

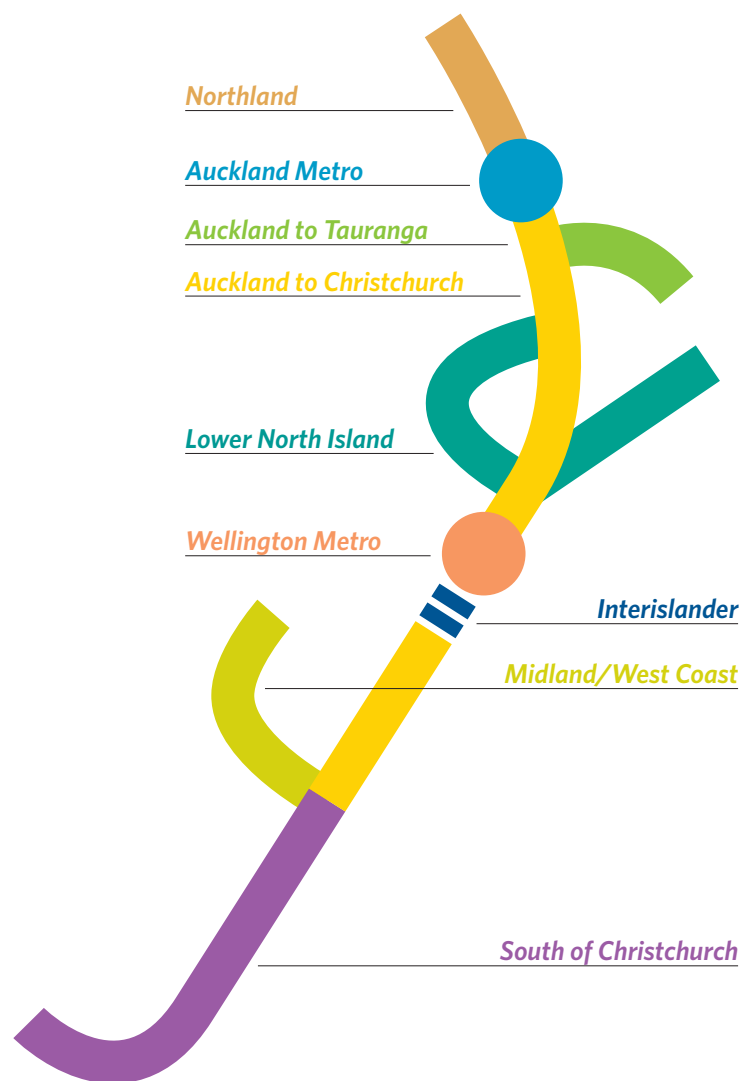


Half Year Report

1 July - 31 December 2009



Backbone of Integrated Transport Networks



Contents

KiwiRail key facts	2
Comparison of actual half year results to the Statement of Corporate Intent	4
Chairman and Chief Executive's Review	6
The trading environment	6
Financial performance	7
Review of activities	9
Non financial performance indicators	10
Major infrastructure projects	11
Capital expenditure	12
Corporate social responsibility activities	13
Financial Statements	15
Directory	24

KiwiRail key facts

KiwiRail is the primary trading name for the New Zealand Railways Corporation.

New Zealand Railways Corporation is a statutory corporation and a State Owned Enterprise which is responsible for the management of the national rail network and also moves freight and passengers around the country by rail and ferries.

KiwiRail assets

- 4,000km of track
- 18,000 hectares of land
- 149 main line locomotives
- 4,300 freight wagons
- 1 owned ferry; 2 leased ferries
- A staff of 4,000

Half year milestones

- Agreement with Fonterra to move greater volumes of processed dairy produce
- KiwiRail mandated to procure new electric trains for Auckland
- KiwiRail and ARTA signed a contract for investigation into route and the cost of a possible Auckland CBD loop tunnel
- Committed to purchase 20 new diesel electric locomotives
- Kaitaki ferry lease renewed for a further three years
- New \$25 million rail track maintenance equipment commissioned
- New Arahura road-rail bridge commissioned
- Commissioners recommend KiwiRail be allowed to designate the Marsden Point rail link

2



Freight Train East Coast Main Trunk



TranzAlpine

KiwiRail Board

- Rt Hon Jim Bolger, ONZ, Chair
- Paula Rebstock, CNZM, Deputy Chair
- Bryan Jackson
- Linda Constable, MNZM
- Mark Franklin
- Bob Field, ONZM
- Mark Tume

KiwiRail Management

- Jim Quinn, *Chief Executive*
- Rick van Barneveld, *General Manager, Network*
- Iain Hill, *General Manager, Freight*
- Thomas Davis, *General Manager, Interislander*
- Lloyd Major, *General Manager, Mechanical Services*
- Ross Hayward, *General Manager, Passenger*
- David Walsh, *Chief Financial Officer*
- Graeme Docherty, *Chief Information Officer*
- Karen Paterson, *General Manager, Legal and Governance*
- Nicola Brown, *General Manager, Human Resources*

Comparison of actual half year results to the Statement of Corporate Intent

The KiwiRail Statement of Corporate Intent (SCI) was published 4 September 2009. Included in that document are a number of key performance measures. The tables reflect half year actual performance against a key set of those KPIs.

