Half Year Report

and unaudited financial statements

for the six months ended 31 December 2012

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.

We have four business units:

- KiwiRail Freight provides rail freight services and locomotives for passenger services
- KiwiRail Infrastructure and 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
- KiwiRail Interislander operates the ferry passenger and freight services
- KiwiRail Passenger provides urban passenger services in Wellington under contract to the Greater Wellington Regional Council through the Tranz Metro team, and the Scenic team operates the long distance passenger rail services.

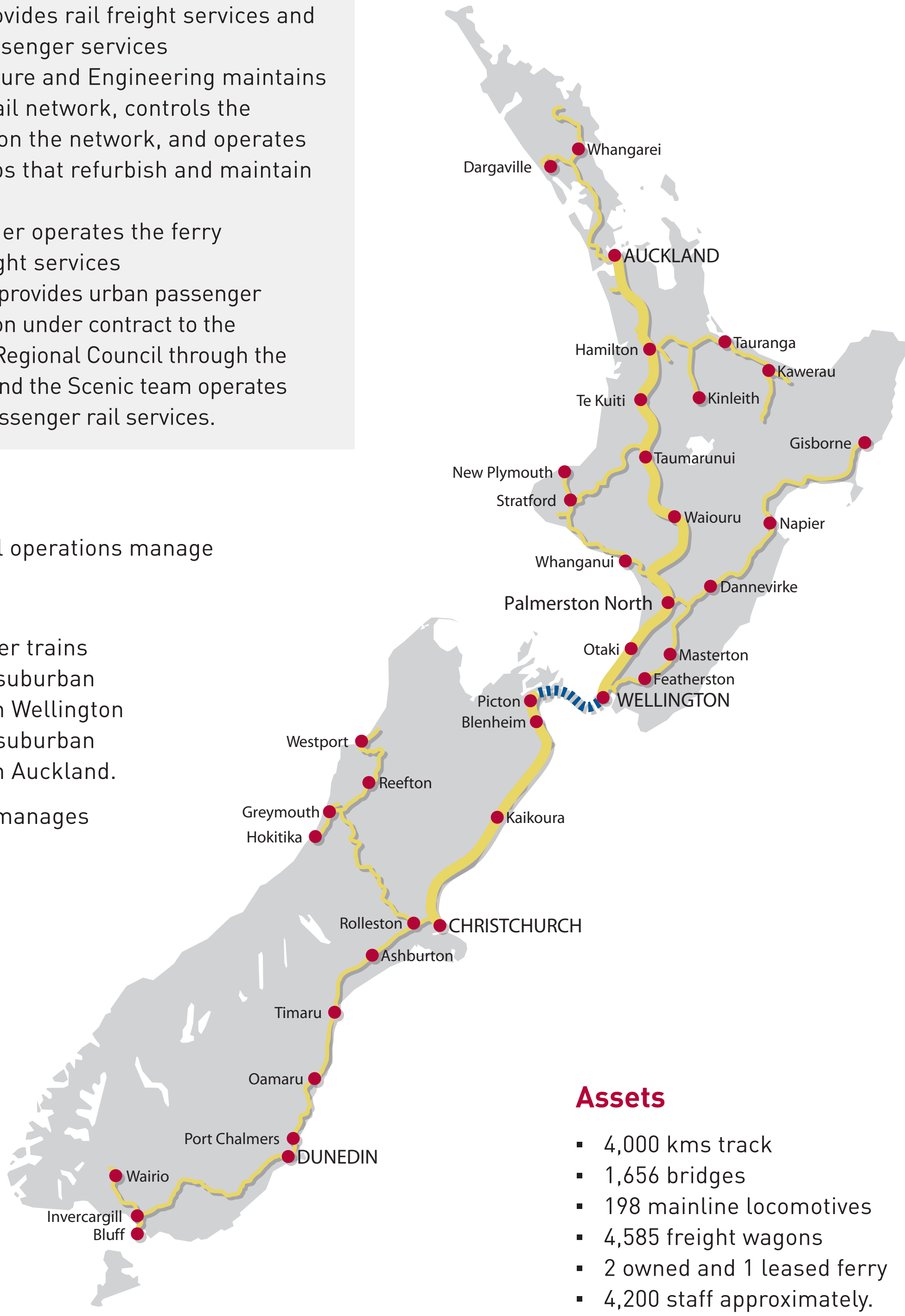
Operations

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:

- 755,000 passengers
- 53,000 rail wagons
- 73,000 trucks
- 212,000 cars.



Assets

- 4,000 kms track
- 1,656 bridges
- 198 mainline locomotives
- 4,585 freight wagons
- 2 owned and 1 leased ferry
- 4,200 staff approximately.

Further Information

For assistance, publications or information concerning KiwiRail please visit our website **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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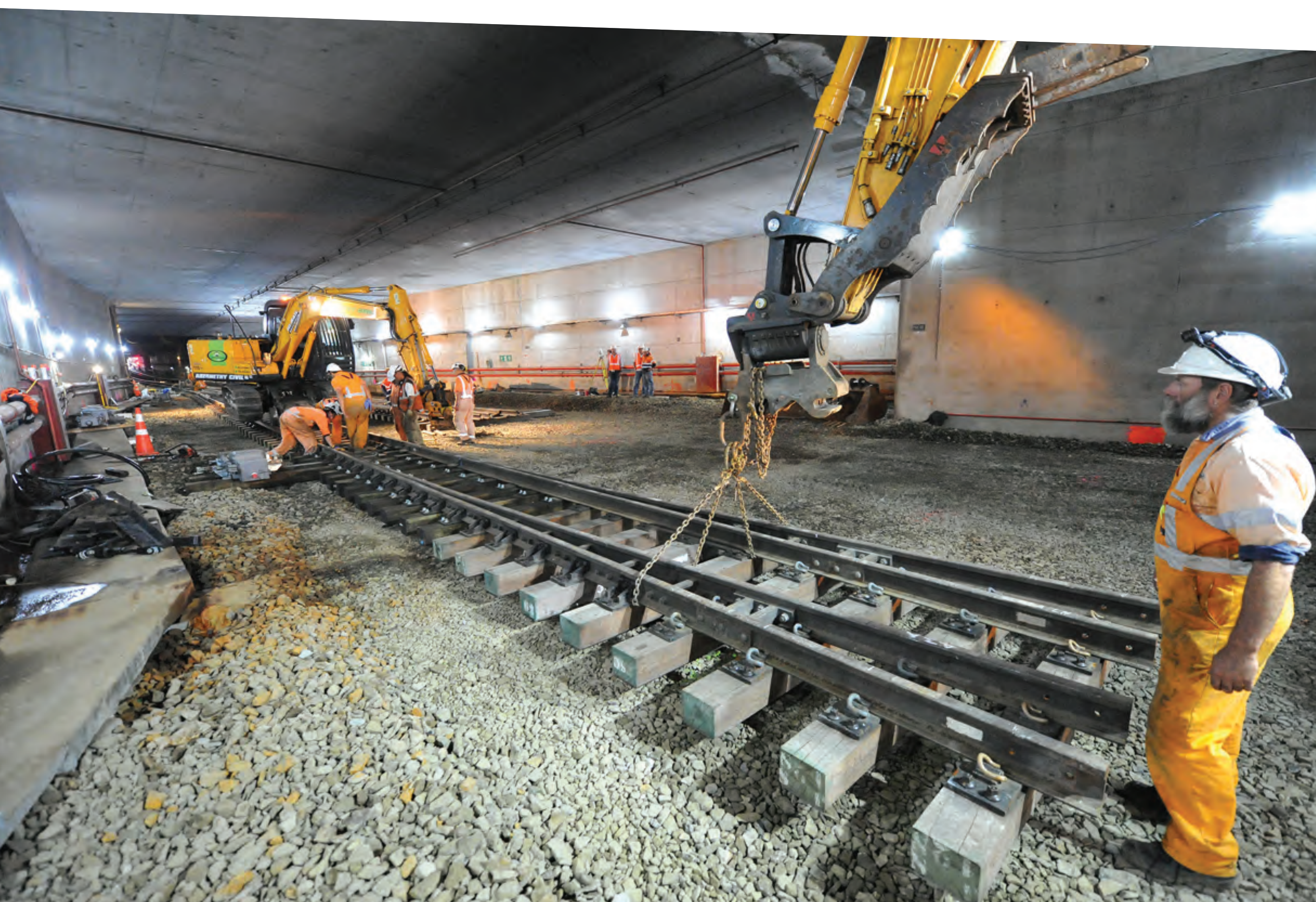
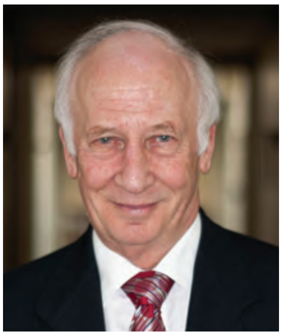
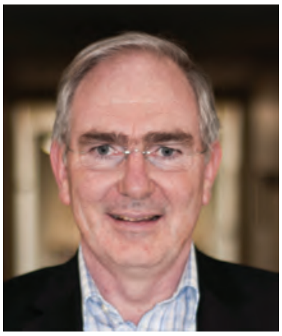


