

Half Year Report

AND UNAUDITED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016



At a glance

Highlights from HY17

Relationships

- Quick and decisive response to Kaikoura earthquake with alliance between NZTA/KiwiRail and four contracting firms to start work rebuilding our South Island Main North Line
- Interislander customer satisfaction ratings 30% higher in December 2016 than previous year and 50% higher than December 2014

Financial

- \$23 million underlying operating surplus *
- First Integrated Annual Report published October 2016
- On track to deliver \$18 million of productivity initiatives in FY17

People

- 33% reduction in Lost Time Injury Frequency Rate
- 16% reduction in Total Recordable Injury Frequency Rate

- 162 people participated in Leadership Programmes

Assets

- \$119 million invested in renewal and upgrade of network, property and rolling stock

Know-how

- Improved on-time performance for peak season premium freight trains to 88% in December 2016
- Aratere dry dock successfully undertaken in July 2016 - first time in 56 years without a rail ferry

Environment

- Reduced heavy vehicle impact of 550,000 truck trips, saving 38 million litres of fuel and 104,000 tonnes of CO² emissions
- Won "Large Energy User Initiative of the Year" category at Deloitte Energy Excellence Awards for Locomotive Fuel Conservation project

Earthquake response

Kaikoura earthquake significantly impacted the region and our business:

- 700 sites damaged on Main North Line including tracks, slopes, embankments, tunnels, culverts, and communication systems
- \$12 million impact on operating surplus

for period ending 31 December 2016

- Excellent operational response with formation of the Blenheim Freight Hub, Interislander operating two ships within 24 hours, and NZ Connect launched to offer coastal shipping between Auckland and Christchurch
- Working with urgency to reopen Picton to Christchurch corridor

*Underlying operating surplus excludes impact of the Kaikoura earthquake and is a non-GAAP measure used by management to assess the performance of the business.

We move people

We help commuters make more than 27 million low-carbon journeys each year

We carry more than one million tourist passengers each year

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



Tourists on the TranzAlpine

We move freight

We move 18 million tonnes of freight each year

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

We transport around 25% of New Zealand's exports



Matt Hooker, Locomotive Engineer

Cover images clockwise from top left: **Dayna Smith**, Crew Leader, **Shane Reiri**, Locomotive Engineer, **Tom Holland**, Train Controller, **Gill Evans**, Communities Liaison Manager and **Nigel Booth**, Rail Operator

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Niko Koligi, Rail Operator

Chairman and Chief Executive's reports – Six months ended 31 December 2016

Chairman's report



“Even with the aftermath of the earthquake, there are some pleasing results including an underlying operating surplus of \$23 million”

This is my first report as Chairman of KiwiRail having joined the Board in November. It has been an eventful four months.

First, the Kaikoura Earthquake struck on 14 November, its 7.8 force tossing and twisting KiwiRail's critical Main North Line transport route in the South Island, burying tunnels and causing months of work in what will be one of the biggest rail infrastructure projects in generations.

In January, a storm caused a significant slip in Otira on the Midland Line, across the alps between Christchurch and Greymouth, cancelling services for a week.

Then just as the work really got underway between Picton and Christchurch, another event - this time a fire which ripped through 300 ha of isolated land in Canterbury, burning bridges and track. As this report is published, it is estimated the work to repair this section of the Midland Line will take at least another month to complete.

Coping with a string of events like that would challenge any organisation and it is a credit to the management team at KiwiRail, ably led by Chief Executive Peter Reidy, that the recovery is already well underway. The financial statements that follow this report are a testament to KiwiRail's work over the past two years,

which has enabled us to cope well with the unexpected recent events.

Prior to November, KiwiRail was on track to capitalise on one of its best peak seasons. Even with the aftermath of the earthquake, there are some pleasing results including an underlying operating surplus of \$23 million.

The multi-year transformation project that the Executive Team is leading to ensure KiwiRail is a commercial, customer-centric business helping to drive New Zealand's economic growth has paid off in the nimble and decisive measures that were put in place in the immediate aftermath of Kaikoura.

KiwiRail quickly established a coastal shipping option for its customers, opened an inland freight hub at Blenheim for freight transfer to road and within 24 hours had two of its Interislander ferries operating, despite damage to port infrastructure and the loss of much of its rail freight.

The enormous amount of planning and ground work that has already gone into a revitalised Main North Line is testament to the skills and commitment of KiwiRail's people, both on the tracks and with customers.

