F.18a

Half Year Report

AND UNAUDITED
FINANCIAL STATEMENTS
FOR THE SIX MONTHS
ENDED 31 DECEMBER 2017

At a glance

We connect people and communities

32 million

We help commuters make more than 32 million low-carbon journeys each year

One million

We carry more than one million tourist passengers each year

23 towns & cities

We connect communities around the country and across Cook Strait, stopping at 23 towns and cities across New Zealand

Highlights from HY18

Financial

- $15.3 million operating surplus up 39% on prior year
- $40 million underlying operating surplus excluding Kaikoura earthquake impact of $25 million
- Growth in forestry of 8%
- Growth in ports of 16% – a strong result as overall container movements for New Zealand grew by 7% reflecting the modal conversion to rail
- Bulk freight market showing positive signs with underlying growth of 5%
- On track to meet the full year operating surplus commitment of $30-50 million
- On track to deliver $7 million of productivity initiatives this year, building on the $45 million achieved in past two years
- EY Value of Rail in New Zealand report released in November showing that rail delivers $1.5 billion in economic benefits each year

People

- 14% reduction in Total Recordable Injury Frequency Rate. Total Recordable Injuries reduced by 7%
- The Diversity and Workforce Planning Committee commences with launch of graduate programme
- Toi Toi Maori Leadership Programme launched, developing the next generation of our leaders
- Quintiq rostering programme is rolled out, centralising planning and freeing up resources
- Five new High Performance High Engagement projects begin in partnership with Rail and Maritime Transport Union, boosting productivity, safety and reliability of rail operations

Skills and Know-How

- Main North Line (MNL) reopens for restricted freight services, just 10 months after the Kaikoura earthquake
- Slip detection technology assists the safe return of freight trains on the MNL
- Cutting-edge audio visual safety technology trialled at pedestrian railway crossings in New Plymouth
- Innovative safety programme introduced, using locomotive GPS systems to send information and apply brakes automatically

We keep freight moving

16%
We carry around 16% of New Zealand's total freight task (tonnes-km)

25%
We transport around 25% of New Zealand's exports

18 million
We move 18 million tonnes of freight each year

Sustainable
We provide a sustainable freight alternative for customers and reduce emissions

Efficient
We facilitate efficient freight flows to/from ports

Relationships

- KiwiRail partners with NZTA in an alliance consortium to enable the reopening of SH1 and the Main North Line following the Kaikoura earthquake
- 91% On-Time Performance average achieved for all rail freight customers
- Interislander passenger revenue up 7% with on time performance at 93%. Customer satisfaction ratings increase by 5% to 91%
- Revenue from Port of Tauranga grows 12% in the six months to December with MetroPort trains increasing from six to seven per day
- Improvements to the Wellington Metro network result in the highest recorded score for reliability and punctuality of passenger services between July and September

Environment

- Reduced heavy vehicle impact of 548,179 truck trips, saving 32.3 million litres of fuel and 87,913 tonnes of CO2 emissions
- Interislander is awarded Qualmark Gold Status as a world-class sustainable visitor destination in New Zealand
- The Great Journeys of New Zealand retains Qualmark Gold Status for the TranzAlpine, Coastal Pacific and Northern Explorer
- Collaboration with Government agency EECA progresses energy efficiency programmes and targets across rail and sea operations

Assets

- 235 new wagons are ordered which will add to the 150 which began service before peak season
- KiwiRail continues to work closely with Auckland Transport to complete the City Rail Link
- Further investments are made in network development, and the rolling stock and ferry fleets

Awards

In FY18 KiwiRail was awarded the following accolades:

- Supreme Award at the AUT Business Support Awards in recognition of KiwiRail's partnership with the Port of Tauranga and Fonterra, which has improved productivity, aided regional development and reduced CO_2 emissions and costs
- Australasian Rail Industry Award for Freight Rail Excellence in recognition of KiwiRail's efforts to keep customers' freight moving after the Kaikoura earthquake
- Public Sector Project of the Year for the Southdown 35/36 Roads work at the Project Management Institute Awards
- The Makatote Rail Viaduct project wins the Structural Engineering Award for Structural Heritage
- Public awareness video "Rail Safety Week 2017" wins the Security and Safety category at the International CINERAIL film competition in Portugal
- KiwiRail Finance team announced as finalist in the 2018 New Zealand CFO Awards for 'Finance Team of the Year'

Contents

The first freight train to run from Picton to Christchurch since the Kaikoura Earthquake travelled over the Okarahia Viaduct in September, just 10 months after the quake devastated the line.

Chairman and Chief Executives' reports – Six months ended 31 December 2017

Chairman's report

This Half Year Report reflects a challenging six months for KiwiRail as the disruption caused by Kaikoura's 2016 earthquake continued to impact on customers and revenue, and the legacy of past underinvestment in the organisation, particularly in the rolling stock fleet, began to bite.

