KiwiRail

HALF YEAR REPORT

and unaudited financial statements

for the six months ended 31 December 2013

KiwiRail Overview

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

Business Units

Freight provides rail freight services and locomotives for passenger services

Infrastructure & Engineering maintains and improves the rail network, controls the operation of trains on the network, and operates the heavy workshops that refurbish and maintain our rolling stock

Interislander operates the ferry passenger and freight services

Passenger provides urban passenger services in Wellington under contract to the Greater Wellington Regional Council through the Tranz Metro team, and the Scenic Journeys team operates the long distance passenger rail services

Operations

Each week, train control operations manage the movement of:

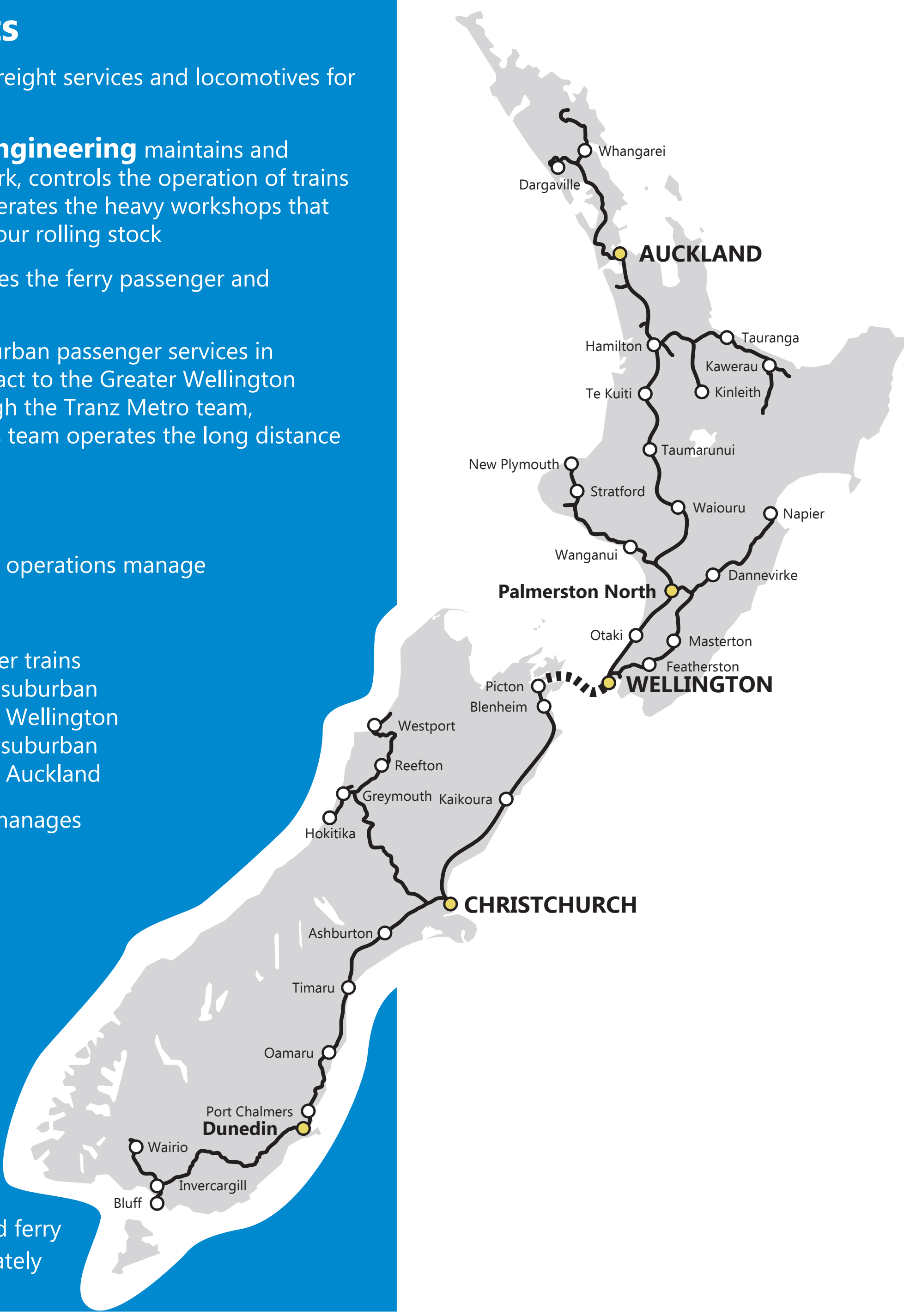
- 900 freight trains
- 44 inter-city passenger trains
- Approximately 2,200 suburban passenger services in Wellington
- Approximately 2,000 suburban passenger services in Auckland

In a year, Interislander manages 4,600 sailings carrying:

- 749,000 passengers
- 59,000 rail wagons
- 68,000 trucks
- 217,000 cars

Assets

- 4,000 kms track
- 1,499 bridges
- 178 mainline locomotives
- 4,644 freight wagons
- 2 owned and 1 leased ferry
- 4,100 staff approximately



For assistance, publications or information concerning KiwiRail please visit our website at **www.kiwirail.co.nz** or contact KiwiRail Communications, PO Box 593, Wellington, 6140 | P 0800 801 070 | E kiwirail@kiwirail.co.nz

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2013 Chair and Chief Executive’s Half Year Review

John Spencer, CNZM
Chair

Jim Quinn
Chief Executive

Overview

In what has been a challenging first half of this financial year during which we have achieved further increases in freight, and ongoing improvements to the national rail network and our rail and ferry fleet, our business has also dealt with the negative financial impact of disruptions due to events outside our control and the unprecedented failure of the Interislander ferry, the Aratere.