GROUP FINANCIAL MEASURES

	Actual \$m	SCI Target \$m	Variance \$m	Variance %
Revenue *	299.7	327.3	(27.6)	(8.4%)
EBITDA *	16.1	14.4	1.7	11.8%
Profit after tax excluding capital grants	(69.1)	(70.1)	1.0	1.4%
Profit after tax	125.6	192.4	(66.8)	(34.7%)
Cash surplus	38.8	4.5	34.3	

* excludes capital and operating support grants

PRODUCTIVITY

	Actual	SCI Target	Variance	Variance %
Freight operation cost excluding depreciation / NTK**	\$0.081	\$0.086	\$0.005	5.0%
Interislander labour cost/\$ revenue	34.7%	32.9%	(1.8%)	
TranzScenic operation cost / passenger	\$47.06	\$50.9	\$3.84	7.5%

CAPEX

	Actual \$m	SCI Target \$m	Variance \$m	Variance %
Freight	50.8	67.0	16.2	24.2%
Network	64.6	85.0	20.4	24.0%
Other	5.1	13.0	7.9	70.0%
Metro projects	177.5	209.0	31.5	15.1%
Total capital	298.0	374.0	76.0	20.3%

COMMERCIAL AND CUSTOMER

	Actual	SCI Target	Variance	Variance %
Freight NTK** (million)	1,896	1,993	(97)	(4.8%)
Interislander passenger journeys (000s)	354	359	(5)	(1.4%)
Interislander commercial vehicle lane metres (000s)	506	548	(42)	(7.6%)
TranzMetro passenger journeys (000s)	5,590	6,025	(435)	(7.2%)
TranzScenic passenger journeys (000s)	255	222	33	14.8%

On time performance:

Freight trains	81%	80%	1%
TranzMetro	81%	92%	(11%)
Interislander	88%	86%	2%

** Net Tonne Kilometres



Interislander - Kaitaki

The SCI performance measures in the tables above compare the six months of actual performance to the six months planned performance. Explanations for some of the key variances are explained below:

Revenue

The \$27.6 million negative variance is driven by two key factors, the first being allowance for fuel costs.

The second key factor is the impact of the recession on traffic volumes.

EBITDA

EBITDA is favourable in spite of reduced revenue. This has been achieved by careful management of operating costs and lower fuel prices. KiwiRail is expecting EBITDA to be in line with the full year SCI.

Profit after tax

The net profit after tax figure of \$125.6 million is \$66.8 million below the SCI target. This is the result of the timing of capital work on Metro networks and careful capital expenditure management of KiwiRail's core business as funding discussions progress.

Commercial and customer targets

Freight volumes are significantly below the SCI target, a reflection of economic conditions. Interislander passenger volumes are encouragingly close to the SCI target although commercial vehicle traffic also reflects the economic conditions. Service disruptions related to infrastructure upgrades have impacted on Wellington Metro traffic and steps have been taken to improve reliability. Long distance passenger numbers are ahead of the SCI target.

Chairman and Chief Executive's Review



We are pleased to present KiwiRail's report and un-audited financial statements for the six months ended 31 December, 2009.

The operating environment has been uncertain as the financial impacts of the recession continue to work through the economy. While trading results have been negatively affected overall,



there have been some surprises, particularly with increases in long distance rail passenger numbers.

The last six months has seen some introspection on our part as we have reviewed and analysed the business to a degree that has enabled us to contemplate our long term future and develop a strategic business plan.

We are aware that improvements in our service delivery and reliability will attract more freight volumes to rail and will benefit our major customers. Our new locomotives, due to arrive mid year are an important part of improved service delivery as they are deployed on key freight routes.

6

The trading environment

Rail freight volumes have held up comparatively well. Net tonnes of freight carried at 6.5 million tonnes was only slightly below the comparable tonnage (6.6 million) for the same six months the year before. This was despite the impact of the five-week coal miners' strike in November which reduced coal tonnages carried by 200,000 tonnes.