That the result from the six months to December is not only ahead of last year's but is still on track to meet the full year operating surplus commitment of $30-50 million, is a credit to the 3,400 people of KiwiRail and to the transformation programme of work of the past three years.

The operating surplus of $15 million compares with HY 2017 of $11 million. If the on-going negative financial impacts of the Kaikoura earthquake were excluded ($25 million) the underlying operating surplus would be a creditable $40 million ($23 million previous year), driven by growth in forestry, bulk freight and our strong port partnerships.

> "Safety was a critical issue for the reopening of the MNL and continues to be a strong focus for the Board"

That is significant, given the historic challenges KiwiRail faces.

Before Christmas, we published the findings of an EY Report into the Value of Rail in New Zealand, highlighting the annual $1.5 billion in often hidden benefits which rail delivers. These include reducing congestion, fewer carbon emissions, safer roads with fewer deaths and injuries and reduced cost to taxpayers on road maintenance. These benefits, EY concluded, far outweigh the Government contribution to rail but are not always taken into consideration in transport system investment planning.

It has been that way for some time. In the South Island, KiwiRail's active locomotives were purchased between 1961 and 1986 – more than half before 1975 – a reflection of the decades of underinvestment which has contributed to recent

challenges. Reliability is the key to shifting more freight onto rail with its inherent benefits, but in the six months to December a significant and unexpected overhaul programme was required in the South Island to keep the aged locomotives used there on track. It is difficult to imagine a road transport firm being competitive with a fleet of trucks more than 40 years old.

Freight services were restricted in number and to running only overnight when KiwiRail reopened the Main North Line (MNL) on a limited basis in September, allowing for the rebuilding of the road to continue during the day. This affected freight volumes, as did the unanticipated weather closures of the still-vulnerable line which hit domestic customers hard.

While the previous Government committed to funding any insurance shortfall of the rail rebuild, KiwiRail has had to absorb the revenue impact of the earthquake. This has affected our capital investment programme and we continue to work with the new Government on the best way forward as the rebuild continues.

Safety was a critical issue for the reopening of the MNL and continues to be a strong focus for the Board. We have a vision of being New Zealand's leading safety organisation and much work is going into taking the next step in our plan to achieve this.

The Labour-led Government has signalled its strong support for rail's role in driving sustainable and inclusive growth for New Zealand. KiwiRail has set the platform for this to be achieved, but there is much work to do. The Board's focus for some time has been on the matter of long-term funding certainty which, in an asset and infrastructure business like rail, is crucial for procurement and planning, and ensuring the safety of our people and all New Zealanders. We continue to work closely with the Government on the need for multi-year funding.

There is much in this half year result to be proud of and I would like to thank my fellow directors, Chief Executive Peter Reidy and his leadership group, and every proud member of the KiwiRail team for their contributions.

Trevor J Janes

Trevor Janes

KiwiRail workers replace sleepers at Waimiha in the King Country

Chief Executive's report

KiwiRail is known as an organisation that unites behind a challenge – the six month result we publish here is testament to that.

Despite a period of disruption and the on-going impacts of natural events, there are many operational highlights that our teams in KiwiRail can rightly be proud of, none more so than the reopening, in a limited capacity, of the Main North Line (MNL) between Picton and Christchurch.

For 10 months KiwiRail teams worked tirelessly with our partners NZTA in the North Canterbury Transport Infrastructure Recovery alliance to move mountains and reinstate the rail line following 2016's 7.8 Kaikoura earthquake. Three months later State Highway One also opened – two remarkable achievements. I congratulate all those involved in the historic rebuild.

The financial result presented here shows that even as that work continued, we did not lose our focus on the rest of the business. The 39% year on year increase in operating surplus reflects the exceptional customer growth we are seeing in forestry, considerable growth in Interislander's passenger numbers, the strength of our relationships with our port partners and the continued drive for efficiency and productivity while maintaining reliability at 91% on time performance for all freight trains.

These gains have not been made easily, as our Chairman has said: we did not get the level of recovery of the MNL that we were looking for, with excessive rainfall causing a spate of line closures soon after the reopening creating uncertainty for the domestic market. There have been on-going issues with our ageing rolling stock fleet.

However our focus on operational excellence and the work we have put in place through our Simplify, Standardise and Invest strategy has paid off, with a 16% growth in ports revenue on the prior year's six months to December; 8% growth in forestry on the prior year and a bulk freight market showing positive signs with underlying growth (excluding earthquake impacts) of 5%.

> "KiwiRail's commitment is to deliver sustainable and inclusive growth for New Zealand"

Our commitment to the business and our customers saw KiwiRail win the Supreme Award at the AUT Excellence in Business Awards for the work we have done with Fonterra and Ports of Tauranga, improving productivity, boosting regional development and reducing carbon emissions and costs.

The Interislander fleet has continued to perform strongly with a 7% increase in passenger revenues on the back of increasing passenger vehicle numbers and Commercial Vehicle lane metres up almost 12%. The commitment to excellent service saw customer satisfaction rise 5% to a remarkable 91%.