Chairman and Chief Executive's Review



JOHN SPENCER
CHAIRMAN



JIM QUINN
CHIEF EXECUTIVE

We are pleased to present KiwiRail's report and un-audited financial statements for the six months ended 31 December, 2012.

In the first half of this financial year we are continuing to make good progress towards delivering KiwiRail's sustainable future. This half year we have resolved a number of major strategic issues, as outlined in our plan, helping to better position us as we continue to drive towards a self-sustaining and efficient rail business.

In the last six months we have closed the Hillside operation, mothballed the Napier to Gisborne line, restructured the Infrastructure and Engineering business and completed the Balance Sheet restructure. While some of these decisions have been difficult due to their impact on communities and our people, they were essential to ensure we deliver on our objectives. We have also ensured that our commitment to a safe, high performance culture has not been compromised by these decisions.

With our fleet reliability now strong and our on-time performance consistently at acceptable levels, this is translating to further volume and revenue growth. Our major customers are seeing the benefits of our efforts, resulting in public endorsement of the improvements they are experiencing.

Our capital investment programme to improve our national network and business continues with approximately $220 million spent in the last six months which has led to further improvements in on time performance and less disruption to services.

This work has resulted in achieving an operating surplus of almost $47 million, representing growth of almost eight percent compared to the previous period. Sustainably generating cash for KiwiRail is a foundation requirement of our strategic plan, so the operating surplus before depreciation and grant income (or EBITDA) is an important metric for the overall business.

KEY FINANCIAL INFORMATION

	December 2012 Unaudited	December 2011 Unaudited	Variance	Variance
	$m	$m	$m	%
Operating Revenue	362.9	349.0	13.9	4.0%
Operating Expenses	(316.0)	(305.4)	(10.6)	-3.5%
Operating surplus before depreciation and grant income (EBITDA)	**46.9**	**43.6**	**3.3**	**7.6%**

As mentioned earlier we also successfully implemented a new structure for the company when on the 31st of December we split into two entities – a new State Owned Enterprise (SOE), KiwiRail Holdings Limited and New Zealand Rail Corporation (NZRC).

The new SOE provides KiwiRail with a structure that better reflects commercial reality as it separates the commercial operations from the land assets, which delivers a more accurate basis for measuring financial performance. This change will be reflected in the second half financial results. But as a result of this change some of our line items such as depreciation and asset impairments do not provide direct comparability to the previous period.

SUMMARY - KIWIRAIL BUSINESS

	EBITDA				EXTERNAL REVENUE			
	December 2012	December 2011	Variance	Variance	December 2012	December 2011	Variance	Variance
	$m	$m	$m	%	$m	$m	$m	%
Freight	79.1	70.6	8.5	12.0%	238.5	221.3	17.2	7.8%
Infrastructure & Engineering	(22.3)	(18.6)	(3.7)	(19.9%)	21.0	21.5	(0.5)	(2.1%)
Corporate (including Property)	(17.2)	(14.8)	(2.4)	(16.2%)	15.9	15.5	0.4	(2.7%)
Rail Freight	**39.6**	**37.2**	**2.4**	**6.5%**	**275.5**	**258.3**	**17.2**	**6.6%**
InterIslander	6.5	6.5	-	0.0%	56.3	57.1	(0.8)	(1.5%)
Tranz Metro	3.1	2.0	1.1	55.0%	21.9	23.7	(1.8)	(7.5%)
Scenic	(2.3)	(2.1)	(0.2)	(9.5%)	9.3	9.9	(0.7)	(6.6%)
Group	**46.9**	**43.6**	**3.3**	**7.6%**	**362.9**	**349.0**	**13.9**	**4.0%**

Business Performance

The freight business, constituting approximately 65 percent of group revenue, continues to grow both revenue and volumes. The revenue result of over $238 million is an almost eight percent increase over the previous half year.

The Import Export business continues to be the standout performer with an increase in revenue of almost 21 percent over the previous half year. This is due to an increase in shipping and port movements resulting in higher volumes.
We expect growth in this segment of the freight business to continue as we add more rolling stock and attract further customers and volumes.

This result has helped offset slower growth in the Bulk and Domestic businesses. Bulk only recorded growth of 1.3 percent due to less volume from coal and milk than forecast. Domestic recorded a flat result due to the impact of the threatened Interislander strike late last year and the continued flat domestic economy.

A particularly pleasing result has been the large improvement in locomotive reliability over the last six months. In December alone the Mean Distance Between Failures (MDBF) result of over 65,000km was 20,000km above target. This is a direct result of the rapid performance improvement in the new locomotives. A further 20 locomotives have been ordered for delivery this year.

Also in October we introduced a new daily freight service between Auckland and Palmerston North. We are pleased with the service's performance and it is getting good support from customers.

SUMMARY - KIWIRAIL FREIGHT REVENUE

	REVENUE			VOLUME			
	December 2012	December 2011	Variance	Volume measure	December 2012	December 2011	Variance
	$m	$m	%		$m	$m	%
IMEX	74.0	61.2	20.9%	TEU Kms	70.8	59.9	18.2%
Bulk	86.0	84.9	1.3%	NTKs	954.4	988.0	(3.4%)
Domestic	53.9	53.6	0.6%	TEU Kms	62.2	60.0	3.7%
Other	24.6	21.6	13.9%				
Total	**238.5**	**221.3**	**7.8%**				

The Infrastructure and Engineering (I&E) team work to provide a robust national rail network by managing the ongoing maintenance and renewal programme, controlling the movement of trains, and managing the major new infrastructure projects in Auckland and Wellington. The latter work is largely accounted for separately and is not included in our underlying core freight business results.

I&E have recorded a half year in which their financial results exceeded plan and they maintained their solid record of delivering complex projects on time and on budget.

