



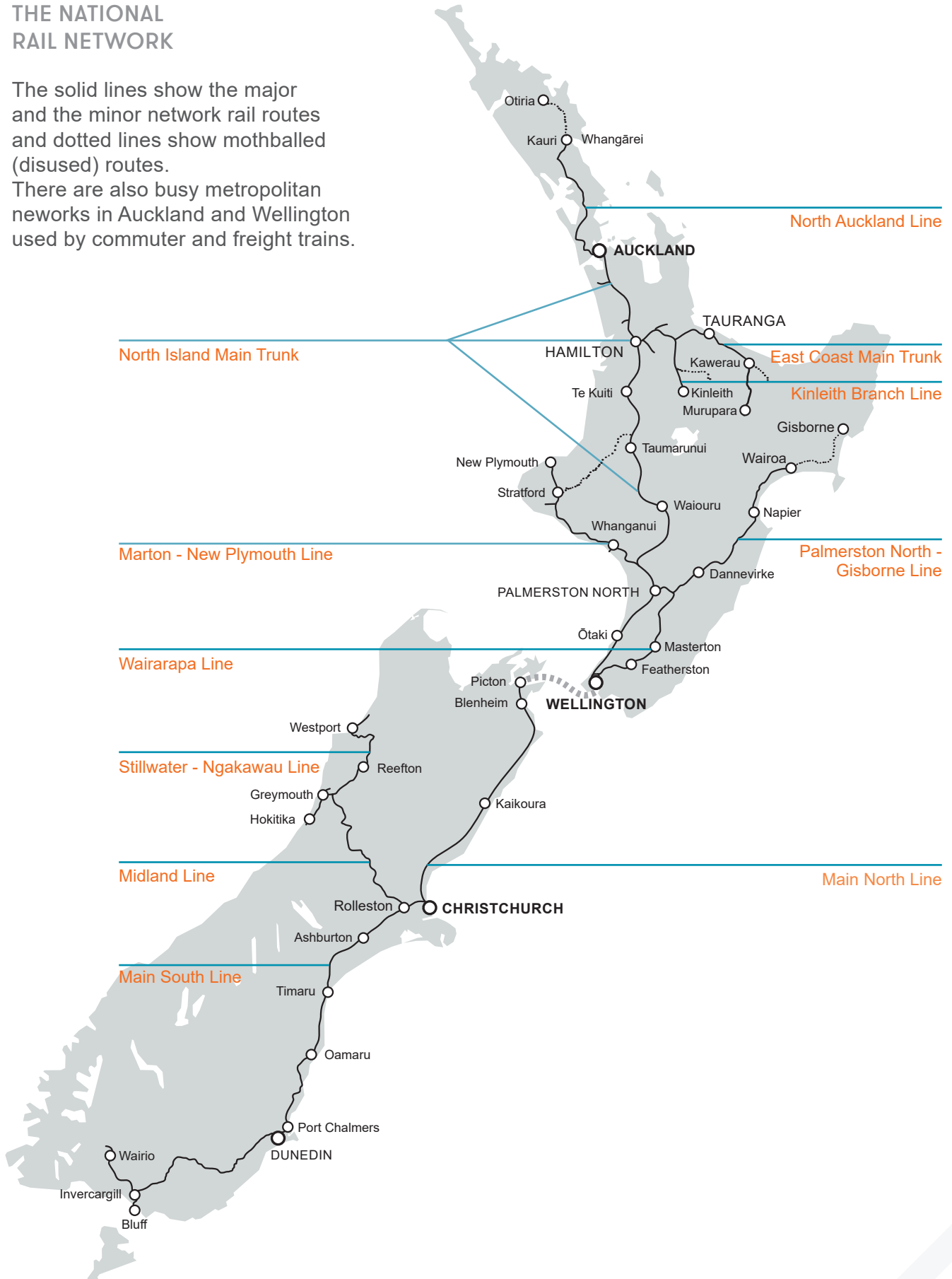
HALF YEAR REPORT 2023

AND UNAUDITED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2022



THE NATIONAL RAIL NETWORK

The solid lines show the major and the minor network rail routes and dotted lines show mothballed (disused) routes. There are also busy metropolitan networks in Auckland and Wellington used by commuter and freight trains.



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Ebony Tipene, Recruitment Advisor