Importantly, our focus on safety is continuing to see gains: the Total Recordable Injury Frequency Rate for this half year reduced by 14%, building on the considerable safety progress we have already made. The total number of recordable injuries dropped 7%.

These successes are, I believe, a result of the work we have done through our High Performance, High Engagement programme of work with our union partners. Piloted in 2016, this approach to finding enduring solutions to business issues in collaboration with our frontline people is now a guiding philosophy throughout the business, creating a positive and inclusive culture in our workplaces.

Also growing in strength is our Toi Toi Maori leadership programme developing the next generation of our leaders and enhancing the deep partnership we have with our Maori network Te Kupenga Maori.

As we look ahead, KiwiRail's commitment is to deliver sustainable and inclusive growth for New Zealand. The outlook for the next six months is strong. Forestry's "Wall of Wood" is delivering and projections are for continued growth. We are seeing considerable growth in container freight from ports and the return of consistent, full services on the Main North Line will give our domestic customers the confidence to commit volumes again.

Our commercial focus continues as we target a further $7 million in efficiency and productivity savings, building on $45 million over the past two years.

We are looking to step up investment in three key areas: rolling stock, our ferry fleet and network development including working closely with Auckland Transport on the City Rail

The commitment to excellent service of staff like Cabin Attendant Skyla Phillips saw customer satisfaction on the ferries rise 5% to a remarkable 91%

Link project. We are collaborating with Cook Strait ports on developing shipside and landside infrastructure plans for the future, ensuring resilience for New Zealand and our customers.

The public release of the Value of Rail report in November was significant in building recognition of the multiple benefits rail offers New Zealand. Not least among these is the reduction in carbon emissions as more goods are carried by rail – every tonne of freight on rail is a 66% emissions savings over heavy road freight, which is an increasingly important statistic for our customers, and for New Zealand's sustainability story.

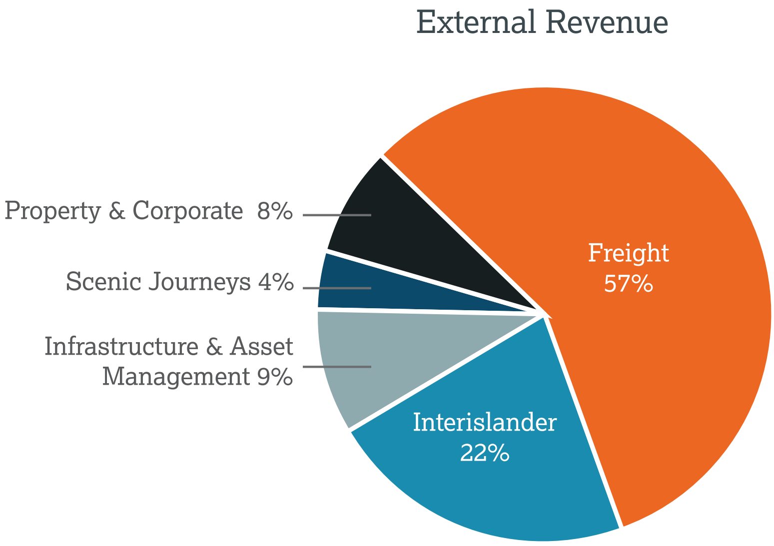
The new Government has signalled a strong commitment to rail and its role in driving regional economic growth. We look forward to working together on their plans which will clearly have implications for KiwiRail's priorities and funding.

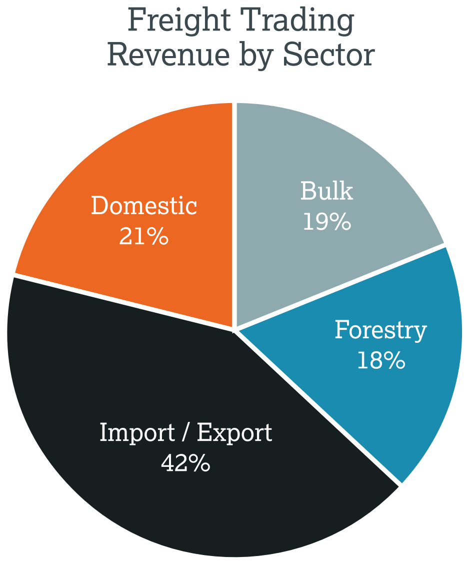
The past six months has shown again that KiwiRail is ready for the challenge, wherever that may come from. It is our vision of being a reliable, sustainable and valuable asset for New Zealand that matters most.

Peter Reidy

Revenue

for the six months ended 31 December 2017





The charts above show the source of KiwiRail's revenue, and a breakdown of KiwiRail's freight revenue by sector. In terms of freight revenue, it is worth noting that the non-commodity driven activities are where we can have the greatest degree of influence on our market share as these activities are less susceptible to price movements caused by external factors.