In the last six months we have increased group revenue by $3 million, but primarily due to the Aratere disruption, combined with challenges experienced by some parts of the primary export sector, our operating profit result is $10 million less than last year.

We have estimated that the net impact of Aratere’s outage this financial year will be between $20 and $30 million which includes lost passenger, rail freight and commercial vehicle revenue, increased freight costs required to minimise the impact on customers, as well as charter costs for the replacement ship. To help mitigate this significant financial impact we are focused on reducing expenditure across the whole business in areas such as new recruitment and major capital purchases. This will not affect our ongoing programme to improve safety and scheduled network and rolling stock maintenance. We are also in discussions with our shareholder to ensure we have the necessary financial capacity for the remainder of the year.

Despite these issues we have still managed to make progress to improve the overall business. We have achieved positive growth in domestic freight, resulting in an increase in revenue of $5 million from last year. We expect this growth to continue into the second half of this year as the economy continues to recover and our customers continue to commit to the rail option. We have also successfully commissioned another 20 new freight locomotives and 300 wagons.

Key Financial Information

	31 Dec 2013 Unaudited	31 Dec 2012 Unaudited	Variance	Variance
	($m)	($m)	($m)	%
External Revenue	365.5	362.9	2.6	0.7%
Operating Profit	(328.2)	(316.0)	(12.2)	3.9%
Total Assets	37.3	46.9	(9.6)	(20.5%)

While the Seddon earthquakes disrupted our business, they did provide another opportunity to test the robustness of our network and recovery plans. We are pleased to report that the upgraded network had only minor damage and the tracks were able to be inspected and repaired quickly so we could get the trains running again.

Further progress has also been made in improving the organisation's safety with the successful development and embedding of a new Emergency Management and Response Framework, the implementation of random drug and alcohol testing, and agreement on further health screening procedures for staff regularly working in the Otira Tunnel.

Despite the disappointment of the Aratere's failure, the incident also again highlighted the ability of our teams to respond to adversity. To achieve the identification, leasing and delivery of a replacement ship from the northern hemisphere in a little over two months is a credit to the teams involved.

Over the holiday period our Infrastructure and Engineering teams also scheduled major improvement and upgrade works to minimise disruption to customers, particularly in the Wellington and Auckland metropolitan areas. These intensive programmes of work were completed on time and without a single safety incident, which is a credit to our teams' focus on safety improvement right across the business. The Auckland Electrification Project (AEP) in particular made huge progress recording nearly 35,000 man hours for 150 staff each day for 24 shifts. This project is scheduled to be completed this year and will be the culmination of six years of well overdue work to upgrade Auckland's rail systems, costing over $1.1 billion.

During this period the Government also completed their study into the commercial viability of a ferry terminal at Clifford Bay in Marlborough which concluded that Picton should remain as the southern terminal for the inter-island ferries. This decision now enables us to proceed with planning how to best cater for the future growth in freight and passenger traffic over Cook Strait.

In October last year we also celebrated the 150th anniversary of rail in New Zealand by running community events right around the country promoting the history of rail and the journey to where we are today and where we are heading. We were very pleased that thousands attended these events showing how interested people are in rail. Comments were very positive, particularly from those who didn't realise how much we have grown and the contribution we make to the New Zealand economy. We hope to hold more of these events in the future.

Business Performance

Rail freight tonnages increased in bulk, forestry and domestic sectors, but the Import/Export sector was impacted by lower dairy volumes and Port call changes in the Upper North Island. We expect this business to improve over the coming months due to the positive dairy season and continuing strong export demand.

The domestic business has seen an increase in both tonnage (6.3 percent) and revenue (11.1 percent) over the same period last year. This is due to both the ongoing improvement in the domestic economy and the benefits of our customers' investment in premises directly connected to rail. We expect this growth to continue for the rest of the year.

Freight growth requires modern, fit for purpose and reliable rolling stock. We now have 40 new locomotives operating across the North Island, as well as new wagons and containers, and this is providing customers with an even more reliable level of service.

With the replacement ferry operating as expected, the economy lifting and our service levels continuing to improve, we expect to see further increases in freight business over the coming months.

The Infrastructure and Engineering (I&E) team continued to deliver their upgrade and maintenance programmes, while also progressing with performance improvement initiatives across the business.

The capital expenditure of almost $75 million has seen a surge of work to further upgrade and rebuild bridges and continued upgrades on both the metro and regional networks including the Raurimu Spiral, Kaimai tunnel, and Heathcote to Addington in Christchurch. We are forecasting I&E will be on, or slightly under budget, for their annual capital spend.