The largest challenge for I&E has been to decrease total expenditure by re-prioritising work on the rail network over the next three years. While the investment of $750 million over that time is less than planned, it is still four times more than that spent from 2005-2008. As a result we had to make the hard decision to reduce the I&E workforce by approximately 160 staff.

Over the last six months the business has largely completed the implementation of a major restructuring programme, delivered over 67,000 man hours on the metro networks Christmas blocks of line on time and on budget, and established a new mechanical engineering group.

Over the next half we expect I&E to achieve plan objectives despite the impact of the repairs to major damage on the West Coast line caused by extreme weather that closed it for three weeks and a large derailment on the Mission Bush line south of Auckland.

Interislander operational capability has been markedly improved with all ships being available and the Aratere performing well as the cornerstone ship of the fleet. The resulting extra capacity has been well utilised by the freight team.

But a difficult trading environment exists due to a shrinking in the overall Cook Strait passenger market. On top of this the threatened industrial action before Christmas had a significant impact on bottom line earnings as customers changed suppliers due to a need to guarantee service. The combination of these factors has led to a flat EBITDA result.

Also this financial year we will be making the decision on whether to renew the Kaitaki lease or undertake a search for a replacement ship. We expect to make this announcement shortly.

The Scenic business has been re-invigorated by the introduction of new carriages on all our long distance passenger services, greatly improving the travel experience. The feedback from passengers has been overwhelmingly positive and, along with the improved service offerings and better marketing, we have seen some growth.

The Northern Explorer growth in passenger numbers is in line with expectations, but still some way from being profitable. The TranzAlpine is still the premier service and we expect passenger numbers to improve alongside the Christchurch rebuild programme. Unfortunately while there has been a small level of growth for the Coastal Pacific this has not been enough to guarantee this service will continue in the current format.

Another service under review is the Capital Connection from Wellington to Palmerston North. We are currently working with Government and other stakeholders to resolve the future of this loss-making service.

After two years of dedicated focus on improving service levels Wellington's Tranz Metro business has succeeded in improving both on-time performance and reliability. This is due to a combination of factors including network upgrades, new rollingstock and better customer service.

Passenger numbers have decreased slightly compared to the previous half year, which is primarily due to the reduction in the Wellington employment market. While this number was on plan, we and Greater Wellington Regional Council, expect this number to increase as employment statistics improve.

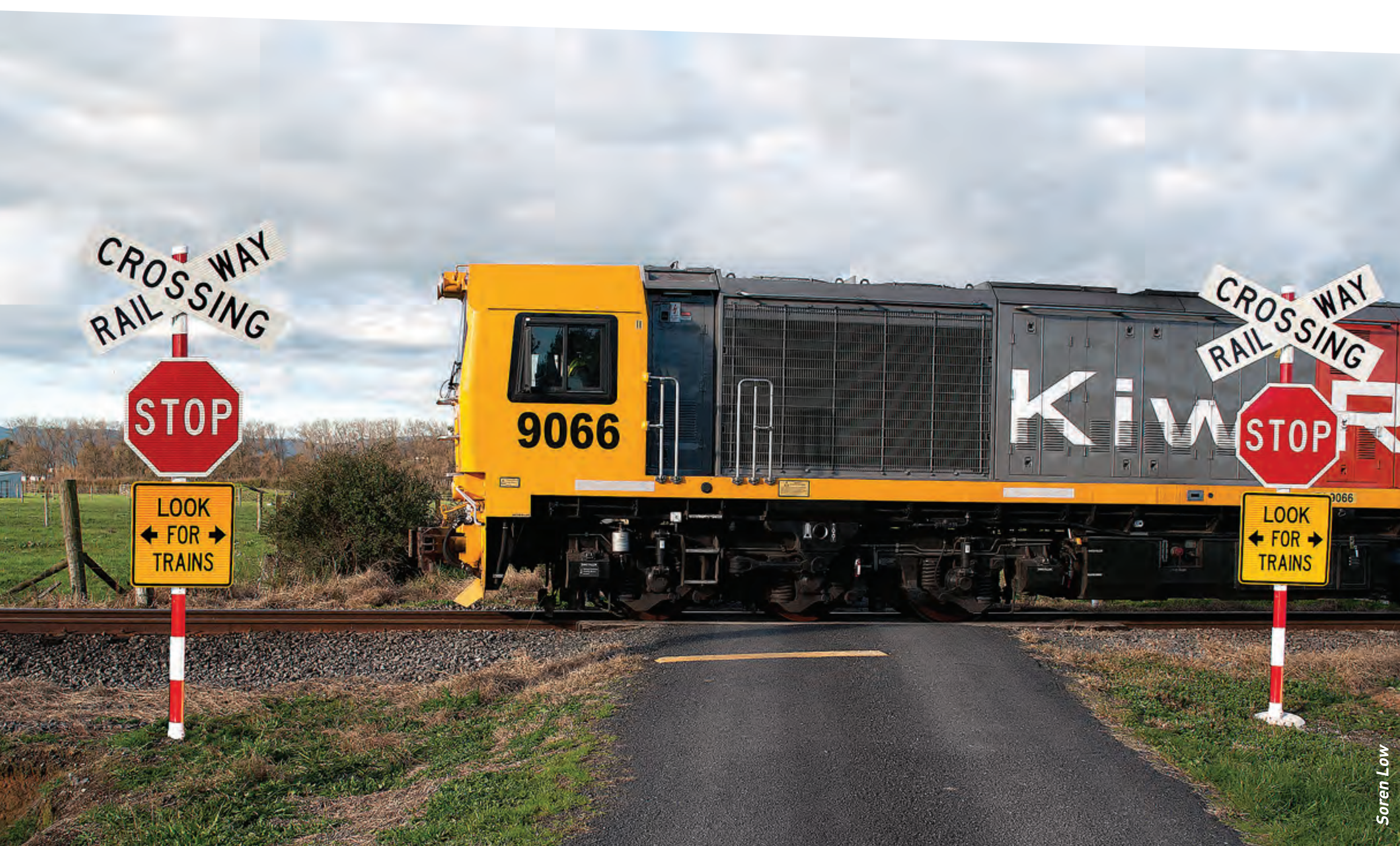
Safety and Sustainability

KiwiRail and the Chris Cairns Foundation continue to promote community education and awareness programmes that increase the knowledge of motorists and pedestrians about the dangers of the rail corridor.

The final total of 16 public road level crossing collisions for the 2012 calendar year was the same as the previous year (2011) and 10 below the previous 10 year average. This total of 16 collisions is equal to the previous lowest ever recorded numbers achieved in 2011 and 2006. We will persevere with the ongoing awareness campaigns and improvement work in an endeavour to further reduce these incidents.

Sustainable business practices continue to be embedded through the business.

Freight completed a trial of a driver advice system for locomotives in the first half of the year. This technology supports drivers to follow a driving profile that is optimised for fuel consumption taking into account the topography, speed restrictions and train characteristics. After reviewing results it was decided there was enough potential in fuel savings to pursue this further and an agreement has been reached with a supplier to start a staged implementation.



A key network initiative that will also help to improve fuel savings is the use of the rail grinder. This machine improves the shape of the rail head reducing friction between wheels and the rail. Defects and metal build up cause considerable drag and resultant fuel use. The project commenced in October and will continue for the next two years gradually working through the priority tracks on the network.

Interislander are continuing to improve their use and understanding of data from fuel monitoring systems. The system, in place on the *Arahura* and *Kaitaki*, is enabling the business to see the impact of operational and design changes.