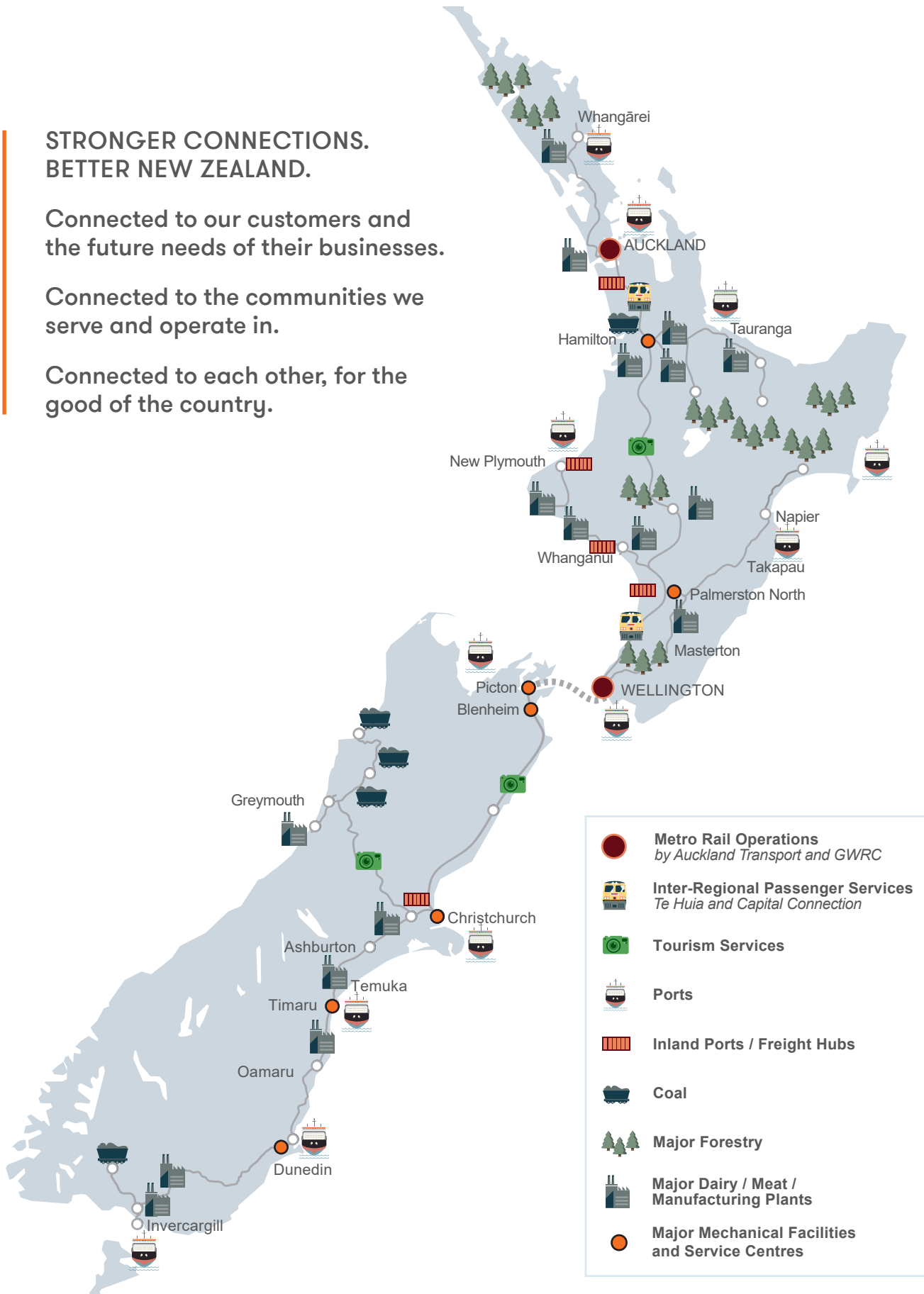
HOW THE RAIL NETWORK IS USED

STRONGER CONNECTIONS. BETTER NEW ZEALAND.

Connected to our customers and the future needs of their businesses.

Connected to the communities we serve and operate in.

Connected to each other, for the good of the country.

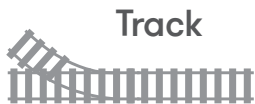


KEY FACTS



Freight

Moves around 19 million tonnes of freight each year



Track

Operates and maintains 3700km of track, including six million sleepers, of which 50 per cent are concrete

Interislander



Operates four ships making 2800 sailings per year

Property

Manages a portfolio worth \$4.3 billion with more than 18,000 hectares of land



Owens more than 900 buildings

Manages 10,000+ leases, licences and grants



Freight task

Carries 36% of the New Zealand freight task that is deemed to be available to rail



Freight services

Operates 43,000 mainline freight departures each year
247 locomotives & shunts



Value

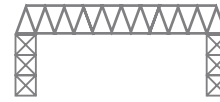
The total value of rail to New Zealand's economy is approximately \$1.7-\$2.1 billion every year*



Our team

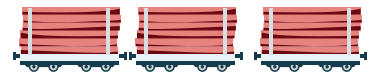
4800 employees
19% female
19% under 30 years old

Infrastructure



3100 signals
1500 public level crossings
106 tunnels
1344 bridges

Exports and imports



Transports around 20% of New Zealand's exports and imports

Sustainability



Reduces heavy vehicle impact by more than 1.1 million trucks per year

Every tonne of freight carried by rail delivers a 70% emissions saving over road

* The Value of Rail in New Zealand – EY 2021

ABOVE RAIL AND BELOW RAIL PERFORMANCE



Robert Mascord, Safety Protector Group

KIWI RAIL FINANCIAL PERFORMANCE

	\$m		
	Group KiwiRail	Above Rail The Business	Below Rail The Network
External Revenue	497.2	398.2	99.0
Operating Expenses	(415.6)	(316.6)	(99.0)
Operating Surplus	81.6	81.6	-
Capital Expenditure	568.9	217.5	351.4

The Above Rail Business provides:

- Rail logistics services to freight markets
- Ferry services to rail and road freight markets, and for passengers and private vehicles
- Passenger rail services for public transport (commuter) and tourism (scenic) markets
- Property management and development for rail operations and third-party land use.

The Above Rail Business is charged with becoming self-sustaining.

It is funded through operating cash flows, external borrowings, and a shareholder investment programme to renew commercial assets to improve performance.

The Below Rail Network provides:

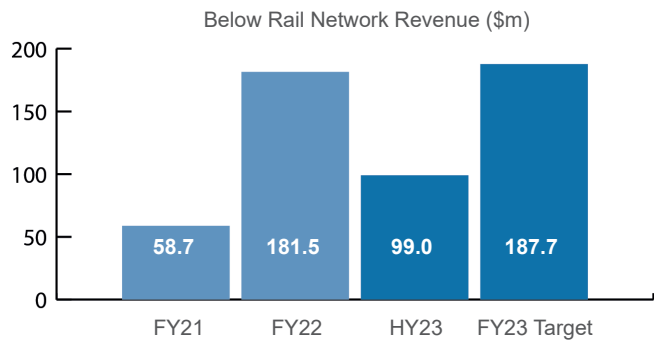
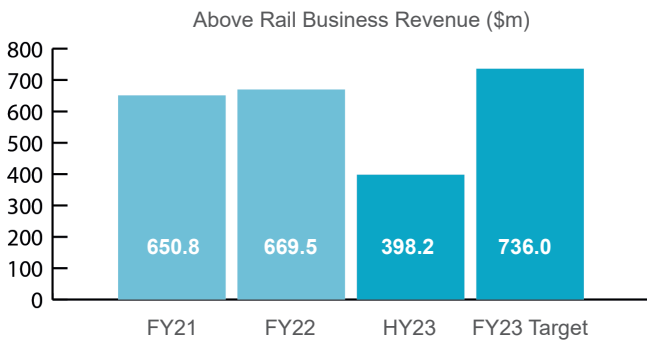
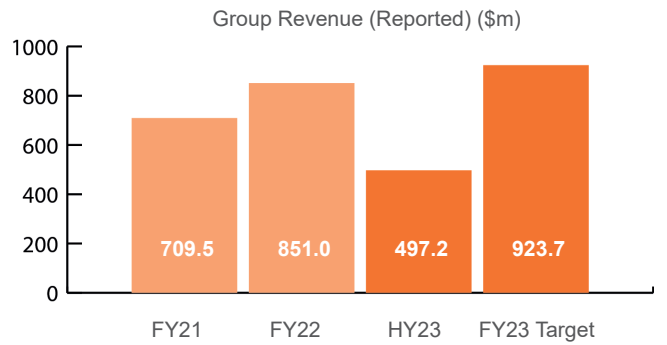
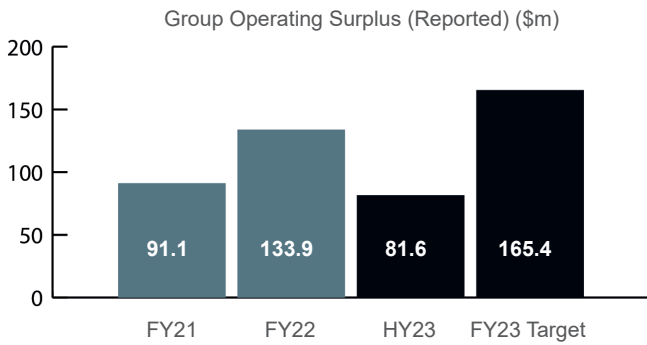
- Infrastructure expertise, delivering our core maintenance, renewals and improvements programme in the rail network for all rail users.