Interislander road freight volumes (commercial vehicle) were down 6.2 percent on the same six month period last year. Ferry rail freight volumes increased by more than four percent in the six months although the increase

is in part the result of Arahura being in dry dock for three months of 2008 which reduced rail capacity and volumes during that period.

A reduction in international ferry passenger volumes as a result of the recession was offset by growth in domestic tourism. Overall passenger volumes were down just over one percent but passenger vehicle numbers were up more than two percent.

Passenger numbers on Wellington's Tranz Metro services were down by approximately 400,000, possibly as a result of service disruptions during

the winter months that resulted from maintenance issues with the ageing rolling stock and the impact of infrastructure upgrades being undertaken to improve network reliability.

Long distance rail passenger numbers increased by approximately 25,000. As with Interislander, the growth came largely from the domestic market and may be the result of New Zealanders holidaying within New Zealand rather than overseas. Increasing patronage of the Overlander service between Auckland and Wellington was particularly pleasing.

Financial performance

Direct financial comparisons between the 2008 and 2009 half year reporting periods are complicated by the purchase of the Toll and United Group businesses. Specifically, these businesses were only included for part of the 2008 reporting period.

The half year statements included below have been prepared on a similar basis to those completed for the

2009 financial year and on the basis of KiwiRail status as a Public Benefit Entity for accounting purposes.

We have included the revised performance statement (that was also included in the 2009 Annual report) for consistency and to provide greater visibility of the KiwiRail financial performance.

KiwiRail performance analysis for the 6 months to 31 December 2009

	6 months ended Dec 09 \$000	6 months ended Dec 08 \$000	12 months ended Jun 09 \$000
Revenue	299,652	223,085	518,099
Internally charged income	65,926	29,072	118,525
Total income	365,578	252,157	636,624
Expenditure to suppliers, staff, etc	(283,531)	(186,909)	(454,769)
Internal expenses	(65,926)	(29,072)	(118,525)
Total expense	(349,457)	(215,981)	(573,294)
KiwiRail earnings before depreciation, interest and taxation	16,121	36,176	63,330
Depreciation	(133,028)	(100,077)	(215,868)
Net finance charges	(19,972)	(10,457)	(34,093)
Losses before Crown/Regional Council funding	(136,879)	(74,358)	(186,631)
Crown provided funding through			
Operating grant (output agreement)	52,500	30,000	68,000
Public policy grant	1,625	28,418	3,776
Capital grants for metro projects			
Auckland - 2008/2009 grant out of a total \$1,100m (DART \$600m and Electrification \$500m)	97,452	81,349	222,240
Wellington - 2008/2009 grant out of a total of \$316m	78,646	-	61,687
Total metro capital funding	176,098	81,349	283,927
Capital funding for renewal projects	17,075	19,901	48,742
Regional Council service fee for metro operations	12,532	5,486	20,712
Total Crown and Regional Council funding	259,830	165,154	425,157
Taxation	2,686	(658)	204
Profit Reported in Financial Statements as a Public Benefit Entity	125,637	90,138	238,730

Revenue

The 2009 revenue performance has been impacted by a number changes between the two reporting periods.

Firstly, the 2009 figures show the benefit of the trading revenue from the Freight, Interislander and Passenger businesses. These are not included for the first three months of 2008 as they were not then incorporated into the business of New Zealand Railways Corporation.

The 2008 trading revenue included the Track Access Charges (TAC) between ONTRACK and the former Toll businesses for the first three months (\$13 million) that is not included in the 2009 revenue figure. TAC is still charged internally but not shown in consolidated accounts due to accounting eliminations.

The 2008 revenue also included a higher allowance for fuel price changes from the three months that the Freight businesses were part of KiwiRail.

Lastly, the 2009 trading revenue has been negatively impacted by the economic conditions experienced this year. This has been assessed as approximately \$15 million.

The net effect of these changes shows revenue \$76.5 million higher in 2009 over 2008.

Expenses

The expense comparative has been impacted by similar factors outlined in the revenue narrative.

The former Toll businesses added approximately \$89 million in cost to 2009 compared to 2008. The mechanical services business from United Group have had only a minor impact over the two periods as they were either included in the former Toll

business expense lines or fully into the KiwiRail figures this year.

Fuel in 2009 is nearly \$15 million better than the prior year through the lower barrel rate and high New Zealand Dollar.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

EBITDA shows 2009 \$20 million lower than 2008. Filtering through all the changes discussed above, the underlying impact has been through softer revenues (\$15 million) and slightly higher underlying costs (\$5 million). Allowance for fuel cost changes, for example, have had a corresponding impact on both revenues and expenses.

