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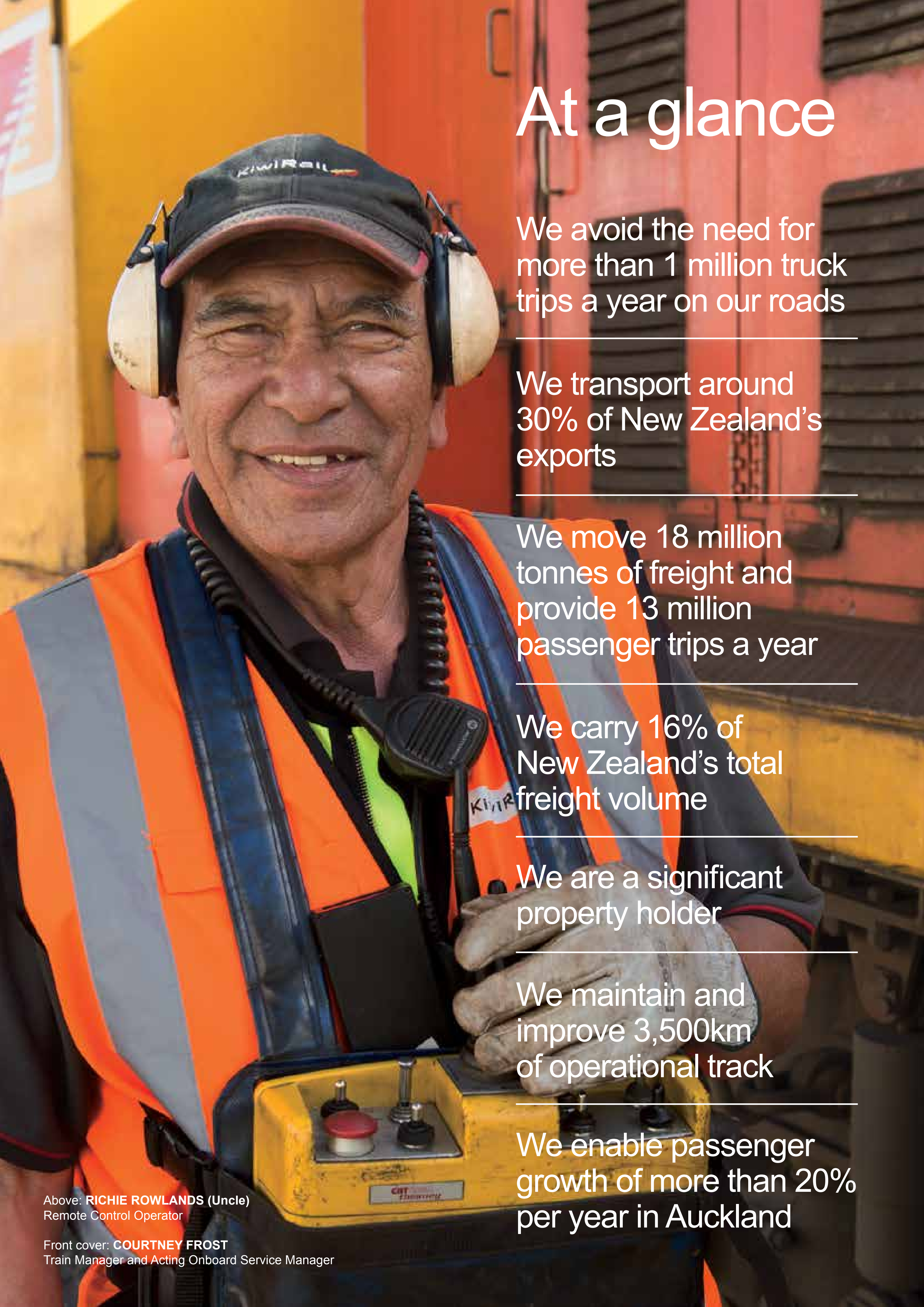
Half Year Report

AND UNAUDITED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED
31 DECEMBER 2015

KiwiRail



At a glance

We avoid the need for more than 1 million truck trips a year on our roads

We transport around 30% of New Zealand's exports

We move 18 million tonnes of freight and provide 13 million passenger trips a year

We carry 16% of New Zealand's total freight volume

We are a significant property holder

We maintain and improve 3,500km of operational track

We enable passenger growth of more than 20% per year in Auckland

Above: **RICHIE ROWLANDS (Uncle)**
Remote Control Operator

Front cover: **COURTNEY FROST**
Train Manager and Acting Onboard Service Manager

$33 million
Operating Surplus[1]

Strong performance in our Interislander and Scenic Journeys business together with productivity improvements have resulted in an underlying operating surplus only slightly below the equivalent period last year, despite challenging market conditions and lower revenue

[1] Operating surplus before significant items is a non-GAAP measure used by management to assess the performance of the business and has been derived from KiwiRail's group financial statements for the half year ended 31 December 2015.