The Below Rail Network is funded by the Government through the Rail Network Investment Programme, major improvement projects like the New Zealand Upgrade Programme,

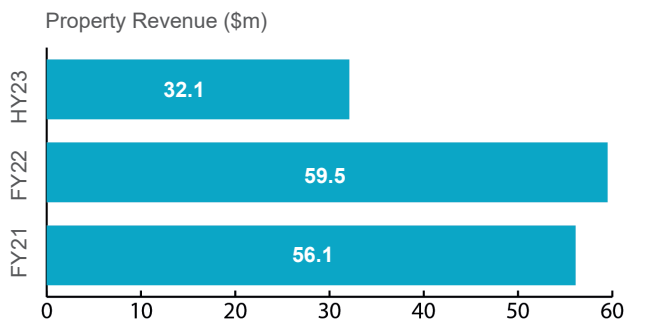
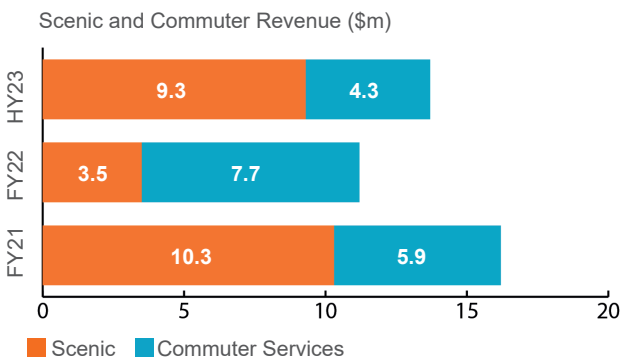
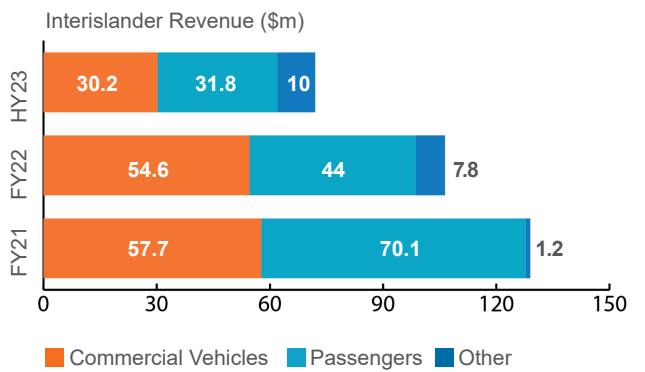
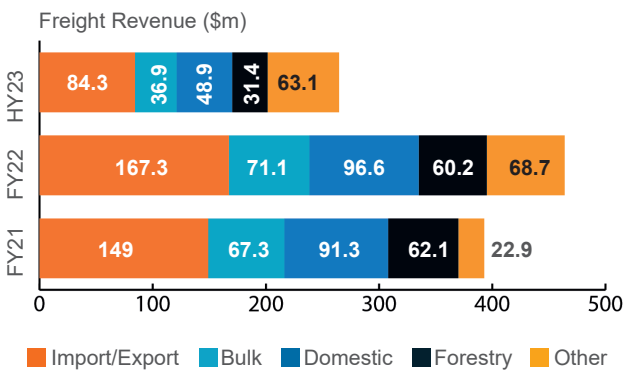
and access agreements from all rail users. While Waka Kotahi administers RNIP funding through the NLTF, the fund is supplemented by a direct Crown contribution, track access fees paid by rail users, and a Track User Charge paid by KiwiRail.

The Above and Below Rail businesses are both supported by shared corporate services including a specialist Zero Harm team, finance, legal, human resources, ICT, policy and funding, communications and strategy. These businesses both also contain Programme Delivery teams delivering major asset renewals and improvements programmes.