Depreciation

Depreciation in 2009 is \$33 million higher than 2008. There are two main reasons for this.

The first is simply the three months additional depreciation impact of the assets purchased from Toll.

The other, around \$10 million, is due to the revaluation effect of the Network assets that was undertaken when the KiwiRail business was established.

Finance Charges

Finance charges have increased in 2009 by \$9 million due to the increase in debt levels of \$83 million. The debt is all Crown debt and the increased level was part of the establishment of KiwiRail and also specific financing for assets such as the new locomotives currently being manufactured.

Crown and Regional Funding

Capital funding largely reflects the progress made on the Metro rail and funded Network projects. This year significant progress has been made on these with \$179 million received on Metro projects and \$17 million on Network projects such as the Arahura Bridge.

KiwiRail also operates the Wellington Metro train service on behalf of the Greater Wellington Regional Council. This was previously done by Toll and the \$7 million increase over 2008 reflects the ownership change.

Looking Forward

Over the next six months KiwiRail is looking to drive increased revenue and manage operating and capital expenditure.

The Statement of Corporate Intent full year EBITDA target of \$59.6 million (including Wellington Metro operation revenue) is still our objective despite continued uncertain trading conditions.

Review of activities

In September we signed the contract with CNR Dalian for the purchase of 20 new diesel electric locomotives. The new locomotives will begin arriving from the middle of the current calendar year. They will be deployed largely on Waikato and Bay of Plenty lines and on the "milk route" between Manawatu and Taranaki.

One of the major events of the six months was the completion and formal commissioning of the Arahura road-rail bridge between Greymouth and Hokitika. The new structure is a two road lane, one rail lane bridge built at a cost of \$25 million.

It replaces a 120-year-old, single-lane bridge that carried both road and rail traffic. It guarantees future road and rail transport in the region.

One of KiwiRail's challenges is the future configuration of ferry services and the choice of ships that will provide those services. In September we provided some medium term certainty for the freight and logistics sector by renewing the lease on Kaitaki for a further three years. We are also working on plans to improve capacity for rail freight on the three existing ferries.

During the first six months of the financial year we re-developed Newmarket junction in preparation for the opening of the new station in January and completed the excavation of the New Lynn rail trench in preparation for laying the tracks and changing for the better the transport dynamics in the town.

Both projects are part of the \$600 million refurbishment of Auckland's metropolitan rail network. We also made a start on the rail link from the North Island Main Trunk to Manukau City and completed the rehabilitation of the Onehunga Line.

While this project is nearing an end, the project to electrify the Auckland network is gearing up. Just after Christmas, we signed an \$80 million contract for the supply of the traction infrastructure that is the most visible element of the process.

The Government has mandated us to handle the procurement of new electric trains for the Auckland network. Working closely with ARTA to a budget of \$500 million, we have already assembled a team and begun work with a view to going to the market as early as possible this year.

Acknowledgements

In October, our Network Chief Operating Officer, William Peet left KiwiRail. He was replaced with Rick van Barneveld as General Manager, Network. Rick has extensive infrastructure and transport experience.

During the six months, Lloyd Major joined the Executive team as General Manager, Mechanical.

The intensity of work being progressed within KiwiRail over the first six months of the year has placed considerable demands on staff and management. Thank you to all for their contribution.



Rt Hon James B Bolger, ONZ
Chairman



Jim Quinn
Chief Executive

Non financial performance indicators

Service volumes

Service volumes - freight

	Six months to 31 December 2009	Six months to 31 December 2008
KiwiRail net tonne kilometres*	1,958,964,314	2,019,892,000
Net weight carried (tonnes)	6,515,325	6,660,145
Interislander ferry sailings	1,772	1,473

Service volumes - passenger

	Six months to 31 December 2009	Six months to 31 December 2008
Tranz Metro passenger volumes	5,598,000*	6,058,000*
Tranz Scenic passenger volumes	166,966*	136,319*

* Excludes Capital Connection

Engineering

Wagons

	Six months to 31 December 2009	Six months to 31 December 2008
Bogies and wheel-set changes	252	250
Brought back into service	3	15
Conversions	37	17

Locomotives

Bogie changes	12	17
Overhaul	5	13
Engine overhaul	4	8
Re-instatement	0	4

Infrastructure

New rail laid (track km)	15.9	18.4
New bridge installed (metres)	341	303

Safety information

	Six months to 31 December 2009	Six months to 31 December 2008
Lost time injury frequency rates (LTIF) (per million man hours)	4.0	7.6
Derailments	22	25
Level crossing collisions	14	9
Pedestrian railway crossing collisions	0	1