26%
Reduction in Total Recordable Injury Frequency Rate

$20-$30m
Annualised savings from productivity initiatives implemented in the year

6%
Growth in Interislander passenger numbers

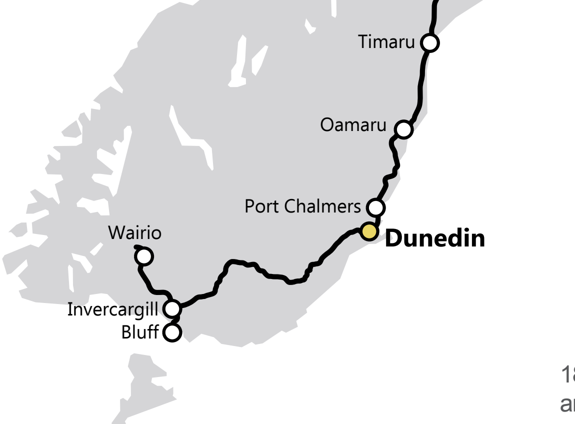
67%
Reduction in mainline derailments

545,000
Avoided truck trips

$12m
Increase in net operating cashflow

18 million tonnes of freight moved each year by rail

900 freight trains each week



Tranz Metro provides 12 million passenger journeys per year

1,500+ bridges

Interislander carries 800,000 passengers per year

183 serviceable mainline locomotives and 4,665 serviceable freight wagons

CARE & PROTECT

ONE WINNING TEAM

GREAT CUSTOMER EXPERIENCES

STRIVE FOR EXCELLENCE

DELIVER RESULTS

STRAIGHT & TRUE

Contents

ALLAN DUFF
Locomotive Engineer

Chair and Chief Executive's report – Six months ended 31 December 2015

John Spencer, Chairman

"KiwiRail would like to thank our passengers and freight customers for their continued commitment to rail."

Chair's report

It is pleasing to reflect on a period where KiwiRail continued to demonstrate its importance in enabling New Zealand's growth agenda.

We have focused on sustainability, simplifying the business, improving our safety performance and working on our on-time performance.

Our revenue covers the operational side of the business, or the "above rail" costs. Those are the costs of running the trains and ferry services. Above rail cashflow for the current financial year is forecast to be positive. Meanwhile, the Government's investment contributes to the "below rail" costs of tracks and structures. KiwiRail runs about 3,500km of operational track which requires maintenance and upgrades even where there are no passenger services and very little freight.

There is not enough demand for rail in New Zealand for KiwiRail to generate sufficient revenue to be wholly self-sufficient. That was the finding of the Commercial Review completed in December 2014, and we agree with that assessment. We think it is appropriate that the debate becomes one about how and how much the network is supported.

Acknowledging that the network cannot be self-funding in a financial sense does not reduce the Board's and Executive's commitment to making productivity changes at KiwiRail that will reduce the level of Government investment required over time.

The benefits of rail are enjoyed not only by those who use it, but also by road users who face less congestion because rail takes freight off the roads. For us, this is becoming an increasingly important measure of the value we bring to New Zealanders, and to the economy.

We have been working closely with the NZ Transport Agency to look at how New Zealand can have a more integrated approach to investment and planning in the land transport sector, and this will continue to be an area of focus for us.

Our new management team has now been in place for more than a year and our strategies to improve our reliability to customers, and to build the confidence of our shareholders, are well embedded. The Board has confidence that these strategies are the right ones to guide our decisions and, over time, build a stronger and more efficient company.

"KiwiRail is working hard on re-shaping the business to enable us to deliver on our financial and sustainability targets."

Chief Executive's report

This financial year, KiwiRail is focused on our key strategies of simplifying our business, standardising our assets, and investing in our people to position us for the longer term.

We will deliver our strategy by continuing to target service reliability, delivering productivity improvements and lifting our performance in order to achieve better results for our customers, for our shareholders and for our people.

KiwiRail achieved an operating surplus of $27 million for the period, compared with $35 million during the same period last year. The result included significant items totalling $6 million relating primarily to restructuring costs. The underlying operating surplus of $33 million is only slightly below last year's result for the same period. Net operating cashflow was $18 million which was $12 million higher than the same period last year. This is a credible result given the reduction in revenue of $20 million due primarily to challenging market conditions.

Sustaining a Zero Harm environment

Our focus on creating and sustaining a Zero Harm environment for our staff is paramount. At KiwiRail, Zero Harm performance is viewed as a proxy for leadership and I am on the record as making no apologies for putting Zero Harm first. My commitment to that priority is unwavering.