A concerted effort has also been put into better understanding energy use in KiwiRail's main facilities. Energy profiles have been produced and in-depth analysis has been completed at Hutt workshop and at the Wellington Railway Station. Providing better data to site managers to enable them to better understand energy onsite is an ongoing process.

KiwiRail uses a number of performance indicators to measure workplace health and safety, with the most important being Lost Time Injury Frequency Rate (LTIFR) and Medical Treatment Injury Frequency Rate (MTIFR).

While both figures have remained relatively static when compared to the previous period, they are still above plan. In particular the LTIFR of 7.1 is above the target of 5.5. We are undertaking a detailed review of health and safety practices to assess where further improvements need to be made and assist us in our commitment to Zero Harm.

Outlook

During January 2013 two major events have had an impact on revenue and costs. The first was the extensive damage done to the West Coast line from a major storm that took over three weeks to repair and disrupted bulk coal deliveries for our customer Solid Energy. The second was the derailment of a freight train on the Mission Bush line. While the line was repaired within a week the damage to both the infrastructure and rollingstock, and the impact on our customer was extensive.

These two events, alongside the continued losses from the Scenic passenger business and the impact of the threatened Interislander strike, will have an impact on our revenue and EBITDA full year results.

This will be partially offset by the continued growth in freight and the expected improvement in cost management across the business, but it is too early to assess this impact accurately.

Over the next few months we expect to make a final decision on the future of the Capital Connection and the Coastal Pacific services. We will also finish our assessment on the viability of a roll on-roll off system to transfer rail freight on to the Interislander ferries as a way of reducing future costs and improving efficiency.

For the half year, we are within $4m of our target operating surplus with key impacts from the flat domestic economy and lower coal volumes the key contributors.

The balance of the year presents some challenges. The issues facing Solid Energy will potentially result in significantly less coal being moved from their West Coast mines and would then negatively impact our freight revenue and earnings. Their difficulties also mean it is unlikely we will resolve the pricing component of our contract with them. This relates to our contract negotiations to ensure the returns we receive fairly reflect our costs of operating the West Coast coal services, as highlighted in our Statement of Corporate intent. In addition, our bulk milk freight movements will be down on plan due to the likely earlier than forecast end to the dairy milking season. Due to these challenges, combined with the continued flat outlook for domestic freight and Cook Strait passenger numbers, we expect our operating surplus to be in the range of $104m to $107m against our Statement of Corporate Intent target of $119m.

Despite this, over the next six months we will remain focused on pursuing further opportunities to improve our performance and service to customers, while continuing to closely manage costs.

JOHN SPENCER
CHAIRMAN

JIM QUINN
CHIEF EXECUTIVE

Key Performance Measures

The key performance measures are those outlined in the Statement of Corporate Intent (SCI).

	Half Year Actual	Half Year Target	Full Year SCI Target
Financial Metrics ($m)			
(a) Operating revenue	362.9	361.4	734.0
(b) Grant income [1]	101.2	75.2	152.1
(c) Operating surplus before one-off items	46.9	50.5	119.3
(d) Net operating surplus	46.9	50.5	119.3
(e) NPAT before grant income [2]	(177.1)	(159.2)	(287.9)
(f) Strategic Plan Capital Expenditure [3]	116.3	160.8	313.8
(g) Metro Project Capital Expenditure [1]	93.3	62.3	124.5
(h) Metro Renewals Capital Expenditure	11.1	11.2	24.4
Key Sales Metrics			
(i) Freight NTK (m)	2,318.7	2,387.7	4,708.2
(j) Freight average Yield (C/NTK)	8.3	8.3	8.5
Key Investment Outcomes			
(k) Rolling Stock Replacement			
- Wagons (no. of new units)	0	0	75
- Locomotives (no. of new units)	0	0	15
(l) Network Renewals [3]			
- New Sleepers Laid (000)	56	64	108
- New Rail Laid (km)	15	20	33
- Lines Destressed (km)	97	125	250
- Span Metres Replaced	344	425	461
- Timber Piers Replaced	47	60	69
- Culverts Replaced	13	16	20
- Level Crossing Upgrades	4	7	10
Customer Service Performance			
(m) Freight – Premium Train (%<30min)	89%	90%	90%
(n) Metro (%<5min)	95%	91%	91%
(o) Scenic (%<15min)	83%	87%	87%
(p) Interislander (%<15min)	87%	85%	85%
Productivity Measures			
(q) Group Labour Costs as % of Revenue	40.8%	39.4%	34.0%
(r) Freight OPEX as a % of Freight Revenue	68.1%	66.8%	66.5%
(s) Freight fuel & traction electricity costs as a % of Revenue	17%	17%	14%
(t) Freight maintenance costs as a % of Revenue	8%	7%	11%
(u) Interislander OPEX as a % of Revenue	91%	90%	88%
(v) Interislander fuel costs as a % of Revenue	21%	22%	21%
(w) Network operating costs % of Freight revenue	14%	14%	13%
Health and Safety			
(x) LTIFR (per million man hours)	7.1	5.5	5.5
(y) MTIFR (per million man hours)	38.8	42.2	42.2
Staff Engagement			
(z) Engagement Index	68	71	71

Key Performance Measures

The key performance measures are those outlined in the Statement of Corporate Intent (SCI).

	Half Year Actual	Half Year Target	Full Year SCI Target
BUSINESS UNIT SUMMARY ($m)			
(a) Operating revenue			
Rail Freight			
Freight	238.5	246.5	492.7
Infrastructure & Engineering	21.0	15.4	33.1
Corporate	15.9	16.3	33.1
	275.4	**278.2**	**558.9**
Interislander	56.3	58.7	126.8
Passenger			
Scenic [4]	9.3	1.3	2.5
Tranz Metro	21.9	23.3	45.8
	362.9	**361.4**	**734.0**
(b) Net Operating surplus			
Rail Freight			
Freight	79.1	84.2	168.0
Infrastructure & Engineering	(22.3)	(28.8)	(48.4)
Corporate	(17.2)	(16.8)	(33.1)
	39.6	**38.5**	**86.5**
Interislander	6.5	7.6	24.1
Passenger			
Scenic [4]	(2.3)	1.3	2.5
Tranz Metro	3.1	3.1	6.2
	46.9	**50.5**	**119.3**
(c) Strategic Plan Capital Expenditure			
Rail Freight [3]			
Freight	24.8	37.1	94.9
Infrastructure & Engineering	76.5	91.8	163.6
Corporate	9.7	24.0	46.1
	110.9	**152.9**	**304.6**
Interislander	1.0	2.9	4.3
Passenger			
Scenic [4]	4.4	4.9	4.9
Tranz Metro	-	0.0	-
	116.3	**160.8**	**313.8**

Key Performance Measures

The key performance measures are those outlined in the Statement of Corporate Intent (SCI).

	Half Year Actual	Half Year Target	Full Year SCI Target
Shareholder Return Measures			
Total Shareholder Return	N/A [5]	N/A	-7%
Dividend Yield	Nil	Nil	Nil
Dividend Payout	Nil	Nil	Nil
Return on Average Equity	-2.1%	-2.8%	-3.7%
Return on Average Equity excluding IFRS fair valuation movements and asset revaluations	-16.0%	-22.0%	-29.2%
Profitability/Efficiency Measures			
Return on Average Capital Employed	-20.6%	-19.3%	-33.8%
Operating Margin	12.9%	14.0%	16.3%
Leverage/Solvency Measures			
Shareholder's Funds to Total Assets	88.8%	89.3%	89.3%
Gearing Ratio (net)	2.3%	5.6%	5.6%
Interest Cover	4.3	5.4	6.4
Solvency (current assets/current liabilities)	1.37	0.65	0.65

[1] The upgrading of the Wellington and Auckland Metro networks is separately funded by grant income. The higher than planned expenditure is due to a re-scheduling of work between financial years.