Major infrastructure projects

Development of Auckland's Rail Transport (DART)

Achievements July-December 2009	Key milestones for 2010
<p>DART 1 - Newmarket Rail Upgrade</p> <p>Completed the complex new track arrangement in time for the station opening in January 2010 and finished the replacement of the Remuera Road rail overbridge on time on 30 November.</p>	<p>DART 1 completed January 2010. Wiri Inland Port Rail Link. Infrastructure completed January 2010 and first train arrives 3 February 2010.</p>
<p>DART 2 - Newmarket-Western Line</p> <p>Completed the replacement of the Park Road rail overbridge a week early on 23 November. Made significant progress to widen rail corridor in preparation for double-tracking.</p>	<p>Completion of rail overbridges (Khyber Pass Road) and double-tracking at end of March and new Grafton Station opens in April 2010.</p>
<p>DART 4 - Avondale</p> <p>Completed level crossing upgrades and double-tracking at St Jude Street, Chalmers Street and St Georges Road.</p>	<p>Completion of new Avondale Station platforms in March, finish double-tracking through station and station opens in July 2010.</p>
<p>DART 6 - New Lynn Rail Trench</p> <p>Completed the formation of the trench and total excavation in December 2009. On schedule for first train in trench in March 2010 and double-tracking (completing Western Line Duplication) in June 2010.</p>	<p>First train in trench, with temporary station, on 1 March 2010. Double-tracking finished (completing three-year Western Line Duplication) in July 2010. ARTA's new station opens September 2010.</p>
<p>DART 9 - Manukau Rail Link</p> <p>Turned the first sod on first new rail line in Auckland since 1930.</p>	<p>Completion of rail infrastructure by end-2010.</p>
<p>DART 19 - Onehunga Branch Line</p> <p>Completed the rehabilitation of the line ahead of its reopening to passenger services in 2010. Signalling and level crossing upgrades to follow.</p>	<p>Complete signalling and level crossing upgrades. Complete spur line to new station and build platforms mid-2010.</p>

Auckland Electrification Project

Achievements July-December 2009	Key milestones for 2010
<p>Designed first stage of civil construction.</p> <p>Signed contract for civil construction.</p> <p>Signed contract and completed detailed planning for signalling.</p>	<p>Completion of first major civil works (bridge replacement at St Marks Road, track lowering at Parnell Tunnel, Mt Eden Road and Sandringham) in January 2010.</p> <p>Signing of contract for traction element of contract January 2010.</p> <p>Switch-gear and cable contracts to be signed in June.</p> <p>First section of traction to begin in third quarter 2010.</p> <p>Commission signalling SP1 Newmarket to Morningside in November.</p> <p>Quay Park and Britomart resignalling end-2010.</p> <p>Onehunga signalling complete in July.</p>

Wellington Regional Rail Programme (WRRP)

Achievements July-December 2009

Completed all 11 new substation buildings.

Completed platform upgrades at Petone, Eponi, Simla Crescent, Khandallah and Raroa Stations.

Begun complete replacement of Pukerua Bay Station platform and upgrade of Wellington Railway Station platforms.

Commissioned computerised signalling system at entrance to Wellington Railway Station, replacing relay system.

Begun laying rail and installing overhead traction poles for double tracking and electrification to Waikanae.

Key milestones for 2010

All new substations commissioned into operation on network.

Completion of Pukerua Bay and Redwood Station upgrades.

Third main line into Wellington Station commissioned into operation.

Begin construction of new platforms at Waikanae and Paraparaumu Stations.

Complete EMU compliance works (overhead, track circuits, SCADA) on Hutt Valley line to enable new Matangi units to run on this line.

Replacement of Arahura Rail-Road Bridge

Achievements July-December 2009

Project completed in December 2009, ahead of time and budget of \$25 million for road and rail components

Key milestones for 2010

NA

Corporate social responsibility activities

Area	Initiative	Description of activity	Ongoing involvement
Rail safety promotion	Rail Safety Awareness	Leadership and participation in the 2009 Australasian Rail Safety Awareness week. Participation as a trustee in the Chris Cairns Foundation.	Commitment to the 2009 Rail Safety Awareness Week. Continuing involvement in the CCF.
Corridor appearance initiatives	Funded and provided rail corridor protection training to community trusts working on anti graffiti initiatives. Provided some funding and maintained association with Keep New Zealand Beautiful.	Worked with local groups to control graffiti and litter on the rail corridor. Created partnerships with KNZB regional offices to control graffiti on the corridor.	Continuing work with local trusts. Continued work with KNZB.
Heritage rail issues and promotion	Provided base funding and office space for the New Zealand Rail Heritage Trust. Provided support for the development of the National Railway Museum at Ferrymead.	Provided funding and support for rail heritage activities. Continuation of five year funding agreement to support the National Railway Museum.	
Maritime safety	Sponsorship of Coastguard Central Region. Support for Marlborough Marine Radio.	Funding of volunteer activities and travel support. Funding contribution for marine radio safety broadcasts.	Sponsorship through 2009-10. On-going funding.