ABOVE AND BELOW RAIL REVENUE AND FUNDING

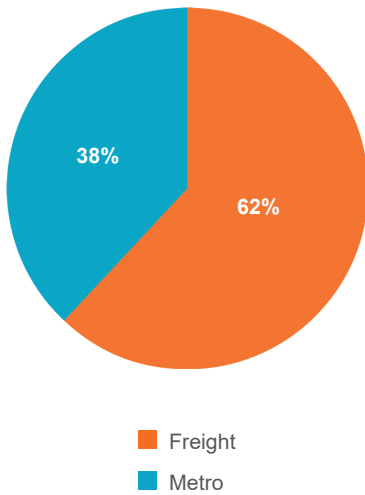


ABOVE RAIL BUSINESS

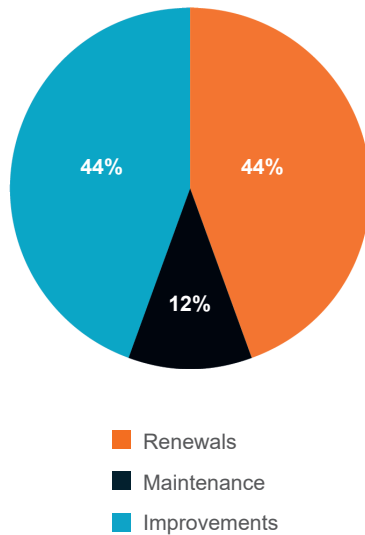


BELOW RAIL NETWORK

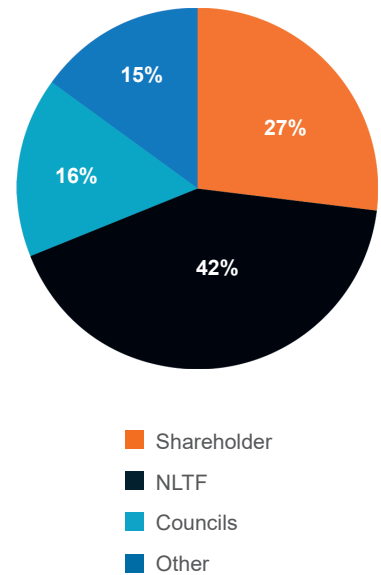
HY23 Below Rail Spend by Business Segment



HY23 Below Rail Spend by Type



HY23 Below Rail Spend by Funding Source



GROUP PERFORMANCE HEADLINES:

- Operating surplus of \$81.6m for the six months ended 31 December 2022
- Used to fund Above Rail core capital reinvestment of \$77m
- Total recordable injury frequency rate improved 15 per cent year on year to 23.95
- Launched a Safety Leadership Programme to lift our safety culture and processes
- Completed just over two billion net tonne kilometres. This meant 142,897 fewer tonnes of CO₂ emissions than if that same freight had moved by truck, 53.1m litres of fuel savings and less wear and tear on the roads
- Staffing levels continued to be impacted by sickness, recruitment and retention challenges impacted by tightened labour market
- Staff diversity measures tracking to target with 19% women and 19% under 30 years old at half year.

ABOVE RAIL PERFORMANCE HEADLINES:

- The return of Kaiarahi to the Cook Strait, along with the arrival of international passengers helped lift Interislander revenue to \$62.3m, up \$15m on HY22.
- Re-opening of the borders and the re-launch of our scenic (Great Journeys of NZ) services helped to achieve a \$7.5m rise on HY22 in scenic revenue
- Our IMEX freight services recorded good growth across multiple customers, up \$4.9m on HY22 to \$84.3m
- Capital programme in full delivery mode.

BELOW RAIL PERFORMANCE HEADLINES:

- Operating expenses (funded primarily through the NLTF and recoveries from Auckland and Wellington metros) for HY23 were \$99.0m
- RNIP delivery is ramping up in year 2 of the approved programme and tracking ahead of plan
- Commenced physical works for the Papakura to Papatotetoe electrification project to improve the Auckland commuter network, part of electrifying through to Pukekohe
- Signed the contract for an upgrade to our train control system which will provide greater automation and resilience across the entire network
- Continued work on the Wiri to Quay Park Third Main project
- Continued improvements to the Wellington commuter network, including upgraded tracks for the Wairarapa and Capital Connection lines, along with refurbishment of Capital Connection carriages
- Continued the upgrade of the North Auckland Line.

CHAIR'S REPORT

I am pleased to present the half-year report for KiwiRail Holdings, which shows a strong operating surplus despite the ongoing challenges faced by both the company and our country.



KiwiRail achieved a Group operating surplus of \$81.6m for the six months ended 31 December 2022 (HY23), up from \$64.9m for the equivalent period the year before.

That surplus reflects KiwiRail's "Above Rail" commercial operations, with the "Below Rail" or network component of the railway fully funded through the National Land Transport Fund (NLTF), supported by the Crown and track-user charges from the market.

While the HY23 surplus is another step along the way to the organisation becoming commercially sustainable, it is not money that is available for new ventures. It is already fully committed to the renewal programmes we are pursuing to ensure our commercial, "Above Rail" activities can become self-financing.

The first half of the financial year underlines the advantage to KiwiRail and to the country of making rail part of the NLTF. With this improved funding structure, the country now has a more integrated land transport system, and it allows long-term planning and investment in both road and rail to help improve the resilience of this system. We look forward to working alongside Waka Kotahi and the Government as we build a more reliable integrated land transport network for New Zealand.

We have invested in new, state-of-the-art assets, with 57 locomotives

to arrive from Spain in 2024, and two new rail-enabled ships to begin entering service from 2025, served by new terminals in Waitohi Picton and Wellington. Given the age of some of KiwiRail and Interislander's assets, some disruptions are inevitable until those replacement assets come into service. We are reviewing the maintenance of our existing assets and our asset management practices, and will continue to invest heavily to keep the current assets operating safely and as reliably as possible, until they can be replaced.

During HY23, we welcomed the return of Peter Reidy to the chief executive role, a position he held between 2014 and 2018. Peter and I share a commitment to making sure that KiwiRail has a healthy culture, appropriate for an organisation in 21st-century New Zealand.

We recently became a major partner in Global Women, and share its commitment to diversity and equity in the workplace. We are increasing our efforts to attract and retain women across the company, particularly in operations. We are conscious that while our gender pay gap, at 3.2 per cent, is lower than in some other industries, we need to do more to ensure that everyone is treated fairly and KiwiRail is an attractive workplace for all. We are also determined to grow our talent and youth pipeline, and are

running successful intern and graduate programmes to support this recruitment.

I have been surprised in my year as Chair by the strength of demand for more rail services from customers, large and small, and from the travelling public. Motivations behind this appetite include concerns about supply chain sustainability, road congestion, and carbon reduction. Freight moved by rail emits 70 per cent fewer emissions than freight moved by road. We are already contributing to reducing New Zealand's carbon emissions footprint.

During HY23 we carried more than two billion net tonne kilometres of freight. This meant 142,897 fewer tonnes of CO2 emissions than if that same freight had moved by truck, 53.1m litres of fuel savings and much less wear and tear on the roads.

