manufactured and commissioned for service on the TranzAlpine and TranzCoastal services adding even greater comfort to a world class rail experience. Table 7.2(c) highlights the capital expenditure for the delivery of the 17 new carriages.

SEVEN: WAGON AND LOCOMOTIVE FLEETS NEED TO BE UPGRADED

Currently the youngest diesel locomotives in the fleet are 30 years old and the average age of wagons is between 25 and 30 years. Adding new locomotives and wagons to the fleet is critical to improving transit times and reliability and realising productivity gains.

We will purchase approximately 1,000 new wagons (around 20-25 percent of the fleet) and 28 new locomotives (approximately 17 percent of the fleet) over the next three years to retire out of life rolling stock and to meet our demand requirements.

The specific numbers of wagons and locomotives to be purchased are reported in Table 7.1(g) with the investment values reported in Table 7.2(c).

EIGHT: THE METRO BUSINESS DEPENDS ON TRUE COSTS BEING RECOVERED

This area of the business will be accounted for separately so that the total costs are fully understood by the stakeholders and there is wider appreciation of the impact of decisions made. We will continue to work with the Ministry of Transport and the Auckland and Wellington transport authorities and provide to them open information on the state of the metro network assets and what costs are projected to get them to, and keep them at, an acceptable operating level.

NINE: IMPROVEMENT IN PRODUCTIVITY

Productivity can always be improved and we must always challenge ourselves to make the necessary changes. We will:

- Complete benchmarking exercises to measure our efficiency
- Drive our procurement programmes to capture the opportunities our size and needs affords
- Complete a productivity review with independent support on the Network business unit covering both operational and capital productivity
- Capture operating benefits from the capital investment programme through, for example, more fuel efficient locomotives, a more homogenous rolling stock fleet and associated benefits with more efficient inventory levels.

Initial productivity targets are reported in table 7.1(m), (n) and (o). These targets will be further developed and refined from the exercises outlined above and included in future SCIs.

TEN: BETTER USE OF COMMERCIAL PROPERTY HOLDINGS

KiwiRail owns and operates significant property assets. These include buildings and vacant land next to the rail corridor. Some sites, particularly in the major cities, lend themselves to commercial developments. Others complement our freight business and have business potential for development by freight customers.

We see a vital link between freight customers who have facilities located on our corridor and their long term commitment to rail. We expect to make commercial returns on these investments. Table 7.2(c) includes investment capital for these commercial opportunities as well as funding for major systems work as outlined below.

ELEVEN: EFFECTIVE CORPORATE SUPPORT

KiwiRail has been created through the integration of a number of different businesses (ex Toll, United Group and ONTRACK). Our corporate functions such as Information Systems, Human Resources, Finance and Legal will continue to develop and provide the right levels of support to the wider business.

For example, our Human Resources function will help drive people engagement and provide training support, as well as best practice health and safety advice.

The Information Systems team has centralised resources to be more effective and efficient as we invest in new technology tools such as an asset management system, a freight management and billing system, as well as a consistent, group wide finance platform.

The Finance team will look to centralise some technical and transactional activity while leaving dedicated finance teams within the business units to support their management teams as they look to drive performance and productivity.

Funding Commitments

The Government has committed \$250 million in the 2011 financial year to support KiwiRail's Turnaround Plan. A further \$500 million has been allocated in principle over the following two financial years, subject to the submission and approval of business cases.

The Turnaround Plan investment funding will be available to KiwiRail based on business case approval by the Crown. The business cases will consider a corridor view of the business to align the long term revenue opportunities and investment requirements. These business cases will also be subject to independent expert review and sign-off by the Board.



Following the approval of the business cases, the KiwiRail Board will implement a monitoring programme to ensure the investments are progressing to plan. The Board will be continually refining those plans to drive the most optimal outcomes.

BUSINESS OBJECTIVES & PERFORMANCE TARGETS

Delivery of this business plan will meet the key objectives of the 10 year strategic Turnaround Plan (TAP). That is, investment in key infrastructure to upgrade assets and reliability to ensure we can meet the expectations of our customers. From this, a significant lift in KiwiRail financial performance is planned to give confidence that the long term growth projections are achievable.