The events of the past four months have caused considerable stress to many of our people and their families. I commend them on their efforts during this difficult time, and thank them for a recovery which is now well underway.



Peter Reidy, Chief Executive

“What the earthquake highlighted is how crucial KiwiRail is to New Zealand’s supply chain resilience”

Chief Executive’s report

It is pleasing to see in this HY17 result continuing momentum gained on our transformation programme and in particular the Simplify, Standardise and Invest strategy that KiwiRail has been driving for the past two years.

Notwithstanding the extremely challenging natural events since 14 November last year, the first four months of the HY17 year show that the business is maintaining its commitment to our commercial success and the success of our customers.

Significant progress has been made to standardise our train fleet, simplify our asset maintenance and train planning processes, and invest in containerised freight assets and network line speed, resulting in an improvement in premium freight peak season on-time performance to 88% in December 2016. This improvement is a result of our One KiwiRail approach to enhance the experience of our express freight customers. A reliable service is a key driver for our customers to shift more freight to rail.

Productivity initiatives, which delivered \$27 million to the business in FY16, are continuing to build with another \$18 million in productivity savings on track for this year.

Our commitment to Zero Harm and investing in our people has seen a 33% reduction in Lost Time Injury Frequency Rates.

Frontline engagement with our people, which is fundamental to the cultural and commercial success of our business, resulted in the first of our High Performance High Engagement pilot projects implemented together with our

Rail and Maritime Union (RMTU) partners to reduce waste and improve work frontline processes.

Pre-quake

In October, Interislander recorded some of our best customer ratings yet - 30% up on the previous year - and we were headed for a record passenger revenue season 5% over the previous year.

Fonterra’s short, weather-impacted milk production season proved a challenge, with bulk milk revenue down \$11 million from just two years ago. However, Import Export container volumes were up and we were on target to deliver one of our best peak domestic freight seasons yet.

Our partnerships and commercial arrangements with ports were paying off with an increase in containerisation on KiwiRail, as evidenced by Port of Tauranga volumes which were up 19% year on year to December.

Tourism was also booming. Our Scenic Journeys passenger numbers including the Coastal Pacific, the world-renowned TranzAlpine and the Northern Explorer, were 12% up on the previous year.

Right across the KiwiRail business there is strong momentum in our transformation project to improve our commercial, customer engagement and cultural performance.

There is, however, no accounting for natural events.

Post-quake

When the Kaikoura earthquake hit on 14 November at 12.02am, our business outlook and programme of work changed rapidly. Though the HY17 underlying operating surplus of \$23 million in this result is in line with forecast, our revenue and costs have been impacted by \$12 million, bringing our reported operating surplus down to \$11 million.

While our people have shown great fortitude as they quickly picked up the pieces of November's event, what the earthquake also highlighted is how crucial KiwiRail is to New Zealand's supply chain resilience.

An integrated transport system where road and rail work together will help drive New Zealand's economic growth. When it is impacted as severely as it has been this year, this must be quickly remedied.

To that end, our partnership with NZTA in the North Canterbury Transport Infrastructure Recovery (NCTIR) alliance is critical. Rebuilding the Main North Line from Blenheim to Christchurch is a large and complex undertaking involving many moving parts, organisations and ongoing seismic activity.

Add to that the rebuild of our Midland Line after February's fire and our programme of work is at capacity. This is not the time to take our eyes off the long-term strategy, yet the rebuild programmes as a result of the

earthquake and fire are significant.

Outlook

Conditions will remain a challenge as the rebuild of the South Island network continues at pace. Our domestic freight and tourism businesses will be disrupted for months to come and coal has also been affected by the February fire. While these projects will be our focus, we will continue to invest in a resilient and reliable business, as seen in the \$119 million capital spend on renewal and upgrade of network, property and rolling stock in this reporting period.

The announcement before Christmas of an all-diesel fleet across the network will add impetus to our fleet standardisation programme, which also includes the purchase of 15 new DL locomotives and 150 wagons from China in our renewal of rolling stock this year. There will continue to be a strong investment focus on rolling stock maintenance services and train planning processes to drive on-time performance in our peak periods.