[2] NPAT before grant income was 11.2% ($17.9 million) behind target primarily due to higher than budgeted impairment of capital expenditure on major Metro projects as a result of the re-scheduling noted above.

[3] Strategic Plan Capital Expenditure excludes major Metro projects funded by government and Metro passenger renewals funded by local authorities. Capital expenditure was 27.7% ($44.5 million) lower than the half year target primarily due to:

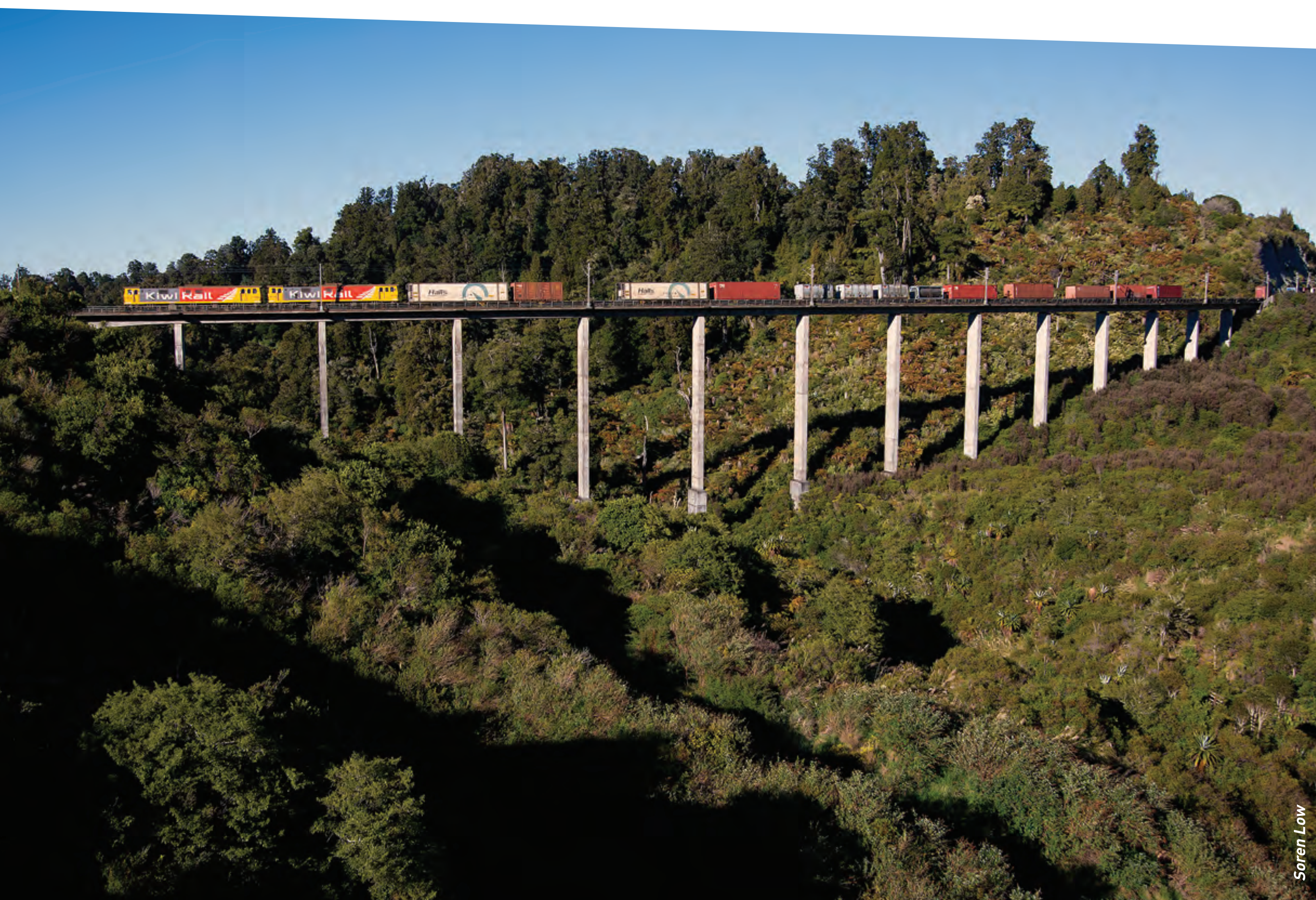
- Re-phasing the procurement of new Freight locomotives and wagons to the second half of the financial year.
- Slower than planned network renewals over the first quarter of the financial year, when the business focused on safety critical renewals and maintenance activities while reducing direct labour head count by approximately 25% to adjust for the reduced 2013 capital works programme. This resulted in the physical outputs for the first 6 months being behind target. The cost reduction is on target and the renewals programme is now being accelerated through the second half of the year.
- Slower than planned commercial property developments.

[4] The Scenic targets for the year assumed that the operating business would be sold during the first half of 2013 with the AK carriages leased to the new operator. The planned sale did not proceed, therefore the actual results for the six months ended 31 December 2012 represents KiwiRail's continued operation of this business.

[5] Total Shareholder Return to be calculated at year end date only.

Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012



Soren Low

Consolidated Statement of Financial Performance

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

	Note	6 months ended Dec 2012 (Unaudited)	6 months ended Dec 2011 (Unaudited)	Year ended June 2012 (Audited)
		$m	$m	$m
GROUP				
Operating revenue	2	362.9	349.0	715.8
Operating expenses	3	(316.0)	(305.4)	(638.2)
Operating surplus		**46.9**	**43.6**	**77.6**
Grant income	4	101.2	72.7	172.3
Depreciation and amortisation expense	6e	(29.9)	(155.4)	(309.4)
Foreign exchange and commodity gains and losses		1.6	5.0	3.1
Finance income	5	1.7	0.8	2.1
Finance costs	5	(7.5)	(26.1)	(42.5)
Net loss on sale of land		-	-	(18.1)
Impairment	7	(189.9)	-	(2,199.2)
Revaluation of property, plant and equipment		-	-	(8.1)
Gain on transfer of EMU FX contracts to Auckland Council Group		-	42.8	42.8
Cumulative foreign exchange loss on EMU FX contracts		-	(40.2)	(40.2)
Net loss before taxation		**(75.9)**	**(56.8)**	**(2,319.6)**
Taxation credit		-	11.1	14.5
Net loss after taxation		**(75.9)**	**(45.7)**	**(2,305.1)**

The accompanying notes form part of these financial statements

NEW ZEALAND RAILWAYS CORPORATION

Statement of Comprehensive Income

FOR SIX MONTHS ENDED 31 DECEMBER 2012

	6 months ended Dec 2012 (Unaudited)	6 months ended Dec 2011 (Unaudited)	Year ended June 2012 (Audited)
	$m	$m	$m
GROUP			
Net loss after taxation	**(75.9)**	**(45.7)**	**(2,305.1)**
Other comprehensive income			
Revaluation of property, plant and equipment	-	-	333.4
Tax effect of revaluation	-	-	(3.3)
Reversal of asset revaluations	-	-	(7,563.8)
Tax effect of reversal of asset revaluations	-	-	49.0
Gains/(losses) from cash flow hedges	(2.0)	18.8	22.2
Transfer to asset carrying value from cash flow hedge reverse	0.8	4.4	(0.7)
Transfer of EMU FX contracts to Auckland Council Group	-	40.2	40.2
Total comprehensive income/(loss)	**(77.1)**	**17.7**	**(9,428.1)**