Our Total Recordable Injury Frequency Rate reduced by 26%, and our Lost Time Injury Frequency Rate reduced by 35% compared with the same period last year. I acknowledge the solid progress our team has achieved to reduce the incidence of harm. We continue to drive a safety culture, with a strong focus on engaging our people to create and sustain a Zero Harm environment.

Zero Harm also covers our environmental impact, and the freight carried by rail during the period represented 545,000 avoided truck trips, and 106,000 tonnes of CO_2 emissions had it been carried on New Zealand's roads

Delivering operational performance

We are also focused on productivity initiatives that will in the longer term save $20 to $30 million each year. These initiatives included staff reductions of 200 in the first six months of the current financial year.

A fuel efficiency system, EnergyMiser, has been implemented which has saved more than 1 million litres of diesel since introduction, and should save more than $3 million on an annual basis.

In terms of track performance, in the critical Auckland/Hamilton/Tauranga network ("the Golden Triangle"), all 21 timber bridges have now been replaced with concrete structures. This will increase the resilience of the network, contributing to improved reliability of our freight services.

The first six months of the financial year were busy for Interislander with the retirement of the Arahura in August, and Kaiarahi beginning scheduled sailings in mid-October. In the July to December period, the Interislander achieved 99.8% actual sailings against scheduled sailings (excluding weather-related cancellations).

Engaging with customers and stakeholders

KiwiRail is focused on its long term growth strategy through shaping inland intermodal freight hubs which will enable KiwiRail to aggregate export freight to these sites and distribute to ports via road and rail. Inland port rail-enabled hubs are developing across NZ (Rolleston, Whanganui, Longburn, Horitui), and are examples of strong strategic relationships with ports and customers. This is also reflected by the strong performance in the import/export market with revenue up $4 million in the period.

We have also signed new agreements with major customers, including Solid Energy and Port of Tauranga. These arrangements are important to KiwiRail to create certainty and allow both parties to have confidence in their ongoing relationship. We will be looking to enter into long term agreements with other major freight customers over the remainder of the year.

The markets producing the two most significant commodities that we carry - coal and milk – both faced challenging conditions during the reporting period. Their lower volumes significantly impacted our revenue for bulk freight, resulting in revenue that was $13 million lower than the same period last year.

Partially offsetting this was strong inbound tourism which contributed to increased volumes for both Interislander and Scenic Journeys. Interislander delivered a strong summer holiday season with the highest number of passenger vehicles carried since competition began in 2003, and the highest-ever December revenue.

Empowering our people

Our High Performance High Engagement strategy will enable the organisation to engage with staff and unions to build a high-performance, high-engagement culture. Frontline staff have a good sense of where operational efficiencies can be found, and this strategy is designed to enable management, front line employees and union stakeholders to work together to establish and deliver productivity targets. We anticipate this approach becoming a strategic partnership capable of producing durable solutions to future challenges.

Meeting our financial target - Outlook for the next six months

Although we expect trading conditions to remain difficult, particularly for Bulk Freight, our exposure to the buoyant tourism market via the Interislander and Scenic Journeys brands is expected to somewhat mitigate lower freight revenues.

With many external factors affecting our revenue, we will continue taking steps to influence those factors that we can control – in particular our own costs. We are confident that our strategies to simplify our business, standardise our assets and invest in our people is the right approach and will, over time, allow us to future proof our business for the long term and enable New Zealand's growth export agenda.

We expect our underlying full-year results to be within the forecast range.

Longer term, we will continue making decisions based on strategies that will improve our performance and sustainability, and we expect to decrease the amount of Crown investment required over time.

JAMES HARVEY
Master, Kaitaki

From the Chair and Chief Executive

View from Northern Explorer. Photo: Andrew Gorrie

We would like to thank our passengers and freight customers for their continued commitment to rail, and our Interislander customers for contributing towards a very successful six months.

For KiwiRail to consolidate and grow its customer base, we need to provide an increasingly reliable, efficient and cost-effective service and are committed to doing so. We look forward to working with our customers over the coming months and years to ensure that our business and theirs prosper.

We would also like to acknowledge the Government's commitment to rail, and appreciate the ongoing constructive discussions with Ministers.

A special mention must go to KiwiRail's Deputy Chair, Dame Paula Rebstock, who was made a Dame Companion of the New Zealand Order of Merit in the New Year's Honours list 2016 in recognition of her services to the State. We congratulate Dame Paula on her honour, and thank her for the invaluable contribution she has made to KiwiRail since being appointed to the board in July 2009.