The focus on operational excellence continues, including at the Southdown Container Terminal in Auckland

Financial Statements

KiwiRail Holdings Ltd

Statement of Comprehensive Income

For the six months ended 31 December 2017

	Note	6 months ended 31 Dec 2017 (Unaudited)	6 months ended 31 Dec 2016 (Unaudited)	Year ended 30 June 2017 (Audited)
		$m	**$m**	**$m**
Operating revenues	1	292.7	298.3	594.7
Operating expenses	2	(277.4)	(287.3)	(542.5)
Operating surplus		**15.3**	**11.0**	**52.2**
Capital grants	3	16.2	-	27.6
Depreciation and amortisation expenses		(41.5)	(32.9)	(77.1)
Foreign exchange and commodity gains and (losses)		7.8	0.3	(3.6)
Net finance expenses	4	(5.6)	(2.8)	(7.6)
Impairment	9	(56.3)	-	(218.3)
Impairment – MNL	9	(134.1)	-	(77.5)
Insurance proceeds		6.8	-	100.0
Other costs – MNL		(1.8)	-	-
Movement in value of investment properties		0.2	0.2	6.1
Share in profit of joint venture		-	0.4	0.4
Other income		-	0.5	0.5
Net deficit before taxation		**(193.0)**	**(23.3)**	**(197.3)**
Income tax (expense)/ credit		-	-	-
Net deficit after taxation		**(193.0)**	**(23.3)**	**(197.3)**
Other comprehensive income/(loss)				
Items that can be reclassified into net deficit/surplus:				
Gains from cash flow hedges		-	0.1	0.6
Items that cannot be reclassified into net deficit/surplus:				
Building revaluation		-	-	(0.3)
Total comprehensive loss		**(193.0)**	**(23.2)**	**(197.0)**

The accompanying notes form part of these financial statements.

Statement of Financial Position

For the six months ended 31 December 2017

	31 Dec 2017 (Unaudited)	31 Dec 2016 (Unaudited)	30 June 2017 (Audited)
	$m	$m	$m
Current assets			
Cash and cash equivalents	163.8	103.7	83.4
Trade and other receivables	84.2	93.6	138.0
Inventories	72.7	68.2	65.0
Financial assets	4.7	1.1	0.3
Assets held for sale	-	-	1.9
	325.4	**266.6**	**288.6**
Non-current assets			
Property, plant and equipment	788.9	774.4	748.1
Investment property	76.8	69.3	76.5
Intangible assets	2.5	2.0	0.4
Financial assets	1.4	0.8	0.2
Trade and other receivables	0.4	0.3	0.4
Investment in joint venture	-	2.4	-
	870.0	**849.2**	**825.6**
Total assets	**1,195.4**	**1,115.8**	**1,114.2**
Current liabilities			
Trade and other liabilities	189.0	110.9	132.5
Employee entitlements	58.7	57.6	55.1
Financial liabilities	177.4	12.1	180.4
Income taxes payable	-	-	-
Provisions	5.1	4.5	5.0
	430.2	**185.1**	**373.0**
Non-current liabilities			
Employee entitlements	36.5	37.3	36.9
Financial liabilities	98.8	216.3	106.2
Provisions	6.0	6.4	6.0
	141.3	**260.0**	**149.1**
Total liabilities	**571.5**	**445.1**	**522.1**
Equity			
Share capital	1,053.8	753.6	833.8
Retained earnings	(452.2)	(105.0)	(264.0)
Asset revaluation reserve	22.3	22.6	22.3
Cash flow hedge reserve	-	(0.5)	-
	623.9	**670.7**	**592.1**
Total liabilities and equity	**1,195.4**	**1,115.8**	**1,114.2**

Trevor D Janes   Paula Rebstock

Trevor D Janes, Chairman
15 February 2018

Dame Paula Rebstock, Deputy Chair
15 February 2018

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the six months ended 31 December 2017

GROUP	Note	Equity Capital	Retained Earnings	Asset Valuation Reserve	Cash Flow Hedge Reserve	Total
		$m	$m	$m	$m	$m
As at 30 June 2016 (Audited)		**613.6**	**(81.7)**	**22.6**	**(0.6)**	**553.9**
Net deficit for the period		-	(23.3)	-	-	(23.3)
Other comprehensive income/(loss)						
Gains from cash flow hedges		-	-	-	0.1	0.1
Total comprehensive income/(loss)		**-**	**(23.3)**	**-**	**0.1**	**(23.2)**
Transactions with owners						
Capital investment		140.0	-	-	-	140.0
As at 31 December 2016 (Unaudited)		**753.6**	**(105.0)**	**22.6**	**(0.5)**	**670.7**
Net deficit for the period		-	(174.0)	-	-	(174.0)
Other comprehensive income/(loss)						
Gains from cash flow hedges		-	-	-	0.5	0.5
Buildings revaluation reserve		-	-	(0.3)	-	(0.3)
Total comprehensive income/(loss)		**-**	**(174.0)**	**(0.3)**	**0.5**	**(173.8)**
Transactions with owners						
Capital investment		80.2	-	-	-	80.2
Crown appropriation - land transactions	8	-	15.0	-	-	15.0
As at 30 June 2017 (Audited)		**833.8**	**(264.0)**	**22.3**	**-**	**592.1**
Net deficit for the period		-	(193.0)	-	-	(193.0)
Total comprehensive (loss)		**-**	**(193.0)**	**-**	**-**	**(193.0)**
Transactions with owners						
Capital investment		220.0	-	-	-	220.0
Crown appropriation - land transactions	8	-	4.8	-	-	4.8
As at 31 December 2017 (Unaudited)		**1,053.8**	**(452.2)**	**22.3**	**-**	**623.9**