The accompanying notes form part of these financial statements

Statement of Financial Position

AS AT 31 DECEMBER 2012

	Note	Before Restructure Dec 2012 (Unaudited)	Dec 2011 (Unaudited)	June 2012 (Audited)
		$m	$m	$m
GROUP				
Current assets				
Cash and cash equivalents	6d	119.4	75.8	36.1
Trade and other receivables		122.6	118.1	117.1
Inventories		61.0	87.3	57.9
Financial assets		1.9	1.8	0.5
		304.9	**283.0**	**211.6**
Non-current assets				
Property, plant and equipment		4,043.9	13,398.1	4,045.2
Investment property		5.0	-	5.0
Intangible assets		0.5	13.2	0.6
Financial assets		-	0.1	-
Trade and other receivables		-	-	-
		4,049.4	**13,411.4**	**4,050.8**
Total Assets		**4,354.3**	**13,694.4**	**4,262.4**
Current liabilities				
Trade and other liabilities		188.3	181.7	177.1
Financial liabilities		15.6	332.6	439.2
Income taxes payable		-	-	-
Provisions		18.8	14.4	22.8
		222.7	**528.7**	**639.1**
Non-current liabilities				
Trade and other liabilities		39.4	35.5	39.4
Financial liabilities		219.1	225.1	120.5
Provisions		4.5	-	3.3
Deferred taxation		-	49.1	-
		263.0	**309.7**	**163.1**
Total Liabilities		**485.7**	**838.4**	**802.2**
Net Assets		**3,868.6**	**12,856.0**	**3,460.2**
Equity				
Equity capital	6d	1,532.4	996.9	1,046.9
Retained earnings		(853.3)	1,406.1	(774.4)
Asset revaluation reserve		3,192.3	10,452.9	3,189.3
Cash flow hedge reserve		(2.8)	0.1	(1.6)
Total Equity		**3,868.6**	**12,856.0**	**3,460.2**

The financial statements are approved and signed by the Board of New Zealand Railways Corporation as it was at 31 December 2012 immediately prior to the restructure.

John Spencer

John Spencer, Chair
26 February 2013

Paula Rebstock

Paula Rebstock, Deputy Chair
26 February 2013

The accompanying notes form part of these financial statements

Statements of Changes in Equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

	Note	Equity Capital	Retained Earnings	Asset Valuation Reserve	Cash Flow Hedge Reserve	Total
GROUP - Before Restructure		$m	$m	$m	$m	$m
As at 1 July 2011 (Audited)		**796.9**	**1,364.2**	**10,540.5**	**(63.3)**	**12,638.3**
Net loss for the period		-	(45.7)	-	-	(45.7)
Other comprehensive income						
Release of revaluation reserve to retained earnings		-	87.6	(87.6)	-	-
Net gains from cash flow hedges		-	-	-	18.8	18.8
Transfers to asset carrying value from cash flow hedge reserve		-	-	-	4.4	4.4
Transfer of EMU FX contracts to Auckland Council Group	5	-	-	-	40.2	40.2
Total comprehensive income		**-**	**41.9**	**(87.6)**	**63.4**	**17.7**
Transactions with Owners						
Capital Injection		200.0	-	-	-	200.0
As at 31 December 2011 (Unaudited)		**996.9**	**1,406.1**	**10,452.9**	**0.1**	**12,856.0**
Net loss for the period		-	(2,259.4)	-	-	(2,259.4)
Other comprehensive income						
Revaluation of property, plant & equipment		-	-	333.4	-	333.4
Tax effect of revaluation of property, plant and equipment		-	-	(3.3)	-	(3.3)
Release of revaluation reserve to retained earnings		-	80.7	(80.7)	-	-
Release of prior period revaluations		-	(1.8)	(7,562.0)	-	(7,563.8)
Transfer to asset carrying value from cash flow hedge reserve		-	-	49.0	-	49.0
Transfer to asset carrying value from cash flow hedge reserve		-	-	-	(5.1)	(5.1)
Gains/(losses) from cash flow hedges		-	-	-	3.4	3.4
Total comprehensive income		**-**	**(2,180.5)**	**(7,263.6)**	**(1.7)**	**(9,445.8)**
Transactions with Owners						
Capital Injection		50.0	-	-	-	50.0
As at 30 June 2012 (Audited)		**1,046.9**	**(774.4)**	**3,189.3**	**(1.6)**	**3,460.2**
Net surplus for the period		-	(75.9)	-	-	(75.9)
Other comprehensive income						
Release of revaluation reserve to retained earnings		-	(3.0)	3.0	-	-
Transfers to asset carrying value from cash flow hedge reserve		-	-	-	(2.0)	(2.0)
Gains/(losses) from cash flow hedges		-	-	-	0.8	0.8
Total comprehensive income		**-**	**(78.9)**	**3.0**	**(1.2)**	**(77.1)**
Transactions with Owners						
Debt to Equity Conversion		322.5	-	-	-	322.5
Capital Injection	6d	163.0	-	-	-	163.0
As at 31 December 2012 (Unaudited)		**1,532.4**	**(853.3)**	**3,192.3**	**(2.8)**	**3,868.6**

The accompanying notes form part of these financial statements

Statement of Cash Flows

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

	Note	6 months ended Dec 2012 (Unaudited)	6 months ended Dec 2011 (Unaudited)	Year ended June 2012 (Audited)
GROUP - Before Restructure		$m	$m	$m
Cash flows from operating activities				
Proceeds from:				
Receipts from customers		368.1	357.6	710.0
Interest received		1.7	0.8	2.1
Proceeds utilised for:				
Payments to suppliers and employees		(323.4)	(344.3)	(632.4)
Interest expense		(12.3)	(27.1)	(38.6)
Income tax paid		-	-	-
Net cash from operating activities	10	**34.1**	**(13.0)**	**41.1**
Cash flows from investing activities				
Proceeds from:				
Sale of property, plant and equipment		2.7	6.3	9.4
Capital grant receipts		101.2	72.7	172.3
Proceeds utilised for:				
Purchase of property, plant and equipment		(218.1)	(268.6)	(513.4)
Purchase of intangibles		(0.2)	(1.5)	(6.4)
Net cash used in investing activities		**(114.4)**	**(191.1)**	**(338.1)**
Cash flows from financing activities				
Proceeds from:				
Long term borrowings		-	-	3.6
Crown capital injection	6d	163.0	200.0	250.0
Finance lease		2.0	-	0.2
Proceeds utilised for:				
Repayment of borrowings		(1.4)	(1.2)	(2.3)
Net cash from financing activities		**163.6**	**198.8**	**251.5**
Net (decrease)/increase in cash and equivalents		**83.3**	**(5.3)**	**(45.5)**
Cash and cash equivalents at the beginning of the period		**36.1**	**81.1**	**81.1**
Effect of exchange rate fluctuations on cash held		-	-	0.5
Cash and cash equivalents at the end of the period	6d	**119.4**	**75.8**	**36.1**

The accompanying notes form part of these financial statements

Statement of Accounting Policies

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 (CONTINUED)

REPORTING ENTITY

On 31 December 2012 the Group previously owned by New Zealand Railways Corporation underwent a restructure in accordance with the New Zealand Railways Restructuring Act 1990. In order to present financial information that meets the objective of comparability these interim financial statements have been prepared for the six months ended 31 December 2012 for the Group that existed immediately prior to the restructure.