Important funding assumptions: The Government announcement in May 2010 specifically provided a \$250 million appropriation for 2011 (subject to business cases) with a further \$500 million supported in principle for 2012 and 2013. We have completed this business plan assuming the \$500m will be appropriated in the two out years.

TABLE 7.1

	2010 Actual	2011 Budget	2012 Plan	2013 Plan
Financial Metrics (\$m)				
(a) Total External Revenue	646.9	685.2	761.1	806.6
(b) EBITDA	74.4	120.8	155.7	186.9
(c) TAP Capital Expenditure	246.7	530.9	465.9	460.4
(d) Metro Project Capital Expenditure	314.7	405.4	409.7	297.1
Key Sales Metrics				
(e) Freight NTK (m)	3,919	4,215	4,570	4,834
(f) Freight Average Yield (C/NTK)	7.96	8.09	8.30	8.49
Key Investment Outcomes				
(g) Rolling Stock Replacement				
- Wagons (new)	55	317	318	318
- Locomotives (new)		20		18
(h) Network Renewals				
- New Sleepers Laid (000)	53	120	200	250
- Lines Distressed (km)	218	250	250	250
- Timber Spans Replaced	215	200	200	200
- Culverts Replaced	100	100	100	100
- Level Crossing Upgrades	7	8	8	8
(i) Auckland-Wellington Transit Improvements				
- Premium Train Reduction (minutes)		60	60	
Customer Service Performance				
(j) Freight – Premium Train (<30min)	79%	90%	90%	90%
(k) Metro (<3min)	82%	90%	95%	95%
(l) Interislander (<15min)	89%	93%	94%	95%
Productivity Measures				
(m) Total Labour Costs as % of Revenue	39%	39%	37%	36%
(n) Freight OPEX to Revenue Ratio	0.72	0.71	0.67	0.66
(o) Interislander OPEX to Revenue Ratio	0.87	0.86	0.85	0.84
Health and Safety				
(p) LTIFR (per million man hours)	6.3	3.0	2.6	2.2
(q) MTIFR (per million man hours)	45	30	26	22
Staff Engagement				
(r) Engagement Index	67	75	79	83

As a diverse business, KiwiRail has many reportable financial and non-financial metrics, many of which are applicable to the particular business unit. The measures reported above capture the most important drivers of the Turnaround Plan.

Driving revenue, particularly in the Freight division, is critical to the success of this business plan. While KiwiRail is looking for revenue improvements across all operational business units, a step change is planned through volume and yield improvements on rail freight. For this reason we have also reported separately the NTK (net tonne kilometres) volume targets for Freight.

We have built our plan around meeting our customers' expectations. To manage this, we expect to significantly improve our service standards. On our key services not only are we driving time improvements but we are also looking to deliver a 90 percent time reliable service.

EBITDA growth is a critical element of the funding required in the investment programme we have planned. We are looking to drive EBITDA significantly over the next three years.

The capital plan has been separated between Turnaround Plan expenditure and purpose-funded Metro project expenditure. The Turnaround Plan capital will create the platform to provide reliable assets to meet our customer expectations. We have outlined a number of expected deliverables for that expenditure. One key metric critical to improving our domestic category performance is transit time on the Auckland to Wellington corridor. Over the next two years we are looking for at least two hours improvement.

The 2011 year sees significant milestones in the completion of the DART metro projects in Auckland with the reopening of the Onehunga Branch line for metro service in September 2010 and the completion of the Manukau metro link in 2011. Both these projects extend the reach of the Auckland metro network. The West Auckland line double tracking project was completed late in the 2010 financial year. Beyond this there are on-going improvements to the Auckland network including the electrification and the procurement of EMUs (Electrical Multiple Units) to be completed by 2013.

WRRP (Wellington Region Rail Programme) is also largely coming to a conclusion with the commissioning of the extension of electrification and double tracking to Waikanae in February 2011 along with the introduction of the new Matangi EMUs on the Wellington network.