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the six months ended 31 December 2017

GROUP	Note	6 months ended 31 Dec 2017 (Unaudited)	6 months ended 31 Dec 2016 (Unaudited)	Year ended 30 June 2017 (Audited)
		$m	$m	$m
Cash flows from operating activities				
Receipts from customers		296.9	300.3	597.9
Interest received		1.3	1.3	2.8
Payments to suppliers and employees		(310.5)	(311.1)	(541.5)
Interest expense		(6.4)	(6.6)	(13.3)
Net cash from operating activities	7	**(18.7)**	**(16.1)**	**45.9**
Cash flows from investing activities				
Sale of property, plant and equipment		0.9	0.3	1.0
Capital grant receipts		16.2	14.6	27.6
Insurance proceeds		29.7	-	72.1
Sale of investment in joint venture		2.7	-	-
Purchase of property, plant and equipment and investment properties		(189.9)	(132.6)	(416.4)
Purchase of intangibles		(2.5)	(1.4)	(4.8)
Net cash used in investing activities		**(142.9)**	**(119.1)**	**(320.5)**
Cash flows from financing activities				
Crown capital investment		250.0	140.0	190.2
Proceeds from NZRC land sales		-	5.2	15.7
Loans		-	-	62.2
Repayment of borrowings		(7.3)	(2.1)	(5.3)
Repayment of finance lease liability		(0.7)	(0.7)	(1.3)
Net cash from financing activities		**242.0**	**142.4**	**261.5**
Net increase/(decrease) in cash and cash equivalents		**80.4**	**7.2**	**(13.1)**
Cash and cash equivalents at the beginning of the period		83.4	96.5	96.5
Cash and cash equivalents at the end of the period		**163.8**	**103.7**	**83.4**

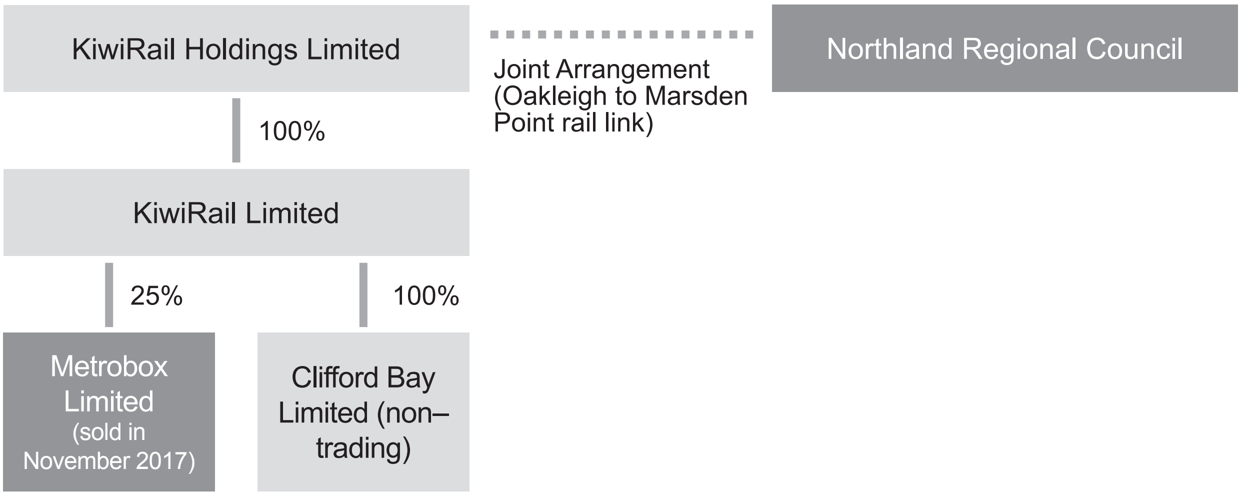
The accompanying notes form part of these financial statements.