Summary KiwiRail Business

	External Revenue				Operating Profit			
	31 Dec 2013	31 Dec 2012	Variance	Variance	31 Dec 2013	31 Dec 2012	Variance	Variance
	($m)	($m)	($m)	%	($m)	($m)	($m)	%
Freight	224.6	224.6	-	0.0%	81.8	77.2	4.6	6.0%
Infrastructure & Engineering	18.8	21.1	(2.3)	(10.9%)	(29.5)	(23.5)	(6.0)	25.5%
Corporate & Property	19.4	17.1	2.3	13.5%	(21.8)	(15.9)	(5.9)	37.1%
Rail Freight	**262.8**	**262.8**	**-**	**0.0%**	**30.5**	**37.8**	**(7.3)**	**-19.3%**
Interislander	70.8	74.1	(3.3)	(4.5%)	3.6	6.5	(2.9)	-44.6%
Scenic	9.3	9.3	-	0.0%	(1.7)	(2.3)	0.6	-26.1%
Tranz Metro	23.1	22.0	1.1	5.0%	1.9	1.9	-	0.0%
Metro Maintenance	25.8	25.9	(0.1)	(0.4%)	3.0	3.0	-	0.0%
Inter-Business Unit revenue elimination	(26.3)	(31.2)	4.9	(15.7%)	-	-	-	-
Group	**365.5**	**362.9**	**2.6**	**0.7%**	**37.3**	**46.9**	**(9.6)**	**-20.5%**

I&E's first half operating profit result was slightly below budget due to the costs to repair the storm damage in Wellington and network damage in the South Island due to the Seddon earthquakes.

Ongoing work to improve the national network continues to contribute to a reduction in speed restrictions, particularly on the busy line between Auckland and Wellington, and to a downward trend in mainline derailments.

I&E are very focused on the implementation of a robust asset management system. Over the last six months the new system has been successfully rolled out to three regions with two more close to completion. The project is on schedule for completion through 2014 and will lead to further productivity improvements across the business.

As already covered above Interislander's half year performance was impacted by the Aratere outage late last year. This incident occurred just as the peak season for both freight and passenger traffic was approaching.

But there are also signs that the truck freight market is growing. In the last six months, despite the Aratere disruption, truck traffic has increased by over eight percent in another sign that the domestic economy is growing.
The passenger market was most impacted by the loss of Aratere's capacity, with a reduction of 44,000 passengers compared to the same period last year.

Staff are now focused on getting the Aratere back in service as quickly as possible and working with customers to reassure them that service levels have been restored.

Over the last six months the Kaitaki was also refurbished and successfully brought back into service with positive feedback received from customers on the new and improved facilities.

Our Wellington based Tranz Metro service has had a positive start to the financial year with an increase in passenger numbers of 56,000 with a corresponding increase in passenger yield. This is also on the back of again achieving a 94% on time performance over the last six months, consistent with the previous corresponding period.

In September last year Tranz Metro also achieved record highs in customer satisfaction, with 93% of customers stating their journey was good, very good or excellent. This was almost 18% above the same period the previous year. The other stand out result was a 29% increase in customers perceiving the on time performance as good, better or excellent. This resulted in Tranz Metro and Greater Wellington Regional Council jointly receiving a Chartered Institute of Logistics and Transport (CILT) award for the work done to develop and deliver a high quality commuter rail service to the Wellington region.

The new carriages, rebranding and refreshed marketing for the long distance Scenic passenger service has been receiving positive feedback from passengers and stakeholders. Revenue continues to remain flat, but is expected to improve alongside expected growth in international tourist numbers.

Some new initiatives, including providing services catering to the growing Chinese market, are being developed to help grow patronage. A new initiative recently put in place is a partnership with Intercity buses enabling through passes to be sold for each other's services. These packages include coordinated travel to destinations such as Fox Glacier and Queenstown with more destinations to be added soon.

Forecast for next six months

Retail sales were strong in the Christmas period and the Christchurch rebuild is gathering momentum. Fonterra are forecasting increased Import/Export volumes, Solid Energy volumes have stabilised and we are expecting further growth in forestry due to strong overseas commodity prices. Our domestic volumes for January are well ahead of this time last year and the Import/Export sector is picking up as the export season gets well underway.

We are also looking forward to the start of new electric trains in Auckland and the Auckland Electrification Project is on schedule to facilitate this major improvement to our biggest city's public transport system.

But while the signs are positive for further growth, it is unlikely it will be enough to bridge the revenue gap experienced in the first half year. We are forecasting an operating profit of between $90 million and $100 million for the full year, which is $20m to $30m below our Statement of Corporate Intent target.

We would like to thank our customers and stakeholders for their patience and continued faith in our business and our team as we continue to push forward to implement both improved services and infrastructure.

John Spencer
Chair

Jim Quinn
Chief Executive

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KPIs

The key performance measures are those outlined in the Statement of Corporate Intent