On our Tranz Metro services, passenger confidence will only return when they have confidence in the reliability of that service. As WRRP is completed and the Matangi fleet is introduced, a 95 percent or better on time performance target is a key objective.

The Interislander over recent years has maintained a very high standard of time reliability. We have included this metric at a group level to keep this high standard visible.

KiwiRail takes health and safety performance extremely seriously. We operate a heavy engineering transport operation that presents many risks for accident and injury. We will continue to drive the safety message and improve our workplace safety record and have our staff return home as they came to work. KiwiRail has recently signed up to the Zero Harm programme.

Every year KiwiRail completes a staff engagement survey. Given the importance of an engaged workforce to deliver our plan, a strong engagement result is required. Given the uncertainty of recent years, we believe the Turnaround Plan provides an excellent nexus for our team to commit to delivering the success of the business.

KiwiRail has committed to providing greater segment visibility of our business. To that end, we have included key financial measures for our business units in the following table.

TABLE 7.2

BUSINESS UNIT SUMMARY (\$m)	2010 Actual	2011 Budget	2012 Plan	2013 Plan
(a) External Revenue				
Freight	367.2	412.3	472.9	508.0
Interislander	120.2	121.4	133.5	139.3
Passenger				
- Tranz Scenic	28.3	29.5	30.5	32.7
- Tranz Metro	63.0	65.0	65.8	66.5
Mechanical	27.9	6.0	6.0	6.8
Network ¹	15.8	19.8	20.1	20.5
Corporate ¹	24.5	31.2	32.3	32.8
	646.9	685.2	761.1	806.6
(b) EBITDA				
Freight ²	104.7	125.9	161.4	180.1
Interislander	19.8	21.2	25.8	29.5
Passenger				
- Tranz Scenic	5.1	4.7	5.1	6.8
- Tranz Metro	11.3	11.8	10.7	10.2
Mechanical	6.5	4.2	4.5	5.5
Network ^{1,2}	(82.6)	(70.3)	(63.9)	(57.5)
Corporate ¹	9.6	23.3	12.1	12.3
	74.4	120.8	155.7	186.9
(c) TAP Capital Expenditure				
Freight	63.4	166.8	82.9	150.4
Interislander	3.6	37.8	62.7	3.8
Passenger				
- Tranz Scenic	5.3	30.0	10.8	0.5
- Tranz Metro	3.9	3.3	1.9	1.7
Mechanical	0.4	8.4	8.3	8.3
Network ¹	157.5	250.7	273.9	276.4
Corporate ¹	12.6	33.9	25.4	19.3
	246.7	530.9	465.9	460.4

Note 1: Corporate includes Property, Information Technology, Human Resources, Finance, Legal, and Health and Safety. This differs from the 2010 Annual Report as Property revenue was reported within the KiwiRail Network business unit.

Note 2: Network and Freight EBITDA differs from that reported in the 2010 Annual Report in that Track Access costs have not been allocated to Freight (from Network) in the above statement.

As mentioned above, KiwiRail is preparing business cases for the Turnaround Plan funding based on a major corridor view of the business. As this exercise is still in progress and subject to official approval, we have not included this view in this SCI. It is likely we will include key corridor views of KiwiRail in future SCIs.

As a State Owned Enterprise, KiwiRail is also required to report a number of specific financial metrics, and these are included in the table which follows.