Notes of the Financial Statements

For the six months ended 31 December 2017

REPORTING ENTITY

KiwiRail Holdings Limited ("KHL", "the Parent") is a company domiciled in New Zealand, registered under the Companies Act 1993 and is included within the First Schedule of the State-Owned Enterprises Act 1986. The beneficial shareholder of the Parent is the Crown. The Group comprises KiwiRail Holdings Limited and its subsidiaries as detailed in the diagram below:



The following activities are required to be carried out by the Group:

- Provide end-to-end transport supply chain services and connect customers with global markets
- Own and operate a national rail network which meets the needs of our customers
- Provide for the transport of bulk and consolidated freight
- Provide ferry services (forming the 'bridge' between the North and South Islands) for rail and road freight and for passengers and their vehicles
- Support rail passenger services in metropolitan areas and long distance services for both domestic and tourist markets
- Manage and develop property holdings for rail operations and appropriate third-party land use

The interim financial statements of the Group are for the six months ended 31 December 2017 and were authorised by the Board of Directors on 15 February 2018.

BASIS OF PREPARATION

Statement of compliance

These interim financial statements for the six months ended 31 December 2017 have been prepared in accordance with NZ IAS 34 Interim Financial Reporting. They comply with the State-Owned Enterprises Act 1986, the requirements of the Companies Act 1993 and the Financial Reporting Act 2013. The Group is designated as a for-profit entity.

These unaudited, condensed interim financial statements do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's Annual Integrated Report for the year ended 30 June 2017.

The financial statements have been prepared on the basis of historical cost, except for certain non-financial assets and derivative financial instruments, which have been valued at fair value.

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).

Changes in accounting policies

There have been no changes in accounting policies in the current financial year. All policies have been applied on a basis consistent with those used in previous periods. There were no new accounting standards and interpretations issued effective from 1 July 2017 applicable to the Group.

Notes of the Financial Statements

For the six months ended 31 December 2017

1. OPERATING REVENUES

	6 months ended 31 Dec 2017 (Unaudited)	6 months ended 31 Dec 2016 (Unaudited)	Year ended 30 June 2017 (Audited)
	$m	$m	$m
Freight	167.8	181.1	345.6
Interislander	63.2	56.5	130.2
Infrastructure	26.2	25.1	49.6
Property	21.9	20.7	42.9
Scenic	12.1	13.2	22.8
Other	1.5	1.6	3.5
Tranz Metro	-	0.1	0.1
Total operating revenues	**292.7**	**298.3**	**594.7**

2. OPERATING EXPENSES

	6 months ended 31 Dec 2017 (Unaudited)	6 months ended 31 Dec 2016 (Unaudited)	Year ended 30 June 2017 (Audited)
	$m	$m	$m
Salaries and wages	126.7	128.0	251.4
Restructuring	0.6	0.3	1.5
Defined contribution plan employer contributions	5.6	5.5	10.8
Other employee expenses	4.2	4.2	2.7
Total employee expenses	**137.1**	**138.0**	**266.4**
Materials and supplies	52.3	59.7	103.7
Fuel and traction electricity	32.5	30.4	62.1
Lease and rental costs	22.7	26.5	48.2
Incidents and insurance	6.9	5.0	8.1
Contractors expenses	4.2	3.6	8.4
Audit fees	0.2	0.2	0.3
Impairment of receivables	0.2	0.5	0.9
Directors' fees	0.2	0.2	0.4
(Gain) on disposal of property, plant and equipment	(0.5)	(0.1)	(0.4)
Other expenses	21.6	23.3	44.4
Total operating expenses	**277.4**	**287.3**	**542.5**

3. CAPITAL GRANTS

	6 months ended 31 Dec 2017 (Unaudited)	6 months ended 31 Dec 2016 (Unaudited)	Year ended 30 June 2017 (Audited)
	$m	$m	$m
Capital grants (Ministry of Transport funded)	3.9	-	6.2
Other capital grants	12.3	-	21.4
Total capital grant income	**16.2**	**-**	**27.6**

The Group receives grants from Government entities for the purpose of maintaining the railway networks and infrastructure.

Where the asset being funded is depreciated over its useful life, the funding is recognised as income on a straight line basis over the same life. Grants received for services provided are recognised when the requirements of the relevant grant agreement are met. Funding received as reimbursements for capital projects are recognised in the same period as the expenditure to which it relates.

Government funding of $16.2m has been received in the period ended 31 December 2017 (31 December 2016: $14.6m) for capital projects that are still in progress.

Notes of the Financial Statements

For the six months ended 31 December 2017

4. NET FINANCE EXPENSES

	6 months ended 31 Dec 2017 (Unaudited)	6 months ended 31 Dec 2016 (Unaudited)	Year ended 30 June 2017 (Audited)
	$m	$m	$m
Finance income			
Interest income on bank deposits	1.5	1.2	2.3
	1.5	1.2	2.3
Less finance expenses			
Interest expense on borrowings	(7.2)	(6.7)	(13.0)
Interest expense on finance lease	(0.2)	(0.2)	(0.4)
Net change in fair value of interest rate swaps	0.3	2.9	3.5
	(7.1)	(4.0)	(9.9)
Net finance expenses	**(5.6)**	**(2.8)**	**(7.6)**

5. OPERATING LEASE COMMITMENTS

New Zealand Rail Corporation (“NZRC”) has, along with the Crown, granted a long-term lease to KiwiRail Limited (“KRL”) for nominal consideration, under which KRL can enjoy the commercial benefit of the rail corridor land. KRL has primary responsibility for administering the land. Under the lease it can undertake many activities in relation to the land without requiring the consent or involvement of NZRC. It is also able to sub-lease railway land for periods of time within the term of the lease.