We recently invested \$13 million in new sidings and infrastructure in the Auckland Freight Hub at Southdown in Auckland, which will increase our capacity to export goods from the North Island ports by 30%. KiwiRail will continue to work closely with CRL Limited on the Auckland rail expansion to reduce congestion and support strong growth in customer patronage on a critical part of our network.

Keeping strategic flexibility and capacity across Cook Strait for our freight customers has been a key priority in the aftermath of the Kaikoura earthquake. Looking ahead we will sharpen our Interislander strategy and ship investment programme, continuing to assess the best way to deliver our services to customers in the longer term.

It's been a challenging time, but one which has strengthened our belief in the transformation we are delivering through our focused, performance-led strategy and the on-going commitment shown by the remarkable people who make up the One KiwiRail team.



Christine Nuthall, Train Attendant, looking after young customers on the Northern Explorer.

From the Chairman and Chief Executive



Bridge 129, Main North Line, moved approximately 0.6m horizontally and 2m vertically by the Kekerengu Fault during the November earthquake.

The Kaikoura earthquake has presented KiwiRail with one of the biggest challenges in the organisation's history. It is certainly requiring the biggest rebuild of rail in generations.

The earthquake severely disrupted New Zealand's supply chain and challenged many enterprises in the South Island, closing our freight and tourism services.

From the first early morning assessing the quake's damage, KiwiRail has felt encouraged and supported by the backing of our customers, the New Zealand public and the Government, who within weeks had committed to the full rebuild of State Highway One and the Main North Line. We acknowledge that it is the concerted support of all these groups that has enabled KiwiRail to keep New Zealand moving during this challenging time.

In particular we extend a heartfelt thanks to our customers for their commitment and collaboration

over the past four months. We will continue to work together to mitigate the effects of the disruption to supply chains, and remain focused on ensuring the growth of their business and ours in the coming months. To that end, we are working intensively to ensure that our Interislander services remain at full capacity despite the changes in freight flows and that our rail services resume in the South Island as soon as is safely possible.

We are grateful to the Government for the immediate and urgent response to the damage caused by the earthquake, and for their early decision to reinstate the Main

North Line. With their constructive support we were able to provide rapid alternative solutions for moving freight through the South Island including coastal shipping options for our customers and an enhanced inland freight hub in Blenheim.

Our response to the earthquake has shown, yet again, that KiwiRail could not achieve its success without our people, the management and Executive teams, our highly skilled Board members and union partners. The success of KiwiRail, as a critical part of New Zealand's infrastructure, is founded upon their skills, experience and unwavering passion.

A handwritten signature in blue ink, appearing to read 'Trevor D Janes'.

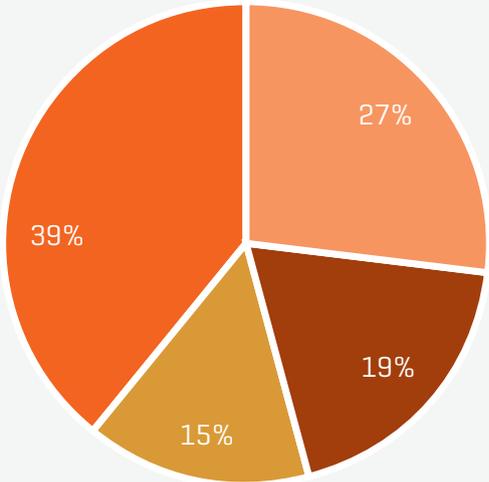
Trevor D Janes, Chairman

A handwritten signature in blue ink, appearing to read 'Peter Reidy'.

Peter Reidy, Chief Executive

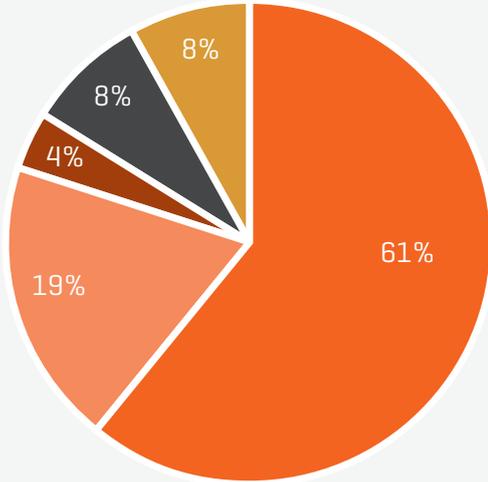
Revenue

Freight trading revenue by sector



- Domestic
- Bulk
- Forestry
- Import / Export

External revenue



- Freight
- Interislander
- Scenic Journeys
- Property & Corporate
- Infrastructure