	6 months ended 31 Dec 2013 Actual	6 months ended 31 Dec 2013 Target	2014 Target
	($m)	($m)	($m)
Financial Metrics			
Operating revenue	365.5	379.2	769.3
Grant income	-	-	72.6
Operating profit before major one-off items	37.2	51.9	120.1
Net operating profit	37.2	51.9	120.1
NPAT	3.5	11.0	(112.4)
Strategic Plan Capital Expenditure	122.4	164.0	309.6
Metro Project Capital Expenditure	33.8	20.9	26.1
Metro Renewals Capital Expenditure	20.4	24.0	46.0
Key Sales Metrics			
Freight NTK (m)	2,411	2,479	4,944
Freight average yield (c/NTK)	8.37	8.37	8.37
Key Investment Outcomes			
Rolling Stock Replacement			
- Wagons (no. of new units)	-	-	-
- Locomotives (no. committed)	8	10	10
Network Renewals			
- New Sleepers Laid (000)	36	45	83
- New Rail Laid (km)	6	8	20
- Lines Destressed (km)	70	84	180
- Span Metres Replaced	54	40	220
- Timber Piers Replaced	10	10	40
- Culverts Replaced	-	-	20
- Level Crossing Upgrades	2	5	10
Customer Service Performance			
Freight - Premium Train (%<30min)	86%	90%	90%
Metro (%<5min)	94%	95%	95%
Scenic (%<15min)	66%	90%	87%
Interislander (%<15min)	60%	90%	90%
Productivity Measures			
Group Labour Costs as % of Revenue	40.9%	40.3%	38.5%
Freight OPEX as a % of Freight Revenue	63.6%	61.6%	62.9%
Freight fuel and traction electricity as a % of Revenue	15%	15%	16%
Freight maintenance costs as a % of Revenue	10%	10%	10%
Interislander OPEX as a % of Revenue	95%	87%	82%
Interislander fuel costs as a % of Revenue	21%	20%	21%
Network operating costs % of Freight Revenue	22%	19%	19%
Health and Safety			
Total Harm	143	154	309
Staff Engagement			
Engagement Index	72.0	74.0	74.0
Sustainability			
GHG emissions per NTK from rail freight traction energy (gms)	31.6	32.6	32.7
Abatement, infringement and enforcement notices under the Resource Management Act	2	-	-

KPIs

The key performance measures are those outlined in the Statement of Corporate Intent

	6 months ended 31 Dec 2013 Actual	6 months ended 31 Dec 2013 Target	2014 Target
	($m)	($m)	($m)
BUSINESS UNIT SUMMARY			
(a) Operating Revenue			
Rail Freight			
Freight	224.6	235.4	465.6
Infrastructure & Engineering	18.8	16.9	35.7
Corporate & Property	19.4	18.8	38.5
	262.8	**271.1**	**539.9**
Interislander	70.8	76.3	163.4
Scenic	9.3	9.4	20.5
Tranz Metro	23.1	22.6	46.7
Metro Maintenance	25.8	27.1	55.5
Inter BU Eliminations	(26.3)	(29.3)	(56.7)
Group	**365.5**	**377.2**	**769.3**
(b) Net Operating Profit before major one-off items			
Rail Freight			
Freight	81.8	90.4	172.7
Infrastructure & Engineering	(29.5)	(26.7)	(50.5)
Corporate & Property	(21.8)	(20.3)	(37.4)
	30.5	**43.4**	**84.8**
Interislander	3.6	10.0	29.2
Scenic	(1.7)	(2.1)	(2.3)
Tranz Metro	1.9	1.7	3.5
Metro Maintenance	3.0	2.6	4.9
Group	**37.3**	**55.6**	**120.1**
(c) Strategic Plan Capital Expenditure (excl. Metro)			
Rail Freight			
Freight	45.3	66.2	95.9
Infrastructure & Engineering	54.4	58.7	148.4
Corporate & Property	15.5	27.6	51.9
	115.2	**152.5**	**296.2**
Interislander	6.9	11.0	12.4
Scenic Journeys	0.1	0.5	1.0
Tranz Metro	0.2	-	-
Group	**122.4**	**164.0**	**309.6**

KPIs

The key performance measures are those outlined in the Statement of Corporate Intent

Table 7.1

	6 months ended 31 Dec 2013 Actual	6 months ended 31 Dec 2013 Target	2014 Target
	($m)	($m)	($m)
Shareholder Return Measures			
Total Shareholder Return	n/a	n/a	n/a
Dividend Yield	Nil	Nil	Nil
Dividend Payout	Nil	Nil	Nil
Return on Average Equity	1.1%	3.5%	-19.4%
Return on Average Equity excluding IFRS fair valuation movements and asset revaluations	0.6%	1.9%	-21.6%
Profitability/Efficiency Measures			
Return on Average Capital Employed	0.8%	2.3%	-13.1%
Operating Margin	10.2%	13.7%	15.6%
Leverage/Solvency Measures			
Shareholder's Funds to Total Assets	58.4%	57.6%	56.1%
Gearing Ratio (net)	25.2%	25.2%	43.3%
Interest Cover	13.8	7.3	8.5
Solvency (current assets/current liabilities)	0.93	1.28	0.93

Financial Statements

For the six months ended 31 December 2013

KIWIRAIL HOLDINGS LTD

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the six months ended 31 December 2013

	Note	6 months ended 31 Dec 2013 (Unaudited)	6 months ended 31 Dec 2012 (Unaudited)	Year ended 30 June 2013 (Unaudited)
GROUP		$m	$m	$m
Operating revenue	2	365.5	362.9	727.0
Operating expenses	3	(328.2)	(316.0)	(618.8)
Operating profit		**37.3**	**46.9**	**108.2**
Grant income	4	-	101.2	181.7
Depreciation and amortisation expense		(30.8)	(29.9)	(61.9)
Foreign exchange and commodity gains and losses		(0.3)	1.6	2.7
Finance income	5	0.7	1.7	3.2
Finance costs	5	(3.4)	(7.5)	(9.3)
Net loss on sale of land		-	-	-
Impairment		-	(189.9)	(399.3)
Net profit/(loss) before taxation		**3.5**	**(75.9)**	**(174.7)**
Taxation credit		-	-	-
Net profit/(loss) after taxation		**3.5**	**(75.9)**	**(174.7)**