The Group leases vessels, property and plant and equipment in the normal course of its business. Included in these lease commitments is the Group’s charter for the MV Kaiarahi. The lease for the MV Kaiarahi is non-cancellable for five years expiring on 17 July 2020.

Motor vehicle leases generally have a non-cancellable term of three years. The future aggregate minimum lease payments payable under non-cancellable operating leases are as follows:

	31 Dec 2017 (Unaudited)	31 Dec 2016 (Unaudited)	30 June 2017 (Audited)
	$m	$m	$m
Total minimum lease payments due:			
Not later than one year	25.8	31.4	19.9
Later than one year but not later than five years	56.5	54.7	44.5
Later than five years	37.8	8.9	7.3
	120.1	**95.0**	**71.7**

6. CAPITAL AND OTHER COMMITMENTS

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

	31 Dec 2017 (Unaudited)	31 Dec 2016 (Unaudited)	30 June 2017 (Audited)
	$m	$m	$m
Capital expenditure commitments:			
Not later than one year	92.1	43.5	87.6
Later than one year but not later than five years	21.4	66.1	22.7
	113.5	**109.6**	**110.3**

Notes of the Financial Statements

For the six months ended 31 December 2017

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

	6 months ended 31 Dec 2017 (Unaudited)	6 months ended 31 Dec 2016 (Unaudited)	Year ended 30 June 2017 (Audited)
	$m	$m	$m
Net deficit after taxation	(193.0)	(23.3)	(197.3)
Add/(deduct) items classified as investing or financing activities			
(Gain) on sale of assets	(0.5)	(0.1)	(0.4)
Fair value movement in derivatives	(8.0)	(5.4)	(3.7)
Capital grant receipts	(16.2)	(14.6)	(27.6)
Insurance proceeds	(29.7)	-	(72.1)
Share in profit of joint venture	-	(0.4)	(0.4)
	(247.4)	(43.8)	(301.5)
Add non-cash items			
Depreciation and amortisation expense	41.5	32.9	77.1
Movements in provisions	(0.3)	(2.2)	(2.5)
Impairment of non-financial assets	190.4	-	295.8
Movement in fair value of investment properties	(0.2)	(0.2)	(6.1)
	(16.0)	(13.3)	62.8
Add/(deduct) movements in working capital			
Decrease/(increase) in trade and other receivables	22.8	(6.2)	(26.4)
(Increase)/decrease in inventories	(7.7)	(5.1)	(1.9)
(Decrease)/increase in trade payables	(17.7)	1.0	14.4
(Decrease)/increase in other payables	(0.1)	7.5	(3.0)
Net cash flows from operating activities	**(18.7)**	**(16.1)**	**45.9**

8. SALE AND PURCHASE OF LAND

On 31 December 2012 there was a restructure of the Crown's investment in rail operations. In accordance with the KiwiRail Holdings Vesting Order 2012 which took effect from 31 December 2012, the KiwiRail business was transferred from NZRC into KHL. All land previously held by KiwiRail was retained by NZRC.

From time to time NZRC may sell parcels of railway land. Under the Group's lease agreement with NZRC entered into on 31 December 2012, the Group may identify railway land that should be sold and request NZRC to sell it or surrender it from the lease. The sale proceeds are provided to the Group to support its business as the State Owned Enterprise responsible for the financial performance of the Crown's investment in rail operations.

Similarly, the Group can identify new parcels of land that are required for rail purposes. The Group will fund the acquisition of the land and can transfer it to NZRC to be included within the lease. The sale and purchase of land are treated as common control transactions as the Crown is their ultimate parent. The sale of NZRC's land is regarded as an increase in equity of the Crown to the Group whilst the Group's acquisition of land for NZRC is treated as a reduction from Crown's equity to the Group.

The total net proceeds from land sold is represented below:

	31 Dec 2017 (Unaudited)	31 Dec 2016 (Unaudited)	30 June 2017 (Audited)
	$m	$m	$m
Proceeds from sale of NZRC land	4.8	-	15.0
Net movement charged to equity	**4.8**	**-**	**15.0**

Notes of the Financial Statements

For the six months ended 31 December 2017

9. RECONCILIATION OF IMPAIRMENT MOVEMENTS TO NET SURPLUS OR DEFICIT

	31 Dec 2017 (Unaudited)	31 Dec 2016 (Unaudited)	30 June 2017 (Audited)
	$m	$m	$m
Impairment of Rail Cash Generating Unit	56.3	-	215.7
Impairment of MNL reinstatement	134.1	-	77.5
Impairment of asset transferred to asset held for sale	-	-	2.6
Impairment in the net surplus or deficit	**190.4**	**-**	**295.8**

The Rail Cash Generating Unit ("CGU") was impaired to its recoverable amount as at 30 June 2017. As a result of the capital spend on the Main North Line ("MNL") rebuild there has been a significant increase in the carrying amount of the Rail CGU within Assets Under Construction. As a result an impairment charge has been recognised for the rail infrastructure capital spend as at 31 December 2017 within the Rail CGU.