Southdown upgrade team

Financial Statements

For the six months ended 31 December 2016

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Statement of Comprehensive Income

For the six months ended 31 December 2016

	Note	6 months ended 31 Dec 2016 (Unaudited)	6 months ended 31 Dec 2015 (Unaudited)	Year ended 30 June 2016 (Audited)
		\$m	\$m	\$m
Operating revenues	1	298.3	346.4	694.0
Operating expenses	2	(287.3)	(319.1)	(618.1)
Operating surplus		11.0	27.3	75.9
Capital grants	3	-	-	32.9
Depreciation and amortisation expenses		(32.9)	(30.9)	(67.5)
Foreign exchange and commodity gains and (losses)		0.3	(6.7)	(5.0)
Net finance expenses	4	(2.8)	(6.1)	(14.3)
Impairment		-	-	(216.3)
Movement in value of investment properties		0.2	0.1	(0.1)
Share in profit of joint venture		0.4	0.1	0.4
Other income		0.5	-	-
Net deficit before taxation		(23.3)	(16.2)	(194.0)
Income tax (expense)/ credit		-	-	-
Net deficit after taxation		(23.3)	(16.2)	(194.0)
Other comprehensive income/(loss)				
<i>Items that can be reclassified into net (deficit)/surplus:</i>				
Gains/(losses) from cash flow hedges		0.1	(0.4)	(0.4)
Total comprehensive loss		(23.2)	(16.6)	(194.4)

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 31 December 2016

	31 Dec 2016 (Unaudited)	31 Dec 2015 (Unaudited)	30 June 2016 (Audited)
	\$m	\$m	\$m
Current assets			
Cash and cash equivalents	103.7	100.2	96.5
Trade and other receivables	93.6	96.0	87.4
Inventories	68.2	67.3	63.1
Financial assets	1.1	1.1	0.2
	266.6	264.6	247.2
Non-current assets			
Property, plant and equipment	774.4	786.0	676.3
Investment property	69.3	68.8	68.7
Intangible assets	2.0	3.5	0.8
Financial assets	0.8	0.1	-
Trade and other receivables	0.3	0.2	-
Investment in joint venture	2.4	1.7	2.0
	849.2	860.3	747.8
Total assets	1,115.8	1,124.9	995.0
Current liabilities			
Trade and other liabilities	110.9	109.0	94.6
Employee entitlements	57.6	65.0	61.0
Financial liabilities	12.1	33.2	10.2
Income taxes payable	-	-	-
Provisions	4.5	4.3	6.6
	185.1	211.5	172.4
Non-current liabilities			
Employee entitlements	37.3	35.0	38.0
Financial liabilities	216.3	201.9	224.8
Provisions	6.4	5.3	5.9
	260.0	242.2	268.7
Total liabilities	445.1	453.7	441.1
Equity			
Share capital	753.6	553.8	613.6
Retained earnings	(105.0)	95.4	(81.7)
Asset revaluation reserve	22.6	22.6	22.6
Cash flow hedge reserve	(0.5)	(0.6)	(0.6)
	670.7	671.2	553.9
Total liabilities and equity	1,115.8	1,124.9	995.0



Trevor D Janes, Chairman
24 February 2017



Dame Paula Rebstock, Deputy Chair
24 February 2017

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the six months ended 31 December 2016

GROUP	Note	Equity Capital	Retained Earnings	Asset Valuation Reserve	Cash Flow Hedge Reserve	Total
		\$m	\$m	\$m	\$m	\$m
As at 30 June 2015 (Audited)		403.8	94.2	22.6	(0.2)	520.4
Net deficit for the period		-	(16.2)	-	-	(16.2)
Other comprehensive income/(loss)						
(Losses) from cash flow hedges		-	-	-	(0.4)	(0.4)
Total comprehensive income/(loss)		-	(16.2)	-	(0.4)	(16.6)
Transactions with owners						
Capital investment		150.0	-	-	-	150.0
Crown appropriation on land transactions	8	-	17.4	-	-	17.4
As at 31 December 2015 (Unaudited)		553.8	95.4	22.6	(0.6)	671.2
Net deficit for the period		-	(177.8)	-	-	(177.8)
Other comprehensive income/(loss)						
Gains/(losses) from cash flow hedges		-	-	-	-	-
Total comprehensive income/(loss)		-	(177.8)	-	-	(177.8)
Transactions with owners						
Capital investment		59.8	-	-	-	59.8
Crown appropriation on land transactions	8	-	0.7	-	-	0.7
As at 30 June 2016 (Audited)		613.6	(81.7)	22.6	(0.6)	553.9
Net deficit for the period		-	(23.3)	-	-	(23.3)
Other comprehensive income/(loss)						
Gains from cash flow hedges		-	-	-	0.1	0.1
Total comprehensive income/(loss)		-	(23.3)	-	0.1	(23.2)
Transactions with owners						
Capital investment		140.0	-	-	-	140.0
As at 31 December 2016 (Unaudited)		753.6	(105.0)	22.6	(0.5)	670.7