The accompanying notes form part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2013

	6 months ended 31 Dec 2013 (Unaudited)	6 months ended 31 Dec 2012 (Unaudited)	Year ended 30 June 2013 (Unaudited)
GROUP	$m	$m	$m
Net profit/(loss) after taxation	**3.5**	**(75.9)**	**(174.7)**
Other comprehensive income			
Items that can be re-classified into profit or loss:			
Gains/(losses) from cash flow hedges	(1.3)	(2.0)	1.3
Items that cannot be re-classified into profit or loss:			
Transfers to asset carrying value from cash flow hedge reserve	(0.1)	0.8	2.3
Total comprehensive income/(loss)	**2.1**	**(77.1)**	**(171.1)**

The accompanying notes form part of these financial statements

KIWIRAIL HOLDINGS LTD

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	31 Dec 2013 (Unaudited)	31 Dec 2012 (Unaudited)	30 June 2013 (Audited)
GROUP		$m	$m	$m
Current assets				
Cash and cash equivalents		47.0	119.4	64.8
Trade and other receivables		91.8	121.9	87.4
Inventories		58.3	61.0	54.0
Financial assets		0.8	1.9	4.1
		197.9	**304.2**	**210.3**
Non-current assets				
Property, plant and equipment		940.9	770.4	793.1
Investment property		5.0	5.0	5.0
Intangible assets		0.4	0.5	0.4
Financial assets		0.9	-	0.1
Trade and other receivables		0.6	-	0.7
		947.8	**775.9**	**799.3**
TOTAL ASSETS		**1,145.7**	**1,080.1**	**1,009.6**
Current liabilities				
Trade and other liabilities		201.1	188.8	144.6
Financial liabilities		5.5	15.6	5.5
Income taxes payable		-	-	-
Provisions		11.1	18.3	12.5
		217.7	**222.7**	**162.6**
Non-current liabilities				
Trade and other liabilities		37.3	39.4	37.3
Financial liabilities		217.2	219.1	218.5
Provisions		3.9	4.5	3.7
Deferred taxation		-	-	-
		258.4	**263.0**	**259.5**
TOTAL LIABILITIES		**476.1**	**485.7**	**422.1**
NET ASSETS		**669.6**	**594.4**	**587.5**
Equity				
Equity capital		167.0	-	87.0
Retained earnings		445.8	541.0	442.3
Asset revaluation reserve		56.2	56.2	56.2
Cash flow hedge reserve		0.6	(2.8)	2.0
TOTAL EQUITY		**669.6**	**594.4**	**587.5**

John Spencer

John Spencer, Chair
24 February 2014

Paula Rebstock

Paula Rebstock, Deputy Chair
24 February 2014

The accompanying notes form part of these financial statements

KIWIRAIL HOLDINGS LTD

STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2013

	Note	Equity Capital	Retained Earnings	Asset Valuation Reserve	Cash Flow Hedge Reserve	Total
GROUP		$m	$m	$m	$m	$m
As at 6 November 2012 (Incorporation)		-	-	-	-	-
Transactions with Owners						
Vesting of assets and liabilities from New Zealand Railways Corporation (31 Dec 2012)		-	541.0	56.2	(2.8)	594.4
As at 31 December 2012 (Unaudited)		**-**	**541.0**	**56.2**	**(2.8)**	**594.4**
Net profit/(loss) for the period		-	(98.7)	-	-	(98.7)
Other comprehensive income						
Transfer to asset carrying value from cash flow hedge reserve		-	-	-	1.5	1.5
Gains/(losses) from cash flow hedges		-	-	-	3.3	3.3
Total comprehensive income/(loss)		**-**	**(98.7)**	**-**	**4.8**	**(93.9)**
Transactions with Owners						
Capital Injection		87.0	-	-	-	87.0
As at 30 June 2013 (Audited)		**87.0**	**442.3**	**56.2**	**2.0**	**587.5**
Net profit/(loss) for the period		-	3.5	-	-	3.5
Other comprehensive income						
Transfers to asset carrying value from cash flow hedge reserve		-	-	-	(0.1)	(0.1)
Gains/(losses) from cash flow hedges		-	-	-	(1.3)	(1.3)
Total comprehensive income/(loss)		**-**	**3.5**	**-**	**(1.4)**	**2.1**
Transactions with Owners						
Capital Injection		80.0	-	-	-	80.0
As at 31 December 2013 (Unaudited)		**167.0**	**445.8**	**56.2**	**0.6**	**669.6**