10. IMPACT OF KAIKŌURA EARTHQUAKE

A 7.8 magnitude earthquake hit the Kaikōura region on 14 November 2016 followed by a number of aftershocks. This caused significant damage to the Group's infrastructure assets along the MNL.

Impact on assets

KiwiRail has continued to work on the rebuild during the six month period ended 31 December 2017 and an additional impairment charge of $134.1m has been recognised for the capital cost of reinstatement incurred as at 31 December 2017.

Insurance

The Group has insurance coverage in place under an operational infrastructure and consequential loss policy. Cover is provided for loss and damage up to a sum insured of $350m. While a claim has been submitted as at 31 December 2017, it is not practicable to estimate the full extent of the overall insurance recovery. Only the portion that can be measured reliably has been recognised as a receivable. In the period to 31 December 2017 we have recognised an insurance receivable of $5.0m for the estimated recoverable costs incurred to date.

Crown support

The Crown has agreed to fund the uninsured cost of the rebuild. $40m was received in the six month period ended 31 December 2017 and is reflected in the financial statements.

Cash

The cash balance at 31 December 2017 includes the insurance proceeds received of $27.1m (30 June 2017: $72.9m) and Crown injection received of $70.0m.

11. CONTINGENT LIABILITIES

Marsden Point rail corridor designation

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

Holidays Act

A number of organisations within New Zealand have identified issues with the calculation of leave entitlements under the Holidays Act 2003 ("the Act"). KiwiRail is currently investigating the issues and considering the end to end payroll processes that support the Act's requirements. As the investigation is still on-going any potential liability is currently unquantifiable.

Key Performance Indicators

Statement of Corporate Intent comparisons

	6 months ended 31 December 2017 Actual	30 June 2018 Target
Sustaining a Zero Harm Environment		
Total Recordable Injuries	88	131
SPAD As	7	18
Safe working irregularities	171	228
Derailments - mainline	1	5
Derailments - terminal	50	82
GHG emissions per NTK (gms)	26.67	26.19
Truck trips avoided (million)	0.5	1.1
Meeting our financial targets		
Operating Surplus ($m)	15	30-50
Operating Surplus - excluding earthquake impacts ($m)	40	92
Operating Margin (%)	5	5-8
Operating Margin - excluding earthquake impacts ($m)	13	14
Capital Expenditure - net of grants ($m)	125	271
Property		
- Reduce Operational Footprint (%)	6	5
- Reduce Inward Lease Liability (%)	0	5
- Reduce Vacant Land (%)	0	2
Empowering our people		
Employee Net Promoter Score	(7)	0
Engaging our customers and stakeholders		
Revenue ($m)	293	603-623
Revenue - excluding earthquake impacts ($m)	318	662
Freight Trading Revenue Growth (%)	(9)	(2)-3
Freight Trading Revenue Growth - excluding earthquake impacts (%)	2	5
Passenger Revenue Growth (%)	2	17
Passenger Revenue Growth - excluding earthquake impacts (%)	0	8
Delivering operational performance		
On-time Performance (%)		
- Freight Trains - Premium	87	90
- % Interislander services to advertised sailings	99	99
Operational costs as a percentage of revenue	95	92-95
Operational costs as a percentage of revenue - excluding earthquake impacts	87	86

Key Performance Indicators

Statement of Corporate Intent comparisons

	6 months ended 31 December 2017 Actual	30 June 2018 Target
Network Renewals		
- New Sleepers Laid (000)	**48**	**64**
- New Rail Laid (km)	**10**	**20**
- New turnouts	**15**	**37**
Availability of all locomotives (%)	**91**	**89**
Wagon availability (%)	**89**	**91**
Required Information		
Shareholder Return Measures		
Total Shareholder Return	**N/A**	**N/A**
Dividend Yeild	**Nil**	**Nil**
Dividend Payout	**Nil**	**Nil**
Return on Average Equity (%)	**(32)**	**(43)**
Profitability / Efficiency Measures		
Return on Average Capital Employed (%)	**(21)**	**(28)**
Operating Margin (%)	**5**	**6**
Leverage / Solvency Measures		
Shareholders' Funds to Total Assets (%)	**52**	**52**
Gearing Ratio - net (%)	**16**	**37**
Interest Cover	**2.6**	**3.0**
Solvency (current assets / current liabilities)	**0.76**	**1.04**

Front cover photos from top

Paul Garner First Mate, Richards Rose Pettigrew Area Operations Leader - Christchurch, Shelley Pickles Senior Modelling Analyst, Sohail Forouzandeh Train Control Group, Paul Zhao Locomotive Engineer.

Further information

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

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KiwiRail