FINANCIAL STATEMENTS

For the
six months
ended
31 December
2009

STATEMENT OF FINANCIAL PERFORMANCE	16
STATEMENT OF FINANCIAL POSITION	17
STATEMENT OF CHANGES IN EQUITY	18
STATEMENT OF CASH FLOWS	19
NOTES TO THE FINANCIAL STATEMENTS	20

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the six months ended 31 December 2009

GROUP	6 months ended Dec 09 (Unaudited) \$000	6 months ended Dec 08 (Unaudited) \$000	Year ended June 09 (Audited) \$000
Trading Revenue			
Freight revenue	183,111	121,510	284,504
Passenger revenue	58,595	40,731	108,085
Manufacturing revenue	17,017	13,420	38,671
Track access revenue	6,204	25,475	32,357
Property revenue	7,309	9,467	20,135
Maintenance revenue	14,428	5,507	19,620
Grant and Subsidy Income	259,830	165,154	425,157
Other Income	12,988	6,975	14,727
Total Revenue	559,482	388,239	943,256
Operating Costs			
Personnel expenses	108,896	64,552	170,268
Fuel and traction electricity	40,382	30,282	72,192
Contractors costs	7,768	4,334	11,782
Lease and rental costs	23,520	12,808	37,189
Depreciation and amortisation expense	133,028	100,077	215,868
Materials and supplies	80,694	51,962	113,346
Incidents, casualties and insurance	9,380	6,972	23,690
Other expenses	12,891	15,999	26,302
Total Operating Costs	416,559	286,986	670,637
Operating Surplus/(Deficit) From Trading	142,923	101,253	272,619
Finance income	1,216	1,129	4,731
Finance expense	(21,188)	(11,586)	(38,824)
Net Surplus/(Deficit) Before Taxation	122,951	90,796	238,526
Taxation credit/(expense)	2,686	(658)	204
Net Surplus For The Period	125,637	90,138	238,730

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the six months ended 31 December 2009

GROUP	6 months ended Dec 09 (Unaudited) \$000	6 months ended Dec 08 (Unaudited) \$000	Year ended June 09 (Audited) \$000
Current assets			
Cash and cash equivalents	38,753	45,474	44,451
Trade and other receivables	123,915	138,661	133,266
Inventory	77,028	61,176	71,618
Financial assets	1,118	7,547	4,733
Total current assets	240,814	252,858	254,068
Non-current assets			
Other receivables	1,784	1,951	459
Property, plant and equipment	13,247,017	12,603,909	13,073,479
Intangible assets	6,296	7,269	6,642
Financial assets	-	594	97
Total non-current assets	13,255,097	12,613,723	13,080,677
Total assets	13,495,911	12,866,581	13,334,745
Current liabilities			
Trade and other payables	161,948	584,338	156,144
Borrowings	172,036	171,915	171,974
Financial liabilities	16,057	4,557	15,286
Income taxes payable	891	11,435	1,798
Provisions	52,903	32,926	51,634
Total current liabilities	403,835	805,171	396,836
Non-current liabilities			
Term borrowings	308,883	225,920	269,917
Deferred taxation	65,202	79,965	66,535
Deferred income	-	811	1,896
Financial liabilities	1,286	1	175
Provisions	37,449	37,017	45,767
Total non-current liabilities	412,820	343,714	384,290
Total liabilities	816,655	1,148,885	781,126
Net Assets	12,679,256	11,717,696	12,553,619
Equity			
Equity capital	546,946	158,652	546,946
Retained earnings	1,013,184	578,322	800,514
Asset valuation reserve	11,119,126	10,980,722	11,206,159
Total Equity	12,679,256	11,717,696	12,553,619