KiwiRail remains focussed on reducing its own carbon footprint, and even more importantly can, and wants to, play a bigger role in helping our customers - and Aotearoa New Zealand - meet their emissions goals.

Finally, I'd like to thank the almost 5000 people at KiwiRail who are moving freight and people every day in the face of tremendous challenges from an unforgiving environment, working hard to build the railway system the country both needs and deserves - one that builds stronger connections for a better New Zealand.

A handwritten signature in blue ink that reads "David McLean". The signature is fluid and cursive, written over a light grey background with a subtle wave pattern.

David McLean
Chair

CHIEF EXECUTIVE'S REPORT

Rail is in the midst of a generational renaissance, and I am delighted to be back at KiwiRail during this exciting and challenging time.



We have bold plans for the future of rail in New Zealand, and all our plans are underpinned by an unwavering commitment to safety - which I am making a personal priority, and a focus for the business.

While our total recordable injury frequency rate has dropped 15 per cent year-on-year, as an organisation, we have much further to go. To identify focus areas, we are benchmarking our safety leadership practice, systems and processes against global best practice. We will continue to invest in safety, building a belief that all accidents are preventable.

I am very proud of the work our teams have done during HY23 to deliver increased revenues and our \$81.6m operating surplus.

HY23 operating revenue for the "Above Rail" business was \$398.2m, up \$80.8m on HY22. Revenue excluding fuel and track user charge recoveries was \$337.6m, which was \$35.8m better than comparable revenue for HY22.

The return of Kaiarahi to the Cook Strait run after an extended absence due to a major gearbox failure, along with the arrival of international

passengers, helped lift Interislander revenue to \$62.3m, up \$15m on HY22. The impact of the re-opening of the borders was also seen in the \$7.5m rise on HY22 in revenue from our Great Journeys NZ business to \$9.3m. The IMEX (import/export) freight sector also recorded good growth, up \$4.9m on HY22 to \$84.3m.

“

Sustainability is at the heart of our business, and we are committed to playing our part in decarbonising New Zealand's transport system

"Below Rail" operating expenses (funded primarily through the NLTF and recoveries from Auckland and Wellington metros) for HY23 were \$99.0m. The expenses represent the cost of maintaining, operating and managing the 3,700km rail network, including the Auckland and Wellington metro areas.

Our capital investment programme is helping build resilience in our network, and we are making substantial progress on that programme.

In HY23 we began pouring mast foundations for the Papakura to Pukekohe electrification to improve the Auckland commuter network; work continued on the Wiri to Quay Park Third Main project that will better enable freight and commuter growth; and we signed the contract for a once-in-a-generation upgrade to our train control system which will provide greater automation and resilience across the entire network.

Work also continued on improvements to the Wellington network, including upgraded tracks for the Wairarapa, along with refurbishment of Capital Connection carriages.

We are continuing the upgrade of the North Auckland Line from Whangārei to Ōtiria and have progressed our business case on a rail spur to Marsden Point to service Northport.

Work on upgrades to our outdated mechanical maintenance facilities - including a new South Island mechanical hub in Christchurch - is well underway, along with work to revitalise the Hillside Workshop in Dunedin. The Hillside project also includes redevelopment to allow the assembly of new rail wagons.

HY23 also saw the continuation of the EF refurbishment, with the return of the first of the electric locomotives to the Te Rapa - Palmerston North section of the North Island Main Trunk line.

While there may be some ongoing disruption as we manage ageing assets and complete important network upgrades, we're looking forward to realising the many benefits of our new assets and the opening of Auckland's City Rail Link. These benefits will not



KiwiRail is renewing electrical overhead infrastructure for the future

be just for KiwiRail, but for commuters, customers and our country.

Looking ahead, we have set ourselves ambitious goals – spanning safety, culture, customer and commercial - to ensure that we and the country see the benefits of the \$8.6b investment programme that the Government has put in place through to 2030.

We have a five-year 'connect, build and grow' strategy to realise those benefits, and this report shows we are making progress towards achieving that, and towards our commercial, or "Above Rail", operations becoming self-sustaining.

Recent extreme weather events have again highlighted the importance of investment in a resilient and reliable transport network across all modes. Funding through the NLTF enables us to invest in these assets on a long-term basis and provides a tool to

further improve network resilience and minimise disruption from future climate events.

In our "Above Rail" business - the commercial side of the operation - we are maintaining our core services, growing our yield, and planning for our transition when our new assets arrive.

This will give us the base to use those new assets to continue to increase our market share both in freight, and in passenger.

Sustainability is at the heart of our business, and we are committed to playing our part in decarbonising New Zealand's transport system and driving the efficient use of resources.

We are the kaitiaki, or guardian, of the rail corridor and with that comes a responsibility to care for and protect the health of the environment, our community, and the economy.

Looking ahead, I am excited about building our business and growing modal share as part of an integrated land transport system. There is considerable opportunity to deliver significant benefits for our shareholder, our customers and for New Zealand. However, in all we do, our top priority must be the safety of our people, our customers and the public. Without that, any other achievement is empty.

Peter Reidy
Chief Executive

FINANCIAL STATEMENTS

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

GROUP	Note	6 months ended 31 Dec 2022 (Unaudited)	6 months ended 31 Dec 2021 (Unaudited)	Year ended 30 June 2022 (Audited)
		\$m	\$m	\$m
Operating revenues	2	497.2	408.7	851.0
Operating expenses	3	(415.6)	(343.8)	(717.1)
Operating surplus		81.6	64.9	133.9
Capital grants	4	248.7	232.5	348.9
Depreciation and amortisation expenses		(78.2)	(79.7)	(165.5)
Foreign exchange and commodity gains/(losses)		0.3	(14.1)	(7.5)
Impairment		(323.5)	(117.6)	(777.2)
Insurance proceeds		0.7	-	13.5
Net finance income/(expenses)	5	5.3	(0.4)	0.4
Other income		-	-	1.4
Net (deficit)/surplus before taxation		(65.1)	85.6	(452.1)
Income tax expense		-	-	-
Net (deficit)/surplus after taxation		(65.1)	85.6	(452.1)
Other comprehensive income/(loss)				
<i>Items that can be reclassified into net surplus/deficit:</i>				
(Losses)/gains from cash flow hedges		(28.0)	37.6	109.6
<i>Items that cannot be reclassified into net deficit/surplus</i>				
Building revaluation		-	-	(0.1)
Loss on share investment		(0.1)	(0.1)	(0.1)
Total comprehensive (loss)/income		(93.2)	123.1	(342.7)