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the six months ended 31 December 2016

GROUP	Note	6 months ended	6 months ended	Year ended
		31 Dec 2016 (Unaudited)	31 Dec 2015 (Unaudited)	30 June 2016 (Audited)
		\$m	\$m	\$m
Cash flows from operating activities				
Receipts from customers		300.3	342.7	698.9
Interest received		1.3	1.3	2.9
Payments to suppliers and employees		(311.1)	(319.7)	(609.8)
Interest expense		(6.6)	(6.7)	(13.7)
Net cash from operating activities	7	(16.1)	17.6	78.3
Cash flows from investing activities				
Sale of property, plant and equipment		0.3	3.4	3.5
Capital grant receipts		14.6	17.7	32.9
Purchase of property, plant and equipment and investment properties		(132.6)	(149.7)	(285.2)
Purchase of intangibles		(1.4)	(3.0)	(5.9)
Net cash used in investing activities		(119.1)	(131.6)	(254.7)
Cash flows from financing activities				
Crown capital investment		140.0	150.0	209.8
Proceeds from NZRC land sales		5.2	17.0	18.1
Loans		-	-	24.6
Repayment of borrowings		(2.1)	(2.1)	(28.3)
Repayment of finance lease liability		(0.7)	(0.7)	(1.3)
Net cash from financing activities		142.4	164.2	222.9
Net increase in cash and cash equivalents		7.2	50.2	46.5
Cash and cash equivalents at the beginning of the period		96.5	50.0	50.0
Cash and cash equivalents at the end of the period		103.7	100.2	96.5

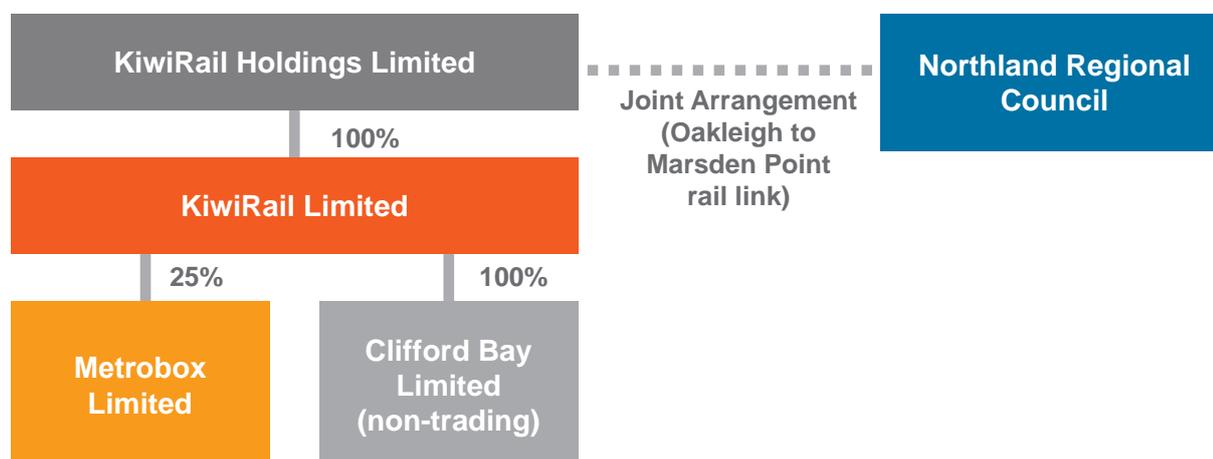
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Notes to the Financial Statements

For the six months ended 31 December 2016

REPORTING ENTITY

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



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

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

The interim financial statements of the Group are for the six months ended 31 December 2016 and were authorised by the Board of Directors on 24 February 2017.