Rt Hon James B Bolger, ONZ
Chairman

Paula Rebstock
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2009

<i>GROUP</i>	<i>Equity Capital</i> \$000	<i>Retained Earnings</i> \$000	<i>Asset Valuation Reserve</i> \$000	<i>Total</i> \$000
As at 1 July 2008 (Audited)	158,652	414,584	11,054,322	11,627,558
Release of revaluation reserve to retained earnings	-	73,600	(73,600)	-
Net surplus/(deficit) for the period	-	90,138	-	90,138
As at 31 December 2008 (Unaudited)	158,652	578,322	10,980,722	11,717,696
Revaluation of property, plant and equipment	-	-	299,037	299,037
Release of revaluation reserve to retained earnings	-	73,600	(73,600)	-
Capital injection	388,294	-	-	388,294
Net surplus/(deficit) for the period	-	148,592	-	148,592
As at 30 June 2009 (Audited)	546,946	800,514	11,206,159	12,553,619
Release of revaluation reserve to retained earnings	-	87,033	(87,033)	-
Net surplus for the period	-	125,637	-	125,637
As at 31 December 2009 (Unaudited)	546,946	1,013,184	11,119,126	12,679,256

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2009

GROUP	Note	6 months ended Dec 09 (Unaudited) \$000	6 months ended Dec 08 (Unaudited) \$000	Year ended June 09 (Audited) \$000
Cash flows from operating activities				
Proceeds from:				
Receipts from customers		315,253	211,760	592,046
Interest received		304	1,121	1,652
Operating grant		56,212	30,000	70,954
Proceeds utilised for:				
Payments to suppliers and employees		(304,787)	(216,907)	(490,162)
Interest expense		(14,712)	(14,238)	(24,113)
Income tax paid		(1,079)	-	(11,752)
Net cash from operating activities	5	51,191	11,736	138,625
Cash flows from investing activities				
Proceeds from:				
Sale of property, plant and equipment		352	754	985
Grant receipts		194,798	134,014	291,454
Proceeds utilised for:				
Purchase of property plant and equipment		(291,067)	(202,125)	(507,634)
Investment in subsidiaries		-	40,896	40,858
- KiwiRail Holdings Limited		-	-	(24,093)
- United Group (NZ) Limited		-	-	-
Net cash used in investing activities		(95,917)	(26,461)	(198,430)
Cash flows from financing activities				
Proceeds from:				
Proceeds from long term borrowings		40,000	25,000	70,000
Proceeds utilised for:				
Payment of finance lease liability		(722)	(665)	(1,358)
Repayment of borrowings		(250)	(250)	(500)
Net cash used in financing activities		39,028	24,085	68,142
Net increase/(decrease) in cash and equivalents		(5,698)	9,360	8,337
Cash and cash equivalents at the beginning of the period		44,451	36,114	36,114
Cash and cash equivalents at the end of the period		38,753	45,474	44,451

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 31 December 2009

REPORTING ENTITY

New Zealand Railways Corporation is a statutory corporation established pursuant to the New Zealand Railways Corporation Act 1981 and is included within the First Schedule of the State Owned Enterprises Act 1986. The Group comprises the New Zealand Railways Corporation and its subsidiaries and associate companies. 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 2009.

BASIS OF PREPARATION

Statement of compliance

The interim financial statements comply with the New Zealand Railways Corporation Act 1981, the State-Owned Enterprises Act of 1986 and New Zealand equivalents to International Financial Reporting Standards, New Zealand Generally Accepted Accounting Practice and other applicable financial reporting standards as appropriate for public benefit entities.

Changes in accounting policies

There have been no material changes in accounting policies. All policies have been applied on a basis consistent with those used in previous periods. The interim report should be read in conjunction with the annual report for the year ended 30 June 2009.

Fair presentation

On 1 October 2008 the Group acquired KiwiRail Holdings Limited and its subsidiaries from the Crown. The comparative figures presented in these interim financial statements exclude the results of KiwiRail Holdings Limited and its subsidiaries for the period prior to 1 October 2008. The comparative numbers presented are therefore not directly comparable with the current year numbers.

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:

- **NZIFRS 8 Operating Segments**, which will become effective for accounting periods commencing on or after 1 January 2009. New Zealand Railways Corporation, as a public benefit entity, is not required to comply with this accounting standard.
- **NZIAS 23 Borrowing Costs (revised 2007) replaces NZIAS 23 Borrowing Costs (issued 2004)** and is effective for reporting periods beginning on or after 1 January 2009. The revised standard requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of that asset. The revised standard will also require borrowing costs to be considered when revaluing property, plant and equipment to fair value based on depreciated replacement cost. Any necessary adjustments to depreciated replacement cost carrying values will have flow on effect to depreciation expense. The potential impact on the Group's financial results has not yet been quantified. As a Public Benefit Entity, the Group has exercised its option not to apply NZIAS23. Accordingly, the Group has expensed all borrowing costs to the Income Statement as they were incurred.