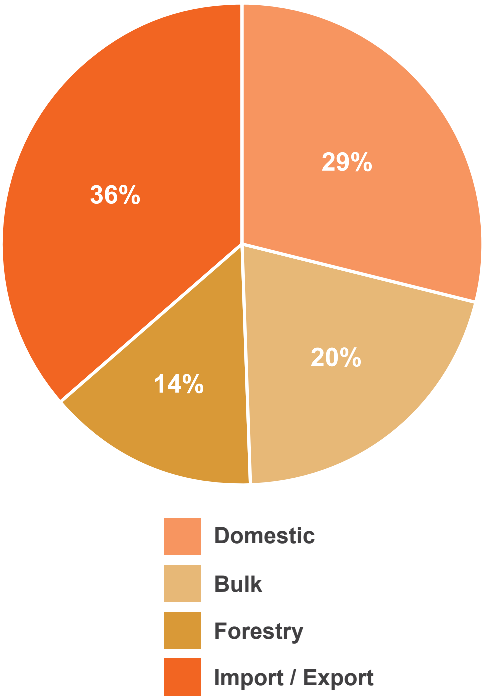
KiwiRail and its predecessors have been a critical part of New Zealand's infrastructure for 150 years. We will be here for 150 more years, but only with the continued commitment of our people. We would like place on record our thanks to KiwiRail's staff, management, Board members and union stakeholders for their dedication and focus that have helped deliver this credible six-month result.

John Spencer
Chair

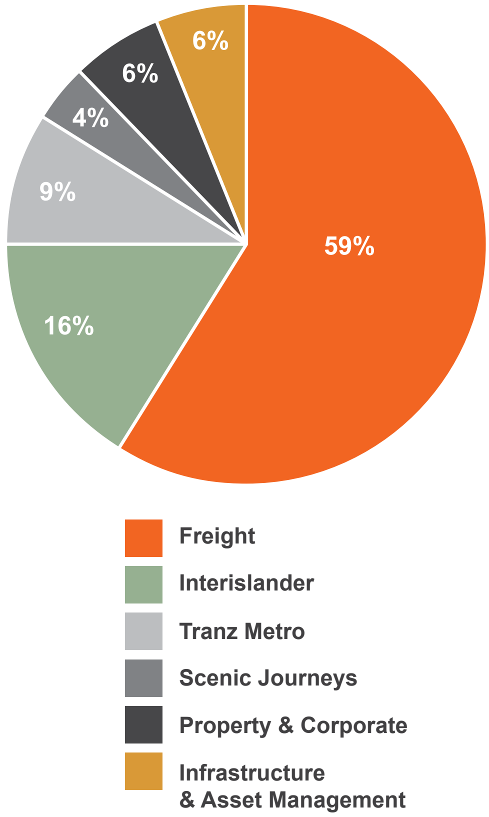
Peter Reidy
Chief Executive Officer

Key Financials

Freight trading revenue by sector



External revenue



- Strong growth in the import/export sector has led to a revenue increase of $4 million on the prior year
- Interislander passenger numbers increased by 6% on the prior year
- Scenic Journeys passenger numbers increased by 8% on the prior year
- Property revenue increased by $2 million on the prior year as a result of a continued stronger commercial focus
- Challenging market conditions have impacted our Bulk Freight trading revenue, which is down $13 million on the prior year

Kaimai Tunnel
Photo: Brendon O'Hagan

Financial Statements

For the six months ended 31 December 2015

KiwiRail Holdings Ltd

Statement of Comprehensive Income

For the six months ended 31 December 2015

GROUP	Note	6 months ended 31 Dec 2015 (Unaudited)	6 months ended 31 Dec 2014 (Unaudited)	Year ended 30 June 2015 (Audited)
		$m	$m	$m
Operating revenue	1	346.4	366.6	720.6
Operating expenses	3	(319.1)	(331.5)	(630.1)
Operating surplus		**27.3**	**35.1**	**90.5**
Grant income	5	-	-	44.6
Depreciation and amortisation expense		(30.9)	(30.7)	(68.8)
Foreign exchange and commodity gains and losses		(6.7)	(2.2)	7.2
Net finance costs	6	(6.1)	(9.2)	(17.8)
Impairment		-	-	(224.7)
Movement in value of investment properties		0.1	0.2	1.7
Share in net income from joint venture		0.1	-	-
Other income		-	-	0.8
Net loss before taxation		**(16.2)**	**(6.8)**	**(166.5)**
Income tax (expense)/ credit		-	-	-
Net loss after taxation		**(16.2)**	**(6.8)**	**(166.5)**
Other comprehensive income/(loss)				
Items that can be reclassified into net surplus/ (deficit):				
Gains/(losses) from cash flow hedges		(0.4)	1.6	1.5
Items that cannot be reclassified into net surplus/ (deficit):				
Transfers to asset carrying value from cash flow hedge reserve		-	(0.1)	0.1
Building impairment		-	-	(3.1)
Vesting of assets and liabilities		-	0.2	-
Total comprehensive income/(loss)		**(16.6)**	**(5.1)**	**(168.0)**

The accompanying notes form part of these financial statements.