New Zealand Railways Corporation 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" for the purpose of these interim financial statements comprises the New Zealand Railways Corporation and the subsidiaries and associate companies that it held immediately prior to the restructure. The Group is domiciled in New Zealand. The Group has been designated as a Public Benefit Entity.

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

The interim financial statements of the Group are for the six months ended 31 December 2012 and were authorised by the Board of New Zealand Railways Corporation as it was at 31 December 2012 for issue on 26 February 2013.

Change of accounting designation

The Group's balance sheet valuations previously reflected the view that its assets were held for a public benefit rather than to generate a commercial return. At KiwiRail's annual public meeting in November 2011, it was announced that a change in accounting approach would be made to reflect a more standard commercial approach to non-land asset valuations and impairment testing. This change reflects the shareholder's requirement that the Group maximise cash flow generated from assets other than rail corridor land. Cash generating units ("CGUs") to which the assets are allocated are therefore required to be impairment tested on the basis of the commercial returns they are forecast to generate. This has resulted in the recorded value of affected assets being significantly reduced to values supported by forecast future cash flows. This change has been accounted for as a change in assessment of assets from non-cash generating to cash generating.

The following structural changes have been made:

a) A new company, KiwiRail Holdings Limited (which is an SOE) has been established at 31 December 2012 to hold all the rail assets and liabilities previously held in the Group, excluding Crown land that is currently made available to the Parent of the Group under its legislation. Assets transferred to KiwiRail Holdings Limited include all rolling stock, tracks, railway infrastructure, ships, plant and equipment, buildings and all shares in subsidiaries. The new company is classified as a Profit Oriented Entity ("POE") for accounting purposes, and its assets will therefore be valued and impairment tested on a commercial basis. The Group's rail assets and liabilities have been vested in the new company as at 31 December 2012. The vesting of rail assets and liabilities used a statutory procedure under the New Zealand Railways Corporation Restructuring Act 1990 for which the shareholder is providing its support.

b) An agreement has been entered to enable the Crown land that was previously made available to New Zealand Railways Corporation to be made available to the new company to continue to fulfil its objectives as a rail operator.

c) Appropriate cash generating units have been defined for impairment testing in accordance with POE accounting guidelines to ensure transparent reporting of the performance of the new company and to ensure the appropriate valuation of assets consistent with the commercial return they generate.

As the decision by the shareholder was made public prior to the end of the financial year, the impact of this decision was reflected in the Financial Statements as at 30 June 2012. The consequences of this were:

a) Fixed and Intangible Assets were reflected in the financial statements at their recoverable amount being the higher of value in use or fair value less cost to sell, with value in use being the present value of future cash flows. Where the recoverable amount of the asset was below net book value, an impairment was recognised.

b) The following cash generating units were established:

   i) Rail (which includes the Metro and Tranz Scenic businesses);
   ii) Interislander; and
   iii) Leased buildings.

The same approach has been taken in preparing these interim Financial Statements. The assets of the Group were tested for impairment immediately prior to the restructure to ensure that they were vested in KiwiRail Holdings Limited at the lower of their carrying value and recoverable amount.

BASIS OF PREPARATION

Statement of compliance

As noted above the interim financial statements have been prepared for a Group that existed immediately prior to the balance date restructure. The statement of financial position therefore does not represent the assets and liabilities held by the New Zealand Railways Corporation at 31 December 2012. Further information regarding the restructure and the Statement of Financial Position following the restructure are included in Note 12.

In all other respects, the 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*.

Changes in accounting policies

There have been no material changes in accounting policies in the year. All other 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 2012.

NEW STANDARDS ADOPTED

No new or amended NZ IFRSs have been adopted as of 1 July 2012.

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 2013. The revised standard amends measurement categories for financial assets. It is not expected to have any impact on the consolidated financial results of the Group.

Notes to the Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

1. TOTAL INCOME

	Note	6 months ended Dec 2012 (Unaudited)	6 months ended Dec 2011 (Unaudited)	Year ended June 2012 (Audited)
		$m	$m	$m
Revenue	2	362.9	349.0	715.8
Grant income	4	101.2	72.7	172.3
Total income		**464.1**	**421.7**	**888.1**

2. REVENUE

	Note	6 months ended Dec 2012 (Unaudited)	6 months ended Dec 2011 (Unaudited)	Year ended June 2012 (Audited)
		$m	$m	$m
Freight	6a	238.5	221.3	457.6
Mechanical	6a	-	6.0	-
Interislander		56.3	57.1	123.9
Tranz Metro		21.9	23.7	45.7
Scenic		9.3	9.9	20.3
Property & Corporate		15.9	15.5	34.1
Infrastructure & Engineering	6a	21.0	15.5	34.2
Total revenue		**362.9**	**349.0**	**715.8**

3. OPERATING EXPENSES

	Note	6 months ended Dec 2012 (Unaudited)	6 months ended Dec 2011 (Unaudited)	Year ended June 2012 (Audited)
		$m	$m	$m
Salaries and wages		133.8	130.9	270.8
Defined contribution plan employer contributions		4.4	4.4	8.7
Employee entitlements		6.5	8.1	9.8
Other employee expenses		1.5	1.7	4.3
Total staff costs		146.2	145.1	293.6
Materials and supplies	6c	44.1	36.0	91.7
Fuel and traction electricity		59.6	60.0	124.2
Lease and rental costs		24.7	24.8	49.2
Incidents, casualties and insurance		9.1	7.6	16.0
Contractors expenses		8.5	7.6	16.1
Fees paid to auditors:				
Audit fees		0.1	0.3	0.4
Impairment of receivables		-	(0.2)	0.1
Directors' fees		0.2	0.2	0.3
Loss on disposal of property, plant and equipment		-	0.3	0.6
Other expenses		23.5	23.7	46.0
Total operating expenses		**316.0**	**305.4**	**638.2**

Salaries and wages and materials and supplies have been re-stated for the period ending 31 December 2011. These expense categories are now reported on a consistent basis for all three periods.

4. GRANT INCOME

	Note	6 months ended Dec 2012 (Unaudited)	6 months ended Dec 2011 (Unaudited)	Year ended June 2012 (Audited)
		$m	$m	$m
Capital grants for metro projects				
Auckland rail development	6b	23.1	2.3	0.5
Wellington rail development	6b	-	1.7	-
Auckland electrification project	6b	64.0	49.7	124.6
Other capital grants				
Rail upgrade and growth	6b	-	6.9	10.1
Other		13.8	12.1	36.6
Public policy grant		0.3	-	0.5
Total grant income		**101.2**	**72.7**	**172.3**

5. NET FINANCE COSTS

	6 months ended Dec 2012 (Unaudited)	6 months ended Dec 2011 (Unaudited)	Year ended June 2012 (Audited)
	$m	$m	$m
Finance income			
Interest income on bank deposits	1.7	0.8	2.1
	1.7	0.8	2.1
Less Finance costs			
Interest expense on borrowings	(10.8)	(15.9)	(33.3)
Interest expense - other	-	-	(0.1)
Net change in fair value of derivatives	3.3	(10.2)	(9.1)
	(7.5)	(26.1)	(42.5)
Net finance costs	**(5.8)**	**(25.3)**	**(40.4)**

6. ACTUAL COMPARATIVE INFORMATION

(a) Revenue

Total Group revenue grew by 4% on the same period in the prior year and is attributable to strong growth in our Freight business unit.