TABLE 7.3

	2010 Actual	2011 Budget	2012 Plan	2013 Plan
Ratio of Shareholder's Funds to Total Assets				
Shareholder's Funds to Total Assets	93.7%	93.3%	93.1%	93.1%
The Crown's Investment in KiwiRail (\$m)				
Total Shareholder's Funds (TSF)	12,419	12,967	13,469	13,872
Average Shareholder's Funds (ASF)	12,487	12,693	13,218	13,670
Financial Performance Measures for SOE Portfolio				
Crown Investment in KiwiRail	TBD once commercial valuation agreed			
- Total Shareholder's Return	TBD once commercial valuation agreed			
- Dividend Yield	Nil	Nil	Nil	Nil
- Dividend Payout	Nil	Nil	Nil	Nil
- Return on Equity	-1.9%	-1.5%	-1.6%	-1.3%
Return on Equity Adjusted for IFRS fair valuation movements and asset revaluations	-13.6%	-9.2%	-7.9%	-6.0%
Profitability/Efficiency Measures				
- Return on Capital Employed	-2.5%	-1.7%	-1.4%	-1.1%
- Operating Margin	11%	18%	20%	23%
Leverage/Solvency Measures				
- Gearing Ratio (net)	0.03	0.04	0.04	0.04
- Interest Cover	TBD once commercial valuation agreed			
- Solvency (current assets/current liabilities)	0.96	0.73	0.66	0.64

The KiwiRail balance sheet is not typical of a State Owned Enterprise. Given the high reliance on investment support and the long term horizon before earnings are positive, we produce some untypical results.

8 ACCOUNTING POLICIES

The Corporation's detailed accounting policies are in Appendix One: Statement of Accounting Policies.

DIVIDEND POLICY

The Turnaround Plan requires significant investment over a 10-year period. A significant amount of that investment is from the Shareholder. As such KiwiRail does not expect to make any dividend payments over the period of this SCI.

REPORTING TO SHAREHOLDING MINISTERS

KiwiRail will provide to Shareholding Ministers:

- An Annual Report and Half Yearly Report in accordance with sections 15 and 16 of the State-Owned Enterprises Act 1986. These will include a statement of financial performance, a statement of financial position, a statement of cash flows and such details as are necessary to permit an informed assessment of the Corporation's performance
- Continuous Disclosure reporting as required by the Crown Ownership Monitoring Unit (COMU)
- Regular reporting to COMU for performance monitoring during the Turnaround Plan investment period.
- Other information requested by Ministers in accordance with section 18 of the State-Owned Enterprises Act 1986.

PROCEDURES FOR SHARE ACQUISITIONS

Purchase of shares in any company or interests in any other organisation will be subject to prior agreement with Ministers in accordance with the New Zealand Railways Corporation Act 1981 and the State-Owned Enterprises Act 1986 which provides that KiwiRail may, from time to time, with the approval of the Minister of Finance, subscribe for or otherwise acquire stocks, debentures, or any interest in any company, body corporate or business.

COMPENSATION FROM THE CROWN

KiwiRail expects to receive compensation from the Crown as per section 7 of the State-Owned Enterprises Act 1986 for:

- Public policy work and projects undertaken by the corporation which have a public good element or purpose and would not be undertaken on purely commercial grounds.

VALUE OF THE CROWN'S INVESTMENT

A breakdown of the Crown's investment by major asset types and liabilities are as follows:

Breakdown of Depreciation Replacement Cost Valuation	2009	2010
(\$m)		
Land	6,018	5,649
Rail Network Infrastructure	5,834	6,016
Operating Railway Assets	462	458
Operating Ships	57	53
Other Assets (Buildings and Plant)	329	356
Work in Progress	374	492
Current Assets	261	225
Liabilities (Current and other Non Current)	(339)	(350)
Loans	(442)	(480)
Total Depreciated Replacement Costs Valuation	12,554	12,419

The Shareholder value reported above uses the Depreciated Replacement Cost (DRC) methodology to value the business' fixed assets. This methodology reports the expected investment required to rebuild the network to a similar standard based on the latest costs for materials, equipment and labour. These values are then reduced to reflect the estimated useful life for the assets, that is, they are depreciated to reflect the age of that particular asset. KiwiRail regularly has these values reassessed by independent valuers. This valuation was conducted on KiwiRail's rolling stock and other assets on acquisition by New Zealand Railways Corporation on 1 October 2008. KiwiRail Network's assets are also based on a DRC valuation for fixed assets as at 30 June 2010. Land values are based on over-the-fence market value and revaluation was completed in 2010.