KiwiRail Holdings Ltd

Statement of Financial Position

As at 31 December 2015

GROUP	6 months ended 31 Dec 2015 (Unaudited)	6 months ended 31 Dec 2015 (Unaudited)	Year ended 30 June 2015 (Audited)
	$m	$m	$m
Current assets			
Cash and cash equivalents	100.2	69.6	50.0
Trade and other receivables	96.0	102.4	87.6
Inventories	67.3	63.8	56.5
Financial assets	1.1	1.8	6.5
Asset held for sale	-	-	2.1
	264.6	**237.6**	**202.7**
Non-current assets			
Property, plant and equipment	786.0	802.0	675.9
Investment property	68.8	43.5	67.6
Intangible assets	3.5	0.3	0.6
Financial assets	0.1	0.2	0.2
Trade and other receivables	0.2	-	-
Investment in joint venture	1.7	-	1.6
	860.3	**846.0**	**745.9**
TOTAL ASSETS	**1,124.9**	**1,083.6**	**948.6**
Current liabilities			
Trade and other liabilities	174.0	171.5	150.5
Financial liabilities	33.2	20.7	31.6
Income taxes payable	-	-	-
Provisions	4.3	10.1	4.7
	211.5	**202.3**	**186.8**
Non-current liabilities			
Trade and other liabilities	35.0	37.3	35.0
Financial liabilities	201.9	216.3	201.7
Provisions	5.3	5.8	4.7
	242.2	**259.4**	**241.4**
TOTAL LIABILITIES	**453.7**	**461.7**	**428.2**
Equity			
Equity capital	553.8	355.8	403.8
Retained earnings	95.4	228.9	94.2
Asset revaluation reserve	22.6	37.5	22.6
Cash flow hedge reserve	(0.6)	(0.3)	(0.2)
	671.2	**621.9**	**520.4**
TOTAL LIABILITIES AND EQUITY	**1,124.9**	**1,083.6**	**948.6**

John Spencer, Chair
26 February 2016

Dame Paula Rebstock, Deputy Chair
26 February 2016

The accompanying notes form part of these financial statements.

KiwiRail Holdings Ltd

Statement of Changes in Equity

For the six months ended 31 December 2015

GROUP	Note	Equity Capital	Retained Earnings	Asset Valuation Reserve	Cash Flow Hedge Reserve	Total
		$m	$m	$m	$m	$m
As at 30 June 2014 (Audited)		**205.8**	**235.4**	**37.6**	**(1.8)**	**477.0**
Net loss for the period		-	(6.8)	-	-	(6.8)
Other comprehensive income						
Transfer to asset carrying value from cash flow hedge reserve		-	-	-	(0.1)	(0.1)
Gains/(losses) from cash flow hedges		-	-	-	1.6	1.6
Revaluation reserve of disposed / transferred property, plant and equipment		-	0.1	(0.1)	-	-
Vesting of assets and liabilities		-	0.2	-	-	0.2
		-	**(6.5)**	**(0.1)**	**1.5**	**(5.1)**
Transactions with Owners						
Capital injection		150.0	-	-	-	150.0
As at 31 December 2014 (Unaudited)		**355.8**	**228.9**	**37.5**	**(0.3)**	**621.9**
Net loss for the period		-	(159.7)	-	-	(159.7)
Other comprehensive income						
Transfer to asset carrying value from cash flow hedge reserve		-	-	-	0.2	0.2
Gains/(losses) from cash flow hedges		-	-	-	(0.1)	(0.1)
Building impairment		-	-	(3.1)	-	(3.1)
Revaluation reserve of transferred/disposed property, plant and equipment		-	11.8	(11.8)	-	-
Vesting of assets and liabilities		-	(0.2)	-	-	(0.2)
Total comprehensive income/(loss)		**-**	**(148.1)**	**(14.9)**	**0.1**	**(162.9)**
Transactions with Owners						
Capital Injection		48.0	-	-	-	48.0
Crown appropriation on land transactions	10	-	13.4	-	-	13.4
As at 30 June 2015 (Audited)		**403.8**	**94.2**	**22.6**	**(0.2)**	**520.4**
Net profit/(loss) for the period		-	(16.2)	-	-	(16.2)
Other comprehensive income						
Transfers to asset carrying value from cash flow hedge reserve		-	-	-	-	-
Gains/(losses) from cash flow hedges		-	-	-	(0.4)	(0.4)
Total comprehensive income/(loss)		**-**	**(16.2)**	**-**	**(0.4)**	**(16.6)**
Transactions with Owners						
Capital Injection		150.0	-	-	-	150.0
Crown appropriation on land transactions	10	-	17.4	-	-	17.4
As at 31 December 2015 (Unaudited)		**553.8**	**95.4**	**22.6**	**(0.6)**	**671.2**

The accompanying notes form part of these financial statements.