Note the Group's Mechanical activities were divided between the Freight and Infrastructure and Engineering business units during the second half of the 2012 financial year. Maintenance depots are now managed within Freight, external maintenance revenue for the period is included within Freight revenue. The Workshops are now being managed by Infrastructure and Engineering and revenue for the current year is included within that business unit's result.

(b) Grant Income
KiwiRail received grant income from the Crown and Regional Councils to complete specific rail projects on their behalf. The funding is drawn down as work progresses on the projects. The increase in grant income compared to the same period in the prior year is due to timing of work on the Auckland rail development and electrification projects.

(c) Materials and Supplies
The increase in materials and supplies, which includes materials costs and purchased services, compared with the prior year period is primarily due to lower capitalisation levels in the Infrastructure and Engineering business as a result of lower levels of capital work. Strategic plan capital expenditure for the period ended 31 December 2012 was $76.5m (31 December 2011: $97.1m).

(d) Cash balances
The increase in the cash balance over the six months ended 31 December is predominantly due to the timing of equity funding received from the Crown. Three out of the four instalments for the 2013 year totalling $163m have been received during the period.

(e) Depreciation
At 30 June 2012 the Group changed approach to the valuation of assets, resulting in a large impairment of assets down to their recoverable amount. The overall reduction in carrying amount of the Group's assets at 30 June 2012 was $7.1bn. As a result of this reduction in carrying value there has been an 81% decrease in depreciation expense for the period.

7. IMPAIRMENT OR PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The following impairments have been recorded in relation to each CGU for the six month period ended 31 December 2012.

	Carrying amount before impairment	Impairment recognised in Statement of Financial Performance	Impairment recognised in Asset Valuation Reserve	Carrying amount after impairment
	$m	$m	$m	$m
Non-leased buildings	47.4	(0.1)	-	47.3
Railway infrastructure	161.1	-	-	161.1
Rolling stock	234.0	(0.4)	-	233.6
Plant and equipment	77.9	(0.2)	-	77.7
Assets under construction	266.8	(189.1)	-	77.7
Software	0.1	(0.1)	-	-
Total Rail CGU	**787.3**	**(189.9)**	**-**	**597.4**
Interislander CGU	100.2	-	-	100.2
Leased Building CGUs	70.9	-	-	70.9
Total	**958.4**	**(189.9)**	**-**	**768.5**

8. 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. On 20 March 2009 the lease period of the Kaitaki vessel was extended by a non-cancellable term of three years and the lease expires on 30 June 2013. Motor vehicle leases generally have a non-cancellable term of three years.

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

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

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

	Before Restructure **31 Dec 2012 (Unaudited)**	**31 Dec 2011 (Unaudited)**	**30 June 2012 (Audited)**
	$m	$m	$m
Total minimum lease payments due:			
Not later than one year	18.9	24.6	24.6
Later than one year but not later than five years	37.3	49.9	41.8
Later than five years	12.9	16.0	15.3
	69.1	**90.5**	**81.7**

The decrease in operating lease commitments is predominantly due to the reduction in the commitments associated with the lease of the *Kaitaki* which expires in June 2013.

On 31 December 2012 all operating lease commitments were transferred to the KiwiRail Holdings Limited Group under the KiwiRail Holdings Limited Vesting Order 2012.

9. 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. These commitments have been vested in KiwiRail Holdings Limited at 31 December 2012.

	Before Restructure **31 Dec 2012 (Unaudited)**	Restated **31 Dec 2011 (Unaudited)**	**30 June 2012 (Audited)**
	$m	$m	$m
Capital and other expenditure commitments:			
Not later than one year	146.9	113.6	126.9
Later than one year but not later than five years	3.4	29.7	9.9
Later than five years	-	-	-
	150.3	**143.3**	**136.8**

On 31 December 2012 all capital and other commitments were transferred to the KiwiRail Holdings Limited Group under the KiwiRail Holdings Limited Vesting Order 2012.

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

	Note	Before Restructure 6 months ended Dec 2012 (Unaudited)	6 months ended Dec 2011 (Unaudited)	Year ended June 2012 (Audited)
		$m	$m	$m
Net surplus/(loss) after tax		(75.9)	(45.7)	(2,305.1)
Add/(deduct) items classified as investing or financing activities				
Loss on sale of assets		-	0.3	18.1
Fair value movement in derivatives		(5.8)	(4.1)	(0.7)
Capital grant receipts		(101.2)	(72.7)	(172.3)
		(182.9)	(122.2)	(2,460.0)
Add non-cash flow items				
Depreciation and amortisation expense		29.9	155.4	309.4
Movements in deferred tax and provisions		(2.8)	(13.4)	12.3
Effect of exchange rate changes on cash balances		-	-	(0.5)
Impairment of property, plant and equipment		189.9	-	2,199.2
Revaluation of property, plant and equipment		-	-	8.1
		34.1	19.8	68.5
Add/(deduct) movements in working capital				
Decrease in trade receivables		3.1	(12.0)	7.9
(Increase)/decrease in other receivables		(7.6)	9.5	(10.9)
(Increase)/decrease in inventories		(3.0)	(13.9)	(1.9)
Increase/(decrease) in trade payables		(0.3)	(12.2)	(17.9)
Increase/(decrease) in other payables		7.8	(4.2)	(4.6)
Net cash flows from operating activities		**34.1**	**(13.0)**	**41.1**

11. CONTINGENT LIABILITIES

The following contingent liabilities have remained with New Zealand Railways Corporation following the restructure:

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

(b) Option to purchase Wellington Railway Station
Included in the Waitangi Treaty Settlement signed by the Crown dated 19 August 2008, Taranaki Whanui Ki Te Upoko O Te Ika and The Port Nicholson Block Settlement Trust, has an option to purchase the Wellington Railway Station and surrounding land. The valuation process is now complete and a reassessment of the seismic strength of the station building is being undertaken prior to the Taranaki Whanui Ki Te Upoko O Te Ika and The Port Nicholson Block Settlement Trust confirming their position with respect to the option to purchase. This reassessment is expected to be completed during the first quarter of 2013.

The following contingent liabilities have transferred to KiwiRail Holdings from 31 December 2012 following the restructure.

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

(b) 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.

(c) Marsden Point rail corridor designation
The Group has confirmed it's 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.

(d) Decaying Hardwood Sleepers
The dispute with E&J Matthei over unpaid invoices of $0.8m and KiwiRail's counterclaim for premature decay in sleepers already paid for went to mediation prior to 31 December 2012. Negotiations are continuing.

12. CHANGES TO GROUP STRUCTURE AT 31 DECEMBER 2012

As outlined above a new State Owned Enterprise, KiwiRail Holdings Limited, was established at 31 December 2012. The assets and liabilities that were previously held by New Zealand Railways Corporation were vested in KiwiRail Holdings Limited, with the exception of the Crown land made available to NZRC under its legislation. NZRC make the land available to KiwiRail under a long-term lease for nominal consideration. Assets vested in KiwiRail Holdings Limited included the shares in all subsidiary companies.

On 1 January 2013 two of the subsidiary companies within the new KiwiRail Holdings Group were amalgamated. Ontrack Infrastructure Limited was amalgamated with KiwiRail Holdings Limited, and KiwiRail Investments Limited was amalgamated with KiwiRail Limited. Following these amalgamations the KiwiRail Holdings Group comprises KiwiRail Holdings (parent company), KiwiRail Limited (wholly owned subsidiary) and Clifford Bay Limited (wholly owned subsidiary of KiwiRail Limited).

The assets and liabilities shown in the statement of financial position of these interim financial statements are held in the following legal entities as at 31 December 2012.

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