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

GROUP	Note	31 Dec 2022 (Unaudited)	31 Dec 2021 (restated) (Unaudited)	30 June 2022 (Audited)
		\$m	\$m	\$m
Current assets				
Cash and cash equivalents		331.5	315.4	160.2
Short-term deposits		170.0	-	10.0
Trade and other receivables		175.3	156.8	185.9
Inventories		146.3	104.9	120.2
Financial assets		9.8	5.3	29.1
		832.9	582.4	505.4
Non-current assets				
Property, plant and equipment	1	1,646.2	1,539.7	1,514.6
Right-of-use assets		50.8	88.4	57.9
Investment property		99.3	97.6	98.7
Investment in joint venture		-	1.1	-
Intangible assets		18.4	16.0	7.4
Financial assets		52.5	27.2	60.2
Trade and other receivables	1	245.8	202.7	216.3
		2,113.0	1,972.7	1,955.1
Total assets		2,945.9	2,555.1	2,460.5
Current liabilities				
Trade and other liabilities		363.6	263.1	356.3
Employee entitlements		127.3	100.6	117.0
Financial liabilities		24.6	74.6	34.1
Provisions		11.9	16.8	10.4
		527.4	455.1	517.8
Non-current liabilities				
Employee entitlements		42.5	45.5	43.7
Financial liabilities		83.9	103.0	83.4
		126.4	148.5	127.1
Total liabilities		653.8	603.6	644.9
Equity				
Share capital		4,044.6	3,123.1	3,470.5
Retained earnings		(1,809.3)	(1,184.6)	(1,739.8)
Asset revaluation reserve		17.0	17.1	17.0
Cash flow hedge reserve		40.1	(3.9)	68.1
Share valuation reserve		(0.3)	(0.2)	(0.2)
		2,292.1	1,951.5	1,815.6
Total liabilities and equity		2,945.9	2,555.1	2,460.5



David McLean
Chair
28 February 2023



Bruce Wattie
Chair of the Risk, Assurance and Audit Committee and Director
28 February 2023

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

GROUP	Note	Share Capital	Retained Earnings	Asset Valuation Reserve	Cash Flow Hedge Reserve	Share Revaluation Reserve	Total
		\$m	\$m	\$m	\$m	\$m	\$m
As at 30 June 2021 (restated) (Audited)		2,679.7	(1,262.3)	17.1	(41.5)	(0.1)	1,392.9
Net surplus for the period		-	85.6	-	-	-	85.6
Other comprehensive income/(loss)		-	-	-	37.6	(0.1)	37.5
Total comprehensive income/(loss)		-	85.6	-	37.6	(0.1)	123.1
Transactions with owners							
Capital investment		443.4	-	-	-	-	443.4
Crown appropriation - land transactions	8	-	(7.9)	-	-	-	(7.9)
As at 31 December 2021 (Unaudited)		3,123.1	(1,184.6)	17.1	(3.9)	(0.2)	1,951.5
Net deficit for the period		-	(537.7)	-	-	-	(537.7)
Other comprehensive income/(loss)		-	-	(0.1)	72.0	-	71.9
Total comprehensive (loss)/income		-	(537.7)	(0.1)	72.0	-	(465.8)
Transactions with owners							
Capital investment		347.4	-	-	-	-	347.4
Crown appropriation - land transactions	8	-	(17.5)	-	-	-	(17.5)
As at 30 June 2022 (Audited)		3,470.5	(1,739.8)	17.0	68.1	(0.2)	1,815.6
Net deficit for the period		-	(65.1)	-	-	-	(65.1)
Other comprehensive loss		-	-	-	(28.0)	(0.1)	(28.1)
Total comprehensive loss		-	(65.1)	-	(28.0)	(0.1)	(93.2)
Transactions with owners							
Capital investment		574.1	-	-	-	-	574.1
Crown appropriation - land transactions	8	-	(4.4)	-	-	-	(4.4)
As at 31 December 2022 (Unaudited)		4,044.6	(1,809.3)	17.0	40.1	(0.3)	2,292.1

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS.

STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

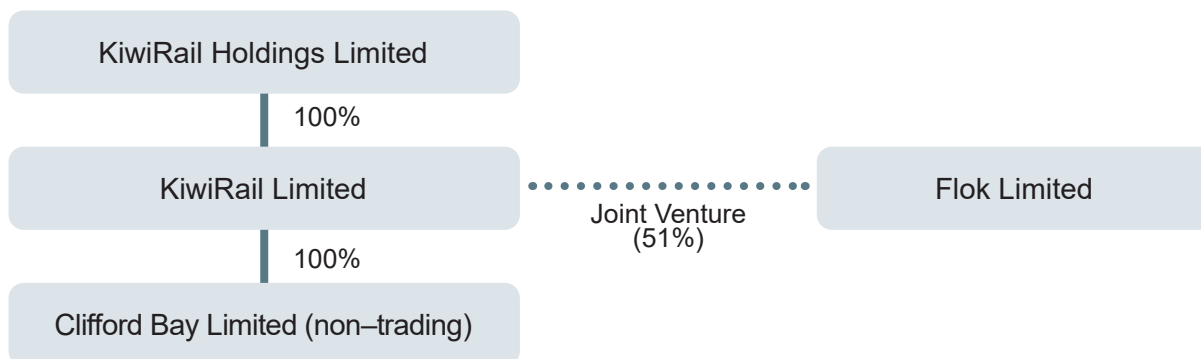
GROUP	Note	6 months ended 31 Dec 2022 (Unaudited)	6 months ended 31 Dec 2021 (Unaudited)	Year ended 30 June 2022 (Audited)
		\$m	\$m	\$m
Cash flows from operating activities				
Receipts from customers		447.2	419.5	717.6
Receipts from the National Land Transport Fund		80.7	71.7	106.8
Interest received		4.5	1.0	3.8
Payments to suppliers and employees		(428.3)	(430.2)	(764.1)
Payments for interest on borrowings		(0.1)	(2.9)	(2.5)
Payments for interest on leases		(1.6)	(0.2)	(3.0)
Net cash from operating activities	7	102.4	58.9	58.6
Cash flows from investing activities				
Sale of property, plant and equipment		0.3	0.3	0.4
Capital grant receipts		106.7	106.8	316.7
National Land Transport Fund receipts		122.4	68.8	154.3
Insurance proceeds		3.0	-	11.1
Maturity of short-term deposits		-	50.0	50.0
Purchase of property, plant and equipment and investment properties		(546.0)	(575.3)	(1,138.4)
Purchase of intangibles		(10.7)	(16.2)	(30.2)
Transfer to short-term deposits		(160.0)	-	(10.0)
Net cash used in investing activities		(484.3)	(365.6)	(646.1)
Cash flows from financing activities				
Crown capital investment		574.1	443.4	639.5
Loans		-	25.0	25.0
Payment for NZRC land acquisitions		(4.4)	(7.9)	(25.4)
Repayment of loans		(4.0)	(7.9)	(40.3)
Lease payments		(12.5)	(7.9)	(28.5)
Crown capital repayment		-	(132.0)	(132.0)
Net cash from financing activities		553.2	312.7	438.3
Net increase/(decrease) in cash and cash equivalents		171.3	6.0	(149.2)
Cash and cash equivalents at the beginning of the period		160.2	309.4	309.4
Cash and cash equivalents at the end of the period		331.5	315.4	160.2