KiwiRail Holdings Ltd

Statement of Cash Flows

For the six months ended 31 December 2015

GROUP	Note	6 months ended 31 Dec 2015 (Unaudited)	6 months ended 31 Dec 2014 (Unaudited)	Year ended 30 June 2015 (Audited)
		$m	$m	$m
Cash flows from operating activities				
Proceeds from:				
Receipts from customers		342.7	359.8	726.6
Interest received		1.3	1.7	3.4
Proceeds utilised for:				
Payments to suppliers and employees		(319.7)	(348.0)	(642.7)
Interest expense		(6.7)	(7.5)	(15.5)
Net cash from operating activities	9	**17.6**	**6.0**	**71.8**
Cash flows from investing activities				
Proceeds from:				
Sale of non-financial assets		3.4	2.3	4.5
Capital grant receipts		17.7	23.6	44.6
Proceeds utilised for:				
Purchase of property, plant and equipment and investment properties		(149.7)	(126.3)	(280.5)
Purchase of intangibles		(3.0)	(0.2)	(13.2)
Net cash used in investing activities		**(131.6)**	**(100.6)**	**(244.6)**
Cash flows from financing activities				
Proceeds from:				
Crown capital investment		150.0	150.0	198.0
Increase in equity from NZRC land sales		17.0	-	13.4
Borrowings		-	1.6	1.6
Proceeds utilised for:				
Repayment of borrowings		(2.1)	(1.9)	(4.0)
Repayment of finance lease liability		(0.7)	(0.9)	(1.6)
Net cash from financing activities		**164.2**	**148.8**	**207.4**
Net increase/(decrease) in cash and cash equivalents		**50.2**	**54.2**	**34.6**
Cash and cash equivalents at the beginning of the period		50.0	15.4	15.4
Effect of exchange rate fluctuations on cash held		-	-	-
Cash and cash equivalents at the end of the period		**100.2**	**69.6**	**50.0**

The accompanying notes form part of these financial statements.

Statement of Accounting Policies

For the six months ended 31 December 2015

REPORTING ENTITY

KiwiRail Holdings Limited (KHL) (The Group) 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 following activities are required to be carried out by the Group:

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

The interim financial statements of the Group are for the six months ended 31 December 2015 and were authorised by the Board of KiwiRail Holdings Limited for issue on 26 February 2016.

BASIS OF PREPARATION

Statement of compliance

These interim financial statements for the six months ended 31 December 2015 have been prepared in accordance with NZ IAS 34 Interim Financial Statements. They comply with the State-Owned Enterprises Act of 1986, the requirements of the Companies Act 1993 and the Financial Reporting Act 2013. The Group has been designated as a for-profit entity.

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

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

These unaudited, condensed Interim Financial Statements do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual report for the year ended 30 June 2015.

Changes in accounting policies

There have been no changes in accounting policies in the current financial year. All policies have been applied on a basis consistent with those used in previous periods. Also, there were no new accounting standards and interpretations issued effective from 1 July 2015 applicable to the Group.

Comparatives

The presentation of some information has changed from the previous period with period balances re-classified to be comparable with current year figures.

Statement of Accounting Policies

For the six months ended 31 December 2015

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 IAS 1 Presentation of Financial Statements has been amended revising some disclosure requirements. The amendment was called "Disclosure Initiative (Amendments to NZ IAS 1)" which is effective from 1 July 2016. The amendments focused on simplifying the financial statements to ensure presentation of the notes is based on systematic ordering or grouping considering their impacts on understandability and comparability.

  The impact of this requirement is presentation and disclosures only.

- The core principle of NZ IFRS 15 Revenue from Contracts with Customers is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This change is effective from 1 July 2017 and is not expected to have a material impact on the Group.
- NZ IFRS 9 Financial Instruments is the standard issued as part of IASB's project to replace NZ IAS 39. The key changes applicable to the Group are: 1) simplify the approach for classification and measurement of financial assets; 2) the change attributable to changes in credit risk accounted for in other comprehensive income where the fair value option is used for financial liabilities; 3) new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.

  These changes are effective 1 July 2018 and are not expected to have material impact on the Group.