BASIS OF PREPARATION

Statement of compliance

These interim financial statements for the six months ended 31 December 2016 have been prepared in accordance with NZ IAS 34 *Interim Financial Reporting*. They comply with the State-Owned Enterprises Act 1986, the requirements of the Companies Act 1993 and the Financial Reporting Act 2013. The Group is designated as a for-profit entity.

These unaudited, condensed interim financial statements do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual integrated report for the year ended 30 June 2016.

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

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

Changes in accounting policies

There have been no changes in accounting policies in the current financial year. All policies have been applied on a basis consistent with those used in previous periods. There were no new accounting standards and interpretations issued effective from 1 July 2016 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.

Notes to the Financial Statements

For the six months ended 31 December 2016

1. OPERATING REVENUES

	6 months ended 31 Dec 2016 (Unaudited)	6 months ended 31 Dec 2015 (Unaudited)	Year ended 30 June 2016 (Audited)
	\$m	\$m	\$m
Freight	181.1	203.5	389.8
Interislander	56.5	56.7	127.6
Tranz Metro	0.1	29.5	59.7
Scenic Journeys	13.2	12.8	29.7
Property and Corporate	22.3	22.1	44.5
Infrastructure	25.1	21.8	42.7
Total operating revenues	298.3	346.4	694.0

2. OPERATING EXPENSES

	6 months ended 31 Dec 2016 (Unaudited)	6 months ended 31 Dec 2015 (Unaudited)	Year ended 30 June 2016 (Audited)
	\$m	\$m	\$m
Salaries and wages	128.0	148.5	295.9
Restructuring	0.3	5.0	8.7
Defined contribution plan employer contributions	5.5	5.9	11.6
Other employee expenses	4.2	3.2	0.4
Total staff costs	138.0	162.6	316.6
Materials and supplies	59.7	60.3	119.2
Fuel and traction electricity	30.4	36.8	66.7
Lease and rental costs	26.5	23.4	49.2
Incidents and insurance	5.0	7.5	13.5
Contractors expenses	3.6	5.1	9.0
Audit fees	0.2	0.2	0.4
Impairment of receivables	0.5	0.3	0.3
Directors' fees	0.2	0.2	0.3
(Gain) on disposal of property, plant and equipment	(0.1)	(1.2)	(1.0)
Other expenses	23.3	23.9	43.9
Total operating expenses	287.3	319.1	618.1

3. CAPITAL GRANTS

	6 months ended 31 Dec 2016 (Unaudited)	6 months ended 31 Dec 2015 (Unaudited)	Year ended 30 June 2016 (Audited)
	\$m	\$m	\$m
Capital grants (Ministry of Transport funded)	-	-	13.2
Other capital grants	-	-	19.7
Total grant income	-	-	32.9

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

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

Government funding of \$14.6m has been received in the period ended 31 December 2016 (31 December 2015: \$17.7m) for capital projects that are still in progress. Once capital projects are completed Government funding will be recorded as capital grants.

Notes to the Financial Statements

For the six months ended 31 December 2016

4. NET FINANCE EXPENSES

	6 months ended 31 Dec 2016 (Unaudited)	6 months ended 31 Dec 2015 (Unaudited)	Year ended 30 June 2016 (Audited)
	\$m	\$m	\$m
Finance income			
Interest income on bank deposits	1.2	1.4	2.9
	1.2	1.4	2.9
Less finance expenses			
Interest expense on borrowings	(6.7)	(6.7)	(13.3)
Interest expense on finance lease	(0.2)	(0.3)	(0.5)
Net change in fair value of interest rate swaps	2.9	(0.5)	(3.4)
	(4.0)	(7.5)	(17.2)
Net finance expenses	(2.8)	(6.1)	(14.3)

5. OPERATING LEASE COMMITMENTS

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

The Group leases vessels 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 to 30 June 2020. 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. The future aggregate minimum lease payments payable under non-cancellable operating leases are as follows:

	31 Dec 2016 (Unaudited)	31 Dec 2015 (Unaudited)	30 June 2016 (Audited)
	\$m	\$m	\$m
Total minimum lease payments due:			
Not later than one year	31.4	23.1	28.4
Later than one year but not later than five years	54.7	49.6	64.1
Later than five years	8.9	12.0	10.7
	95.0	84.7	103.2