While a modest valuation reduction is reported between 2009 and 2010, it is primarily a consequence of two factors. The land value has dropped by some 6 percent, reflecting the latest market views of land in New Zealand. This has been partially offset by the increase in rail infrastructure assets through the capitalisation of completed work through 2010.

As we complete the business case exercise, KiwiRail will undertake a review of our balance sheet structure to determine whether a more effective reporting structure can be developed. As part of this exercise, we will continue to evaluate alternative valuation methodologies, particularly Discounted Cashflow (DCF). Any outcomes from this exercise will be included in future SCIs.

APPENDIX 1: STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

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

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

BASIS OF PREPARATION

Statement of compliance

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

Measurement base

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

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

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

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. Unless otherwise specified, all dollar amounts in these financial statements and accompanying notes are stated in New Zealand dollars. The functional currency is New Zealand dollars.

NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES

The Group carries out the following activities:

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

CRITICAL JUDGMENTS

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

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

Employee entitlements

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

Inventory obsolescence

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

Impairment of Minor Lines

No impairment on the minor lines will be recognised until such time as the consultation with local communities is completed and alternative commercial uses for lines have been investigated.

SIGNIFICANT ACCOUNTING POLICIES

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

(a) Consolidated financial statements

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

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

(b) Revenue recognition

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

- (i) Freight revenue is recognised based on the date of freight acceptance.
- (ii) Passenger revenue is recognised at the date of travel.
- (iii) 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.
- (iv) Track access revenue is recognised on a straight line basis over the term of the relevant agreement.
- (v) Rental revenue from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging the operating lease are recognised on a straight-line basis over the lease term.
- (vi) Interest income is recognised as it accrues, using the effective interest method.
- (vii) Maintenance revenue is recognised at the date that the maintenance service is provided.
- (viii) Dividend income is recognised when the right to receive payment has been established.
- (ix) Other sources of income are recognised when earned and are reported in the financial periods to which they relate.
- (x) Government funding received as reimbursements of the costs of capital projects is recognised as income in the period in which the funding is receivable.
- (xi) Grants received in respect of services provided are recognised when the requirements of the relevant grant agreement are met.

(c) Property, plant and equipment

(i) Recognition and Measurement

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

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

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

(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, 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 Income Statement, in which case the increase is credited to the Income Statement 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 Income Statement to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that class of 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 income statement in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

(iv) Impairment

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

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

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

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

For assets not carried at a revalued amount, the total impairment loss is recognised in the income statement.

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 income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

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

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

Category	Useful life
Infrastructure	
- Tunnels and bridges	75 - 200 years
- Track and ballast	40 - 50 years
- Overhead traction	20 - 80 years
- Signals and communications	15 - 50 years
- Buildings	35 - 80 years

Category	Useful life
Rolling stock and ships	
- Wagons and carriages	5 - 30 years
- Locomotives	5 - 23 years
- Ships	20 years
- Containers	10 years
Other	
- Plant and equipment	5 - 35 years
- Motor vehicles	5 - 10 years
- Furniture and fittings	5 years
- Office equipment	3 - 5 years

(d) Valuation of intangible assets

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

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

(e) Borrowing Costs

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

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

(f) Inventories

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

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

(g) Leases

(i) Operating Leases

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

(ii) Finance Leases

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

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

(h) Income tax

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

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

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

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

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

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

(i) Goods and Services Tax (GST)

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

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

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

(j) Provisions

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

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

(k) ACC Partnership Programme

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

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

The Parent and its subsidiary ONTRACK Infrastructure Limited do not belong to the ACC partnership programme and insure directly through the payment of levies to the ACC.

(l) Employee entitlements

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

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

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

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

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

(m) Contributions to superannuation plans

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

(n) Financial assets

Investments are recognised and derecognised on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment 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.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and other receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(i) 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.

(ii) Impairment of financial assets

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of a doubtful debt provision. When a trade receivable is uncollectible, it is written off against the doubtful debt provision. Subsequent recoveries of amounts previously written off are credited to the Income Statement. Changes in the carrying amount of the doubtful debt provision are recognised in the Income Statement. With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Income Statement to the extent that the carrying amount of the investment at the date the impairment is reversed, does not exceed what the amortised cost would have been, had the impairment not been recognised.