The accompanying notes form part of these financial statements

KIWIRAIL HOLDINGS LTD

STATEMENT OF CASH FLOWS

For the six months ended 31 December 2013

	Note	6 months ended 31 Dec 2013 (Unaudited)	6 months ended 31 Dec 2012 (Unaudited)	Year ended 30 June 2013 (Unaudited)
GROUP		$m	$m	$m
Cash flows from operating activities				
Proceeds from:				
Receipts from customers		368.6	368.1	752.3
Interest received		0.7	1.7	3.2
Proceeds utilised for:				
Payments to suppliers and employees		(344.4)	(323.4)	(663.4)
Interest expense		(3.2)	(12.3)	(15.1)
Income tax paid			-	-
Net cash from operating activities	8	**21.7**	**34.1**	**77.0**
Cash flows from investing activities				
Proceeds from:				
Sale of property, plant and equipment		0.7	2.7	6.2
Capital grant receipts		55.2	101.2	181.7
Proceeds utilised for:				
Purchase of property, plant and equipment		(179.2)	(218.1)	(484.1)
Purchase of intangibles		(0.1)	(0.2)	(1.9)
Net cash used in investing activities		**(123.4)**	**(114.4)**	**(298.1)**
Cash flows from financing activities				
Proceeds from:				
Crown capital injection		80.0	163.0	250.0
Finance lease		5.9	2.0	2.9
Proceeds utilised for:				
Repayment of borrowings		(1.5)	(1.4)	(2.9)
Repayment of finance lease liability		(0.5)	-	(0.2)
Net cash from financing activities		**83.9**	**163.6**	**249.8**
Net increase/(decrease) in cash and equivalents		**(17.8)**	**83.3**	**28.7**
Cash and cash equivalents at the beginning of the period		**64.8**	**36.1**	**36.1**
Effect of exchange rate fluctuations on cash held		-	-	-
Cash and cash equivalents at the end of the period		**47.0**	**119.4**	**64.8**

The accompanying notes form part of these financial statements

STATEMENT OF ACCOUNTING POLICIES

For the six months ended 31 December 2013

REPORTING ENTITY

KiwiRail Holdings Limited is a company domiciled in New Zealand, registered under the Companies Act 1993 and is included within the First Schedule of the State Owned Enterprises Act 1986. The Group comprises KiwiRail Holdings Limited and its subsidiaries. The Parent and the Group have been designated as Profit Oriented Entities ("POE").

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

On 31 December 2012 there was a restructure of the Crown's investment in rail operations. In accordance with the KiwiRail Holdings Vesting Order 2012 which took effect from 31 December 2012, the KiwiRail business was transferred from the New Zealand Railways Corporation ("NZRC") into KiwiRail Holdings Limited. All land previously held by KiwiRail together with the Wellington Railway Station and Social Hall buildings were retained by NZRC.

The interim financial statements of the Group are for the six months ended 31 December 2013 and were authorised by the Board of KiwiRail Holdings Limited for issue on 24 February 2014.

BASIS OF PREPARATION

Statement of compliance

These interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and comply with the New Zealand Railways Corporations Act 1981, the State-Owned Enterprises Act of 1986 and New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards.

These unaudited, condensed Interim Financial Statements comply with NZ IAS 34 *Interim Financial Statements.*

Comparatives

As noted above there was a restructure of the Crown's investment in rail operations at 31 December 2012. In order to show meaningful and comparable financial information in these interim financial statements, the comparatives in the Statements of Financial Performance and Cash Flows for the six months ending 31 December 2012 are for the KiwiRail business as it was in the NZRC Group for the period 1 July 2012 to 31 December 2012. These figures are as reported in the KiwiRail Half Year Report at 31 December 2012.

The comparatives for the year ending 30 June 2013 in the Statements of Financial Performance and Cash Flows are for the KiwiRail Group as if no vesting had occurred and comprise the combined financial performance of the NZRC Group for the period 1 July 2012 to 31 December 2012 and the KiwiRail Holdings Group for the period 31 December 2012 to 30 June 2013. These figures are as reported in the Unaudited KiwiRail Group Performance Statements in the KiwiRail Annual Report 2013.

The Statement of Financial Position presented as at 31 December 2012 and 30 June 2013 is for the KiwiRail Holdings Limited Group and excludes the land and buildings remaining in NZRC following the restructure. The Statement of Financial Position as at 30 June 2013 is as reported in the Audited Financial Statements in the KiwiRail Annual Report 2013.

Certain other prior period comparatives have been re-classified to align with the current period presentation. Separate disclosure of the effect of material re-classifications is provided in the relevant note to these financial statements.

STATEMENT OF ACCOUNTING POLICIES

For the six months ended 31 December 2013

Changes in accounting policies

There have been no material changes in accounting policies in the current financial year. All policies have been applied on a basis consistent with those used in previous periods. The interim report should be read in conjunction with the annual report for the year ended 30 June 2013.