6. CAPITAL AND OTHER COMMITMENTS

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

	31 Dec 2016 (Unaudited)	31 Dec 2015 (Unaudited)	30 June 2016 (Audited)
	\$m	\$m	\$m
Capital expenditure commitments:			
Not later than one year	43.5	29.6	44.8
Later than one year but not later than five years	66.1	13.8	5.8
	109.6	43.4	50.6

Notes to the Financial Statements

For the six months ended 31 December 2016

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

	6 months ended 31 Dec 2016 (Unaudited)	6 months ended 31 Dec 2015 (Unaudited)	Year ended 30 June 2016 (Audited)
	\$m	\$m	\$m
Net deficit after taxation	(23.3)	(16.2)	(194.0)
Add/(deduct) items classified as investing or financing activities			
(Gain)/loss on sale of assets	(0.1)	(1.2)	1.0
Fair value movement in derivatives	(5.4)	9.9	12.8
Capital grant receipts	(14.6)	(17.7)	(32.9)
Share in profit of joint venture	(0.4)	(0.1)	(0.4)
	(43.8)	(25.3)	(213.5)
Add non-cash items			
Depreciation and amortisation expense	32.9	30.9	67.5
Movements in provisions	(2.2)	0.1	6.1
Impairment of non-financial assets	-	-	216.3
Movement in fair value of investment properties	(0.2)	(0.1)	0.1
	(13.3)	5.6	76.5
Add/(deduct) movements in working capital			
(Increase)/decrease in trade and other receivables	(6.2)	(8.6)	(0.1)
(Increase)/decrease in inventories	(5.1)	(10.8)	(6.6)
Increase/(decrease) in trade payables	1.0	1.4	10.7
Increase/(decrease) in other payables	7.5	30.0	(2.2)
Net cash flows from operating activities	16.1	17.6	78.3

8. SALE AND PURCHASE OF LAND

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

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

The total net proceeds from land sold is represented below:

	31 Dec 2016 (Unaudited)	31 Dec 2015 (Unaudited)	30 June 2016 (Audited)
	\$m	\$m	\$m
Proceeds from sale of NZRC land	-	17.4	18.1
Net movement charged to equity	-	17.4	18.1

9. CONTINGENT LIABILITY

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.

Key Performance Measures

Statement of Corporate Intent comparisons*

	6 months ended 31 Dec 2016 Actual	30 June 2017 Target
Sustaining a Zero Harm Environment		
LTIFR	5.5	3.5
TRIFR	15.5	8.9
GHG emissions per NTK (gms)	28.23	29.26
Engaging our customers and stakeholders		
Revenue (\$m)	298	635
Freight Trading Revenue Growth (%)	(7)	2
Passenger Revenue Growth (%)	0	4
Delivering operational performance		
On-time performance (%)		
- All Freight Trains	91	92
- % Interislander services to advertised sailings	96	99
Operational costs as a percentage of revenue	96	87
Network Renewals		
- New Sleepers Laid (000)	30	79
- New Rail Laid (km)	11	21
- Lines De-stressed (km)	28	140
Empowering our people		
Employee Net Promoter Score	(21)	0
Meeting our financial targets		
Operating Surplus (\$m)	11	80
Operating Margin (%)	4	13
Capital Expenditure - net of grants (\$m)	119	283
Property		
- Reduce Operational Footprint (%)	(3)	3
- Reduce Inward Lease Liability (%)	(1)	5
- Reduce Vacant Land (%)	(19)	3

Key Performance Measures

Statement of Corporate Intent comparisons*

	6 months ended 31 Dec 2016 Actual	30 June 2017 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 (%)	(4)	(52)
Profitability/Efficiency Measures		
Return on Average Capital Employed (%)	(2)	(36)
Operating Margin (%)	4	13
Leverage/Solvency Measures		
Shareholders' Funds to Total Assets (%)	60	53
Gearing Ratio - net (%)	16	32
Interest Cover	1.9	6.2
Solvency (current assets/current liabilities)	1.44	1.36

As in prior years, results at year end are expected to include the impairment of rail assets. A large proportion of network renewals capital expenditure is impaired each year as we spend more on capital projects than the cashflows generated by these assets.

*Refer to Statement of Corporate Intent 2017-2019 for definitions of performance measures

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