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

1. 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 carried out by the Group:

- Ownership and operation of the national rail network
- End-to-end freight transport supply chain services that connect customers with global and domestic markets
- Ferry services (forming the ‘bridge’ between the North and South Islands) for rail and road freight and for passengers and their vehicles
- Support for rail passenger services in metropolitan areas and long-distance services for both domestic and international tourist markets
- Management and development of property for rail operations and appropriate third-party land use

The unaudited, condensed interim financial statements of the Group are for the six months ended 31 December 2022 (“the interim financial statements”) and were authorised by the Board of Directors on 28 February 2023.

BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

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

The interim financial statements do not include all information and disclosures required in the annual financial statements and should be read in conjunction with the audited financial statements for the year ended 30 June 2022 included in the Group’s Annual Integrated Report.

The comparative information included in the interim financial statements for the six months ended 31 December 2021 have been restated for milestone payments and impairment of assets under construction. Refer to Note 27 of the audited financial statements for the year ended 30 June 2022 for details of restatement.

The interim 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 monetary amounts are New Zealand dollars and all values are expressed in millions of dollars (\$m).

ACCOUNTING POLICIES

All accounting policies have been applied on a basis consistent with those used and described in the audited financial statements for the year ended 30 June 2022.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

2. OPERATING REVENUES

	6 months ended 31 Dec 2022 (Unaudited)	6 months ended 31 Dec 2021 (Unaudited)	Year ended 30 June 2022 (Audited)
	\$m	\$m	\$m
Freight	264.5	222.8	463.9
Interislander	72.1	49.1	106.4
Property	32.1	29.5	59.5
Scenic & Commuter	13.6	4.0	11.2
Other	13.2	11.3	28.5
Funding from the National Land Transport Fund	63.1	60.5	117.6
Networks	38.6	31.5	63.9
Total operating revenues	497.2	408.7	851.0

3. OPERATING EXPENSES

	6 months ended 31 Dec 2022 (Unaudited)	6 months ended 31 Dec 2021 (Unaudited)	Year ended 30 June 2022 (Audited)
	\$m	\$m	\$m
Salaries and wages	276.0	230.4	490.8
Restructuring	1.4	0.3	0.7
Defined contribution plan employer contributions	9.9	8.6	17.8
Other employee expenses	10.8	10.2	16.7
Total employee expenses	298.1	249.5	526.0
Employee expenses capitalised	(102.8)	(73.8)	(164.7)
Total employee costs expensed	195.3	175.7	361.3
Materials and supplies	71.0	68.7	133.4
Fuel and traction electricity	77.5	42.4	103.3
Lease and rental costs	12.4	9.3	18.5
Incidents and insurance	16.9	16.6	34.5
Contractors' expenses	3.6	3.5	7.0
Audit fees	0.2	0.3	0.4
Directors' fees	0.2	0.2	0.4
Loss on disposal of property, plant and equipment	0.3	0.5	1.6
Other expenses	38.2	26.6	56.7
Total operating expenses	415.6	343.8	717.1

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

4. CAPITAL GRANTS

	6 months ended 31 Dec 2022 (Unaudited)	6 months ended 31 Dec 2021 (Unaudited)	Year ended 30 June 2022 (Audited)
	\$m	\$m	\$m
Ministry of Transport	16.7	28.5	35.6
National Land Transport Fund	131.2	47.4	113.5
Local and Regional Councils	47.4	57.4	85.9
City Rail Link	11.3	18.0	22.7
Auckland Transport	33.2	77.3	84.7
Ministry of Business, Innovation and Employment	5.5	2.1	2.4
Waka Kotahi	3.4	1.7	2.3
Other capital grants	-	0.1	1.8
Total capital grant income	248.7	232.5	348.9

5. NET FINANCE INCOME/(EXPENSES)

	6 months ended 31 Dec 2022 (Unaudited)	6 months ended 31 Dec 2021 (Unaudited)	Year ended 30 June 2022 (Audited)
	\$m	\$m	\$m
Finance income			
Interest income from bank deposits	6.9	1.3	3.3
	6.9	1.3	3.3
Less finance expenses			
Interest expense on borrowings	(0.2)	(1.2)	(2.0)
Interest expense on leases	(1.5)	(1.5)	(3.0)
Net change in fair value of derivatives	0.1	1.0	2.1
	(1.6)	(1.7)	(2.9)
Net finance income/(expenses)	5.3	(0.4)	0.4

6. CAPITAL AND OTHER COMMITMENTS

The Group has capital commitments for network upgrades, infrastructure renewal materials, and refurbishment costs relating to rolling stock and purchases of plant and equipment. The Group also has capital commitments in relation to strategic projects such as procurement of new rolling stock and ferries.