NEW STANDARDS ADOPTED

The Group has adopted the following new or amended NZ IFRS as of 1 July 2013:

- *NZ IFRS 10 Consolidated Financial Statements* replaces NZ IAS 27 Consolidated and Separate Financial Statements. The new standard further defines the concept of control when determining what entities are to be consolidated. The application of the new standard does not have any impact on the consolidated financial results of the Group.
- *NZ IFRS 11 Joint Arrangements* establishes principles for the reporting of arrangements that are controlled jointly. The new standard re-names joint ventures as joint arrangements and further classifies joint arrangements as either joint operations or joint ventures. Under NZ IFRS 11, the Group's joint arrangement with Northland Regional Council for the Marsden Point rail corridor is a joint operation. The application of the new standard does not have any impact on the consolidated financial results of the Group.
- *NZ IFRS 12 Disclosure of Interests in Other Entities* introduces all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The additional disclosure requirements arising from the adoption of this standard will form part of the 2014 full year financial statements.
- *NZ IFRS 13 Fair Value Measurement* establishes a single source of guidance on the calculation of fair value when fair value measurement is required or permitted by NZ IFRS. The application of the new standard does not have any material impact on the consolidated financial results of the Group.
- *NZ IAS 19 Employee Benefits* as revised and re-issued amends the accounting for employee defined benefit plans and certain types of termination benefits. The revised standard also clarifies the definitions of short and long-term employee benefits. The application of the revised standard does not have any material impact on the consolidated financial results of the Group.
- *NZ IAS 27 Separate Financial Statements* removes the accounting and disclosure requirements for consolidated financial statements following the issue of the new disclosure requirements contained in NZ IFRS 10 and NZ IFRS 12. The required disclosure changes arising from the changes to NZ IAS 27 and the adoption of NZ IFRS 10 and NZ IFRS 12 will form part of the 2014 full year financial statements.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

- *NZ IFRS 9 Financial Instruments* (revised 2010) is the first standard issued as part of a wider project to replace NZ IAS 39 and is effective for reporting periods beginning on or after 1 January 2017. The revised standard amends measurement categories for financial assets. It is not expected to have a material impact on the consolidated financial results of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 December 2013

1. Total Income

	Note	6 months ended 31 Dec 2013 (Unaudited)	6 months ended 31 Dec 2012 (Unaudited)	Year ended 30 June 2013 (Unaudited)
		$m	$m	$m
Revenue	2	365.5	362.9	727.0
Grant income	4	-	101.2	181.7
Total income		**365.5**	**464.1**	**908.7**

2. Revenue

	6 months ended 31 Dec 2013 (Unaudited)	6 months ended 31 Dec 2012 (Unaudited)	Year ended 30 June 2013 (Unaudited)
	$m	$m	$m
Freight	240.6	236.6	463.7
Interislander	54.1	56.3	124.3
Tranz Metro	26.4	25.2	50.1
Scenic Journeys	9.1	9.3	20.0
Property & Corporate	17.8	15.9	33.8
Infrastructure & Engineering	17.5	19.6	35.1
Total revenue	**365.5**	**362.9**	**727.0**

Effective from 1 July 2013 the Tranz Metro maintenance depot reported within the Tranz Metro business hence Tranz Metro revenue for the current reporting period includes revenue from the depot. Previously the maintenance depot had reported within Freight.

Effective from 1 July 2013 the Hutt workshops unit reported within the Freight business hence Freight revenue for the current reporting period includes revenue from the workshops. Previously the Hutt workshops had reported within Infrastructure & Engineering.

2. Revenue (continued)

For comparability the December 2012 and June 2013 comparative revenue for Freight, Tranz Metro and Infrastructure & Engineering reported above has been adjusted to include revenue from the Tranz Metro maintenance depot within Tranz Metro and from the Hutt workshops within Freight.

Comparative adjustments made are outlined in the table below:

	6 months ended 31 Dec 2012 (Unaudited)	Year ended 30 June 2013 (Unaudited)
	$m	$m
Freight		
Prior comparatives reported	238.5	466.9
Maintenance depot transferred to Tranz Metro	(3.3)	(6.5)
Hutt workshops transferred from Infrastructure & Engineering	1.4	3.3
Adjusted comparatives current period reporting	**236.6**	**463.7**
Tranz Metro		
Prior comparatives reported	21.9	43.6
Maintenance depot transferred from Freight	3.3	6.5
Adjusted comparatives current period reporting	**25.2**	**50.1**
Infrastructure & Engineering		
Prior comparatives reported	21.0	38.4
Hutt workshops transferred to Freight	(1.4)	(3.3)
Adjusted comparatives current period reporting	**19.6**	**35.1**

3. Operating Expenses

	6 months ended 31 Dec 2013 (Unaudited)	6 months ended 31 Dec 2012 (Unaudited)	Year ended 30 June 2013 (Unaudited)
	$m	$m	$m
Salaries and wages	139.3	138.6	273.5
Defined contribution plan employer contributions	5.7	4.4	9.2
Employee entitlements	2.9	1.6	(0.6)
Other employee expenses	1.5	1.6	2.8
Total staff costs	149.4	146.2	284.9
Materials and supplies	56.2	44.1	90.1
Fuel and traction electricity	59.2	61.3	119.7
Lease and rental costs	22.9	24.7	47.1
Incidents, casualties and insurance	10.0	9.2	19.2
Contractors expenses	7.7	7.9	14.9
Fees paid to auditors:	-	-	-
Audit fees	0.2	0.1	0.5
Impairment of receivables	(0.4)	-	(0.1)
Directors' fees	0.2	0.2	0.3
Loss on disposal of property, plant and equipment	(0.3)	(0.1)	(2.8)
Other expenses	23.1	22.4	45.0
Total operating expenses	**328.2**	**316.0**	**618.8**

Within staff costs, all amounts relating to those employee benefits that are directly paid to employees as part of salary and wages payments are now reported in the Salaries and wages category. This has resulted in re-classifications of prior period comparative amounts from the Employee entitlements category to the Salaries and wages category of $10.8m for June 2013 and $4.9m for December 2012. This change in presentation has been made to ensure that amounts reported in the Salaries and wages category reflect the actual amounts paid to employees during the reporting period. There has been no change to Total staff costs as a result of the re-classification.