(o) Financial liabilities

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

(i) Payables

Payables are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

Payables are initially measured at fair value and subsequently measured at amortised costs using the effective interest rate method.

(ii) 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.

(p) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments within predetermined policies and limits in order to reduce its exposure to fluctuations in commodity prices, interest rates and foreign exchange rates.

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

Derivative financial instruments are initially recorded at fair value on the date the derivative is entered into i.e. trade date, and are subsequently measured at fair value at each reporting date. Changes in fair value of the derivative instruments are charged against income.

The Group designates certain instruments hedging a firm commitment as cash flow hedges. At the inception of the hedge, the Group documents the relationship between the hedging instrument and the hedged item along with its risk management objectives for undertaking the hedge. It periodically evaluates the effectiveness of the hedge.

Where the hedge qualifies as effective, changes in the fair value of the instrument are deferred in the cash flow hedging reserve in equity as part of Other Comprehensive Income. The amounts deferred are recycled from the reserve to net surplus on the recognition of the hedged transaction, unless the forecast transaction that is hedged results in the recognition of a non financial asset or a non financial liability. Where a non financial asset or non financial liability is recognised, gains and losses previously recognised in the hedging reserve are reclassified from the reserve and included in the initial measurement of the cost of the asset or liability

Movements in the value of instruments that are not designated as cash flow hedges or do not qualify as effective are recognised in net surplus.

(q) Foreign currency transactions

Foreign currency transactions are translated to New Zealand currency at the exchange rates ruling at the dates of the transactions.

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 Income Statement.

APPENDIX 2: SUBSIDIARIES AND ASSOCIATED COMPANIES

The terms share and subsidiary have the same meanings as in section 2 of the State-Owned Enterprises Act 1986.

1. The Corporation shall ensure at all times that:
 - control of the affairs of every subsidiary of the Corporation is exercised by a majority of the Directors of that subsidiary; and
 - a majority of the Directors of every subsidiary of the Corporation are persons who are also Directors of the Corporation, Executives of the Corporation, Executives of a subsidiary of the Corporation, or who have been approved by the shareholding Ministers for appointment as Directors of the subsidiary.
2. Without consulting shareholding Ministers, neither the Corporation nor its subsidiaries shall sell or otherwise dispose of, whether by single transaction or any series of transactions, and whether by a sale of assets or shares, the whole or any part of the business, if:
 - that which is to be sold, or disposed of, is valued at more than 5 percent of the Shareholder's equity in the Corporation; or
 - the sale or disposal will materially reduce the nature and scope of the business as recorded in Section 3 of the Statement of Corporate Intent.

APPENDIX 3: CONSULTATION

KiwiRail will consult with its Shareholding Ministers on matters that would have a material effect on the scale, scope, financial return or risk of the activities of the Corporation or its subsidiaries, including:

- (a)** Any substantial capital (or equity) investment
- (b)** The sale or disposal of the whole or any substantial part of the corporation or its subsidiaries
- (c)** Any substantial expansion of activities outside the scope of its business as defined in Section 2 of the Statement of Corporate Intent
- (d)** Any other significant transactions.

DIRECTORY

Directors

Chairman

Deputy Chairman
Directors

John Spencer

Paula Rebstock, CNZM
Bob Field, ONZM
Mark Franklin
Bryan Jackson
Mark Tume
John Leuchars

Executive Team

Chief Executive

General Manager Human Resources
General Manager Interislander
Chief Information Officer
General Manager KiwiRail Freight
General Manager KiwiRail Passenger
General Manager KiwiRail Mechanical
General Manager Legal and Governance
General Manager KiwiRail Network
Chief Financial Officer

Jim Quinn

Nicola Brown
Thomas Davis
Graeme Docherty
Iain Hill
Dr Deborah Hume
Lloyd Major
Karen Paterson
Rick van Barneveld
David Walsh

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Auditors

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On behalf of the Auditor-General
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