Notes to the Financial Statements

For the six months ended 31 December 2015

1. TOTAL INCOME

	Note	6 months ended 31 Dec 2015 (Unaudited)	6 months ended 31 Dec 2014 (Unaudited)	Year ended 30 June 2015 (Audited)
		$m	**$m**	**$m**
Revenue	2	346.4	366.6	720.6
Grant income	5	-	-	44.6
Total income		**346.4**	**366.6**	**765.2**

2. REVENUE

	6 months ended 31 Dec 2015 (Unaudited)	6 months ended 31 Dec 2014 (Unaudited)	Year ended 30 June 2015 (Audited)
	$m	$m	$m
Freight	203.5	230.3	433.7
Interislander	56.7	58.7	127.3
Tranz Metro	29.5	26.8	53.7
Scenic Journeys	12.8	11.0	24.8
Property Leasing	20.1	18.8	39.4
Corporate	2.0	1.7	3.8
Infrastructure and Asset Management	21.8	19.3	37.9
Total revenue	**346.4**	**366.6**	**720.6**

3. OPERATING EXPENSES

	6 months ended 31 Dec 2015 (Unaudited)	6 months ended 31 Dec 2014 (Unaudited)	Year ended 30 June 2015 (Audited)
	$m	$m	$m
Salaries and wages	153.5	147.6	291.5
Defined contribution plan employer contributions	5.9	6.0	11.7
Other employee expenses	3.2	4.3	3.6
Total staff costs	162.6	157.9	306.8
Materials and supplies	60.3	58.9	112.2
Fuel and traction electricity	36.8	51.7	92.9
Lease and rental costs	23.4	21.6	42.8
Incidents, casualties and insurance	7.5	6.4	13.1
Contractors expenses	5.1	6.5	12.7
Fees paid to auditors:			
Audit fees	0.2	0.2	0.4
Impairment/(recovery from impairment) of receivables	0.3	(0.4)	(2.2)
Directors' fees	0.2	0.2	0.3
(Gain)/loss on disposal of property, plant and equipment	(1.2)	0.2	(1.7)
Other expenses	23.9	28.3	52.8
Total operating expenses	**319.1**	**331.5**	**630.1**

Notes to the Financial Statements (continued)

For the six months ended 31 December 2015

4. SIGNIFICANT ITEMS

	6 months ended 31 Dec 2015 (Unaudited)	6 months ended 31 Dec 2014 (Unaudited)	Year ended 30 June 2015 (Audited)
	$m	$m	$m
Restructuring	5.0	-	-
Other	0.7	-	-
Total Significant items	**5.7**	**-**	**-**

5. GRANT INCOME

	6 months ended 31 Dec 2015 (Unaudited)	6 months ended 31 Dec 2014 (Unaudited)	Year ended 30 June 2015 (Audited)
	$m	$m	$m
Capital grants (Ministry of Transport funded)	-	-	31.2
Other capital grants	-	-	13.4
Total grant income	**-**	**-**	**44.6**

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 $17.7m has been received in the period ended 31 December 2015 (31 December 2014: $23.6m) for capital projects that are still in progress and therefore haven't been depreciated.

6. NET FINANCE COSTS

	6 months ended 31 Dec 2015 (Unaudited)	6 months ended 31 Dec 2014 (Unaudited)	Year ended 30 June 2015 (Audited)
	$m	$m	$m
Finance income			
Interest income on bank deposits	1.4	1.7	3.3
	1.4	1.7	3.3
Less Finance costs			
Interest expense on borrowings	(6.7)	(7.5)	(14.9)
Interest expense on finance leases	(0.3)	(0.4)	(0.7)
Interest expense – other	-	-	(0.1)
Net change in fair value of derivatives	(0.5)	(3.0)	(5.4)
	(7.5)	(10.9)	(21.1)
Net finance costs	**(6.1)**	**(9.2)**	**(17.8)**

7. 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 Kaitaki and the Kaiarahi ships. The lease for Kaitaki has a non-cancellable term of four years expiring on 30 June 2017 whilst the lease for Kaiarahi is non-cancellable for five years expiring on 17 July 2020.

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.

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

	6 months ended 31 Dec 2015 (Unaudited)	6 months ended 31 Dec 2014 (Unaudited)	Year ended 30 June 2015 (Audited)
	$m	$m	$m
Total minimum lease payments due:			
Not later than one year	23.1	24.2	22.8
Later than one year but not later than five years	49.6	63.3	58.4
Later than five years	12.0	20.3	14.4
	84.7	**107.8**	**95.6**

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

8. 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.

	6 months ended 31 Dec 2015 (Unaudited)	6 months ended 31 Dec 2014 (Unaudited)	Year ended 30 June 2015 (Audited)
	$m	$m	$m
Capital and other expenditure commitments:			
Not later than one year	29.6	54.7	88.6
Later than one year but not later than five years	13.8	14.0	13.8
	43.4	**68.7**	**102.4**