Certain other prior period comparatives have also been re-classified to match the current period presentation.

4. Grant Income

	6 months ended 31 Dec 2013 (Unaudited)	6 months ended 31 Dec 2012 (Unaudited)	Year ended 30 June 2013 (Unaudited)
	$m	$m	$m
Capital grants for metro projects			
Auckland rail development	-	23.1	35.4
Wellington rail development	-	-	-
Auckland electrification project	-	64.0	115.0
Other capital grants			
Other	-	13.8	30.8
Public policy grant	-	0.3	0.5
Total grant income	**-**	**101.2**	**181.7**

Government funding received as reimbursement of the costs of capital projects is recognised in the same period as the expenditure to which it relates. Where the asset being funded is depreciated over its useful life, the funding is recognised as income on a straight line basis over the same life. Where the asset funded is impaired to residual value the funding is recognised as income in the same period as the impairment expense. Government funding of $55.2m has been received in the period ended 31 December 2013 for capital projects that are still in progress and therefore haven't been depreciated.

5. Net Finance Costs

	6 months ended 31 Dec 2013 (Unaudited)	6 months ended 31 Dec 2012 (Unaudited)	Year ended 30 June 2013 (Unaudited)
	$m	$m	$m
Finance income			
Interest income on bank deposits	0.7	1.7	3.2
	0.7	1.7	3.2
Less Finance costs			
Interest expense on borrowings	(7.5)	(10.8)	(20.0)
Interest expense – other	-	-	-
Net change in fair value of derivatives	4.1	3.3	10.7
	(3.4)	(7.5)	(9.3)
Net finance costs	**(2.7)**	**(5.8)**	**(6.1)**

6. Operating Lease Commitments

The Group leases vessels and plant and equipment in the normal course of its business. Included in these lease commitments is the Group's charter for the roll-on-roll-off ferry, Kaitaki. In April 2013, a new lease was signed which came into effect on 1 July 2013 for the Kaitaki vessel. The new lease has a non-cancellable term of four years expiring on 30 June 2017.

The Group has leased the vessel Stena Alegra on a non-cancellable short-term lease expiring on 30 June 2014.

Motor vehicle leases generally have a non-cancellable term of three years.

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

All operating leases held by New Zealand Railways Corporation were vested in KiwiRail Holdings Limited at 31 December 2012.

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

	31 Dec 2013 (Unaudited)	31 Dec 2012 (Unaudited)	30 June 2013 (Audited)
	$m	$m	$m
Total minimum lease payments due:			
Not later than one year	24.9	18.9	20.5
Later than one year but not later than five years	44.5	37.3	51.6
Later than five years	10.7	12.9	12.0
	80.1	**69.1**	**84.1**

7. 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 2013 (Unaudited)	31 Dec 2012 (Unaudited)	30 June 2013 (Audited)
	$m	$m	$m
Capital and other expenditure commitments:			
Not later than one year	80.4	146.9	79.8
Later than one year but not later than five years	7.3	3.4	7.4
Later than five years	-	-	-
	87.7	**150.3**	**87.2**

8. Reconciliation of Net Profit/(Loss) to Net Cash Flows from Operating Activities

	6 months ended 31 Dec 2013 (Unaudited)	6 months ended 31 Dec 2012 (Unaudited)	Year ended 30 June 2013 (Unaudited)
	$m	$m	$m
Net profit/(loss) after tax	3.5	(75.9)	(174.7)
Add/(deduct) items classified as investing or financing activities			
(Profit)/loss on sale of assets	(0.3)	(0.1)	(2.7)
Fair value movement in derivatives	(4.1)	(5.8)	(13.1)
Capital grant receipts recognised	-	(101.2)	(181.7)
	(0.9)	(183.0)	(372.2)
Add non-cash flow items			
Depreciation and amortisation expense	30.8	29.9	61.9
Movements in deferred tax and provisions	(1.1)	(3.3)	(16.4)
Effect of exchange rate changes on cash balances	-	-	-
Impairment of property, plant and equipment	-	189.9	399.3
	28.8	33.5	72.6
Add/(deduct) movements in working capital			
(Increase).decrease in trade receivables	(2.7)	3.1	-
(Increase)/decrease in other receivables	(1.1)	(7.6)	29.0
(Increase)/decrease in inventories	(4.4)	(3.0)	10.4
Increase/(decrease) in trade payables	4.8	(0.3)	(21.6)
Increase/(decrease) in other payables	(3.7)	8.4	(13.4)
Net cash flows from operating activities	**21.7**	**34.1**	**77.0**

9. Contingent Liabilities

The following contingent liabilities exist at 31 December 2013:

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

(b) Marsden Point rail corridor designation
The Group has confirmed its designation of the rail corridor from the North Auckland Line to Marsden Point. The Northland Regional Council will purchase any land that may be required. The Group has an agreement with the Northland Regional Council that it will have a half share in the acquisition and holding costs of land purchases with the Council. As a decision is yet to be made on the timing of any rail corridor construction it is not practicable to estimate the cost or timing of any future land acquisitions.