KIWIRAIL

New Zealand Railways Corporation
Notes to financial statements (unaudited)
For the six months ended 31 December 2009

1. OPERATING PROFIT/(LOSS) FROM TRADING

GROUP	6 months ended Dec 09 (Unaudited) \$000	6 months ended Dec 08 (Unaudited) \$000	Year ended June 09 (Audited) \$000
Surplus before income tax has been arrived at after:			
Fees paid to auditor			
Audit of the financial statements	243	204	450
Other assurance related services	9	-	102
Directors' fees	165	343	393
Donations	3	10	-
Impairment losses on accounts receivable			
Written off	56	20	185
Increase in provision for doubtful debts	31	336	353
(Gain)/loss on sale of property, plant and equipment	33	252	224

2. COMMITMENTS FOR EXPENDITURE

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

GROUP	6 months ended Dec 09 (Unaudited) \$000	6 months ended Dec 08 (Unaudited) \$000	Year ended June 09 (Audited) \$000
Expenditure commitments (excluding operating leases)			
Less than one year	229,333	141,631	240,892
Later than one year but not later than five years	86,578	43,739	72,606
More than five years	749	-	-
	316,660	185,370	313,498

3. OPERATING LEASE COMMITMENTS

The Group leases vessels and plant and equipment in the normal course of its business. The Kaitaki vessel has a non-cancelable lease term of five years, expiring on 30 June 2010. Motor vehicle leases generally have a non-cancelable term of three years and truck leases five years.

At balance date the Group had outstanding commitments for future minimum lease payments under non-cancelable operating leases, which fall due as follows:

GROUP	6 months ended Dec 09 (Unaudited) \$000	6 months ended Dec 08 (Unaudited) \$000	Year ended June 09 (Audited) \$000
Non-cancelable operating lease payments			
Less than one year	29,340	22,951	29,982
Later than one year but not later than five years	61,267	31,472	62,911
More than five years	12,593	16,920	14,885
	103,200	71,343	107,778

4. CONTINGENT LIABILITIES

(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, Taranaki Whanui Ki Te Upoko O Te Ika and The Port Nicholson Block Settlement Trust, dated 19 August 2008, is an option to purchase the Wellington Railway Station and surrounding land. To date the option has not been exercised.

(c) Letter of credit facilities

The Group has purchasing card credit facilities with the BNZ to a maximum of \$1,300,000 as at 31 December 2008.

(d) 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.

(e) Credit guarantees

The Group has credit guarantees to the value of AUD 1,055,086 for the purchase of equipment as at 31 December 2009.

(f) Conditional ground lease agreement

The Group has a conditional agreement with Newtownard Holdings Limited for the grant of a long term ground lease of premises owned by the Group in Cambridge.

(g) Marsden Point rail corridor designation

The Group has recently 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 would share the holding costs of such land with the Council.

(h) Contingent assets

The Group is pursuing one or more claims relating to the acquisition activity during the 2009 financial year. The outcome of these claims is uncertain at this stage and an estimate of financial effect is not practicable.

KIWIRAIL

New Zealand Railways Corporation
Notes to financial statements (unaudited)
For the six months ended 31 December 2009

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

<i>GROUP</i>	6 months ended Dec 09 (Unaudited) \$000	6 months ended Dec 08 (Unaudited) \$000	Year ended June 09 (Audited) \$000
Net surplus / (deficit)	125,637	90,138	238,730
Add / (deduct) items classified as investing or financing activities			
Loss / (gain) on sale of assets	490	252	224
Grant receipts	(194,798)	(134,014)	(291,454)
	(68,671)	(43,624)	(52,500)
Add / (deduct) non-cash flow items			
Depreciation and amortisation	133,028	100,077	215,868
Movement in fair value of derivatives	(5,595)	(529)	13,683
Amortisation of deferred revenue	-	(1,254)	1,757
	58,762	54,670	178,808
Add / (deduct) movements in working capital			
Decrease/(Increase) in receivables	2,818	(21,522)	(15,836)
(Increase) / decrease in other receivables	(8,095)	(5,983)	(4,539)
(Increase) / decrease in inventories	(5,409)	118	(13,462)
Increase / (decrease) in payables	4,732	(17,254)	(6,808)
Decrease / (Increase) in provisions	(1,617)	1,707	462
Net cash flows from operating activities	51,191	11,736	138,625

Directory

Bankers

Bank of New Zealand
North End Branch, 100 Lambton Quay
PO Box 1596, Wellington 6140

Auditors

John O'Connell
Audit New Zealand
On behalf of the Auditor-General
Level 8, St Paul's Square
Private Bag 99, Wellington 6140

Address

New Zealand Railways Corporation
Level 4, Wellington Railway Station
PO Box 593, Wellington 6140