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

	6 months ended 31 Dec 2015 (Unaudited)	6 months ended 31 Dec 2014 (Unaudited)	Year ended 30 June 2015 (Audited)
	$m	$m	$m
Net loss after taxation	(16.2)	(6.8)	(166.5)
Add/(deduct) items classified as investing or financing activities			
Loss/(gain) on sale of assets	(1.2)	0.2	1.7
Fair value movement in derivatives	9.9	5.3	(0.3)
Capital grant receipts	(17.7)	(23.6)	(44.6)
	(25.2)	(24.9)	(209.7)
Add non-cash flow items			
Depreciation and amortisation expense	30.9	30.7	68.7
Movements in deferred tax and provisions	0.1	(5.0)	(11.6)
Impairment of non-financial assets	-	-	224.7
Movement in fair value of investment properties	(0.1)	(0.2)	(1.7)
Share in net income from joint venture	(0.1)	-	-
Write back of receivable from joint venture	-	-	(1.7)
	5.6	0.6	68.7
Add/(deduct) movements in working capital			
(Increase)/decrease in trade receivables	(14.3)	(14.5)	(2.4)
(Increase)/decrease in other receivables	5.7	5.6	9.0
(Increase)/decrease in inventories	(10.8)	(5.1)	2.2
Increase/(decrease) in trade payables	1.4	(13.1)	(11.0)
Increase/(decrease) in other payables	30.0	32.5	5.3
Net cash flows from operating activities	**17.6**	**6.0**	**71.8**

10. SALE AND PURCHASE OF LAND

On 31 December 2012 there was a restructure of the Crown's investment in rail operations. In accordance with the KiwiRail Holdings Vesting Order 2012 which took effect from 31 December 2012, the KiwiRail business was transferred from 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.

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

Similarly, the Group can identify new parcels of land that are required for rail purposes. The Group will fund the acquisition of the land and can transfer it to NZRC to be included within the lease. The purchases from 1 January 2013 up to 30 June 2015 were identified to be adjustments of land boundaries rather than additional investment for rail purposes. This was the basis of the accounting policy adopted on purchase of additional land after vesting date.

The sale and purchase of land are treated as common control transactions as the Crown is their ultimate parent. The sale of NZRC's land is regarded as an increase in equity of the Crown to the Group whilst the Group's acquisition of land for NZRC is treated as a reduction from Crown's equity to the Group.

Notes to the Financial Statements (continued)

For the six months ended 31 December 2015

10. SALE AND PURCHASE OF LAND (CONTINUED)

The total net proceeds from land sold and purchased were represented below:

	6 months ended 31 Dec 2015 (Unaudited)	6 months ended 31 Dec 2014 (Unaudited)	Year ended 30 June 2015 (Audited)
	$m	$m	$m
Proceeds from sale of NZRC land	17.4	-	13.5
Purchase of NZRC land	-	-	(0.1)
Net movement charged to equity	**17.4**	**-**	**13.4**

11. CONTINGENCIES

CONTINGENT LIABILITY

a. 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.

KiwiRail Holdings Ltd

Key Performance Measures

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

	6 months ended 31 Dec 2015 Actual	30 June 2016 Target
Sustaining a Zero Harm Environment		
LTIFR	8.2	6.2
TRIFR	18.7	11.7
GHG emissions per NTK (gms)	28.6	30.3
Engaging our Customers and Stakeholders		
Rail Freight Customers - Net Promoter Score	N/A	(1)
Commercial Vehicle Customers - Net Promoter Score	N/A	5
Interislander - Net Promoter Score	48	35
Scenic Journeys - Net Promoter Score	57	64
Tranz Metro - Customer Satisfaction (%)	92	93
Delivering Operational Performance		
On-Time Performance (%)		
- All Freight Trains	84	94
- Freight Premium Trains	68	82
- Tranz Metro	94	94
- % Interislander services to advertised sailings	99	99
Fuel litres per GTK	5.5	5.5
Operating costs as a percentage of revenue	92	88
Network Renewals		
- New Sleepers Laid (000)	34	82
- New Rail Laid (km)	4	13
- Lines De-stressed (km)	39	153
Empowering Our People		
Employee Engagement Net Promoter Score	(15)	(15)
Meeting Our Financial Targets		
Revenue ($m)	346	703
Contribution Margin (%)	23	26
Operating Surplus ($m)	27	85
Operating Surplus as % of Revenue	8	12
Capital Expenditure - Net of Grants ($m)	135	282

Key Performance Measures

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

	6 months ended 31 Dec 2015 Actual	30 June 2016 Target
Required information		
Shareholder Return Measures		
Total Shareholder Return	N/A	N/A
Dividend Yield	0	0
Dividend Payout	0	0
Return on Average Equity (%)	(3)	(43)
Profitability/Efficiency Measures		
Return on Average Capital Employed (%)	(2)	(30)
Operating Margin (%)	8	13
Leverage/Solvency Measures		
Shareholders' Funds to Total Assets (%)	60	56
Gearing Ratio - net (%)	17	28
Interest Cover	4.9	6.9
Solvency (current assets/current liabilities)	1.25	1.36

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Lindsay Keats..Cover, 2, 4, 5, 8
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Further information

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 Telephone: 0800 801 070 | Email: kiwirail@kiwirail.co.nz