	31 Dec 2022 (Unaudited)	31 Dec 2021 (Unaudited)	30 June 2022 (Audited)
	\$m	\$m	\$m
Capital expenditure commitments:			
Not later than one year	539.5	386.0	434.7
Later than one year but not later than five years	947.6	949.4	873.7
	1,487.1	1,335.4	1,308.4

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

7. RECONCILIATION OF NET SURPLUS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	6 months ended 31 Dec 2022 (Unaudited)	6 months ended 31 Dec 2021 (Unaudited)	Year ended 30 June 2022 (Audited)
	\$m	\$m	\$m
Net (deficit)/surplus after taxation	(65.1)	85.6	(452.1)
Add/(deduct) items classified as investing or financing activities			
Loss on sale of assets	0.3	0.5	1.6
Fair value movement in derivatives	4.0	(4.7)	(14.0)
Capital grant receipts	(106.7)	(106.8)	(316.7)
National Land Transport Fund receipts	(122.4)	(68.8)	(154.3)
Insurance proceeds	(3.0)	-	(11.1)
	(292.9)	(94.2)	(946.6)
Add/(deduct) non-cash items			
Depreciation and amortisation expense	78.2	79.7	165.5
Movements in provisions	0.3	4.7	(3.5)
Impairment of non-financial assets	323.5	117.6	777.2
	109.1	107.8	(7.4)
Add/(deduct) movements in working capital			
Increase in trade receivables	(3.7)	(12.5)	(11.1)
Decrease/(increase) in other receivables	14.2	0.4	(30.0)
Increase in inventories	(26.0)	(9.0)	(24.4)
Increase/(decrease) in trade payables	17.2	(27.5)	(30.7)
(Decrease)/increase in other payables	(8.4)	(0.3)	162.2
Net cash flows from operating activities	102.4	58.9	58.6

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 New Zealand Railways Corporation (NZRC) to KHL. All land previously held by KiwiRail was 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 land that is no longer required for rail purposes and can request NZRC to sell the land 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 the ultimate parent of the Group and the parent of NZRC. The sale of NZRC's land is regarded as an increase in the Crown's equity investment in the Group. The Group's acquisition of land for NZRC is treated as a reduction in the Crown's equity investment in the Group.

The total net proceeds from land sold/land swaps during the period was nil (31 December 2021: \$nil; 30 June 2022: \$nil). The total net land acquisitions during the period was \$4.4m (31 December 2021: \$7.9m; 30 June 2022: \$25.4m). They were treated as transactions with owners in the Statement of Movements in Equity.

KEY PERFORMANCE MEASURES

STATEMENT OF CORPORATE INTENT COMPARISONS*

KEY PERFORMANCE MEASURE	6 months ended 31 Dec 2022 Actual	30 June 2023 Target
ABOVE RAIL		
Revenue (\$m) ¹	343	720-736
Rail Freight revenue (\$m) ¹	207	438-446
Interislander Freight and Passenger revenue (\$m) ¹	62	137-141
Scenic and Commuter revenue (\$m)	14	31-35
Property revenue (\$m)	32	58
Operating surplus (\$m)	81.6	150-165
Operating margin (%)	20.5	21-23
Freight NTK carried (million)	2,071	4,360
OTP – Freight Premier (%)	83	90
Reliability – Locomotive MDBF (thousand kms)	50	55
OTP – Interislander – arrival within 15 mins of scheduled time (%)	87	88
Number of Rolling Stock & iReX programme milestones completed	1 (14%)	7 (100%)
New assets delivered	0 new wagons in service 0 new locomotives and shunts Hutt Wheelshop not yet operational	356 new wagons in service 10 new locomotives and shunts Hutt Wheelshop operational

KEY PERFORMANCE MEASURE	6 months ended 31 Dec 2022 Actual	30 June 2023 Target
BELOW RAIL		
Overall Track Quality Index (average TQI) for Auckland Metro	31.9	35
Overall Track Quality Index (average TQI) for Wellington Metro	28.5	40.9
Number of NZUP programme milestones completed	0 (0%)	5 (100%)
New assets delivered	n/a until FY24	n/a
Number of Network Condition KPIs within target	8 (57%)	14 (100%)
All temporary speed restrictions (average TSRs) within target(s) for priority routes	20% within target(s)	90% within target(s)
All Heat 40s (average Heat 40s) within target(s) for priority routes	80% within target(s)	90% within target(s)
Track Quality Index (average TQI) within target(s) for priority routes	85% within target(s)	95% within target(s)

¹ Excluding Fuel Adjustment Factor

* Refer to Statement of Corporate Intent 2022 to 2024 for definitions of performance measures

KEY PERFORMANCE MEASURES

STATEMENT OF CORPORATE INTENT COMPARISONS*

KEY PERFORMANCE MEASURE	6 months ended 31 Dec 2022 Actual	30 June 2023 Target
GROUP		
Employee Net Promoter Score ²	n/a	5
Grow our younger employee demographic (% of total workforce under 30 years old)	19	18
Women in the workforce (%)	19	19
Total Recordable Injury Frequency Rate - TRIFR (number)	23.95	23
Safety, Health & Environment High Risk Events (number)	23	65
Rail Freight Carbon Intensity (grams of carbon dioxide equivalent emissions per net tonne kilometre)	27.0	26.2
Truck journeys avoided (million)	0.56	1.24

	6 months ended 31 Dec 2022 Actual	30 June 2023 Target
STATE-OWNED ENTERPRISE PERFORMANCE MEASURES		
Shareholder return measures		
Total shareholder return	n/a	n/a
Return on equity (%)	(3)	10
Profitability/efficiency measures		
Return on invested capital (%)	(3)	10
Operating margin – above rail (%)	21	21-23
Leverage /solvency measures		
Shareholders' funds to total assets (%)	78	86
Debt to EBITDA	(5.8)	(0.4)
Gearing ratio (%)	1	1
Interest cover	446.1	101.5
Growth measures		
Capital replacement	7.1	10.9
Revenue growth – above rail (%)	25	16
EBITDA growth – above rail (%)	26	32

2 Available in Q4

* Refer to Statement of Corporate Intent 2022 to 2024 for definitions of performance measures

