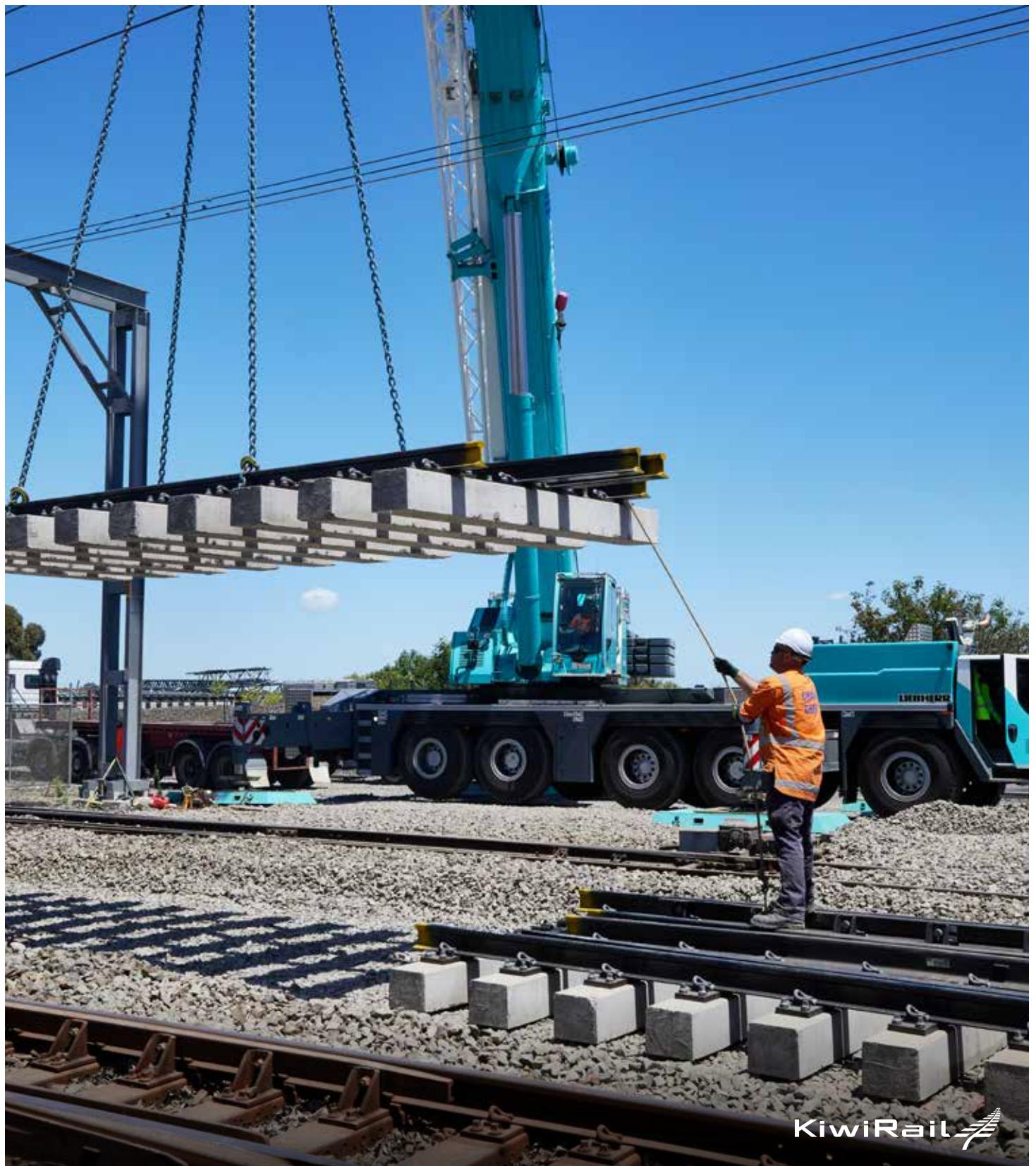


HALF YEAR REPORT

AND UNAUDITED FINANCIAL
STATEMENTS FOR THE SIX MONTHS
ENDED 31 DECEMBER 2020



FRONT COVER PHOTO:

A KiwiRail team member guides new sleepers and rail in to place during replacement of Turnout 1558A near Westfield Terminal during Auckland Anniversary Weekend, 2020. The work is part of a significant remediation project that began in August 2019 to repair and improve the Auckland Metro Network.

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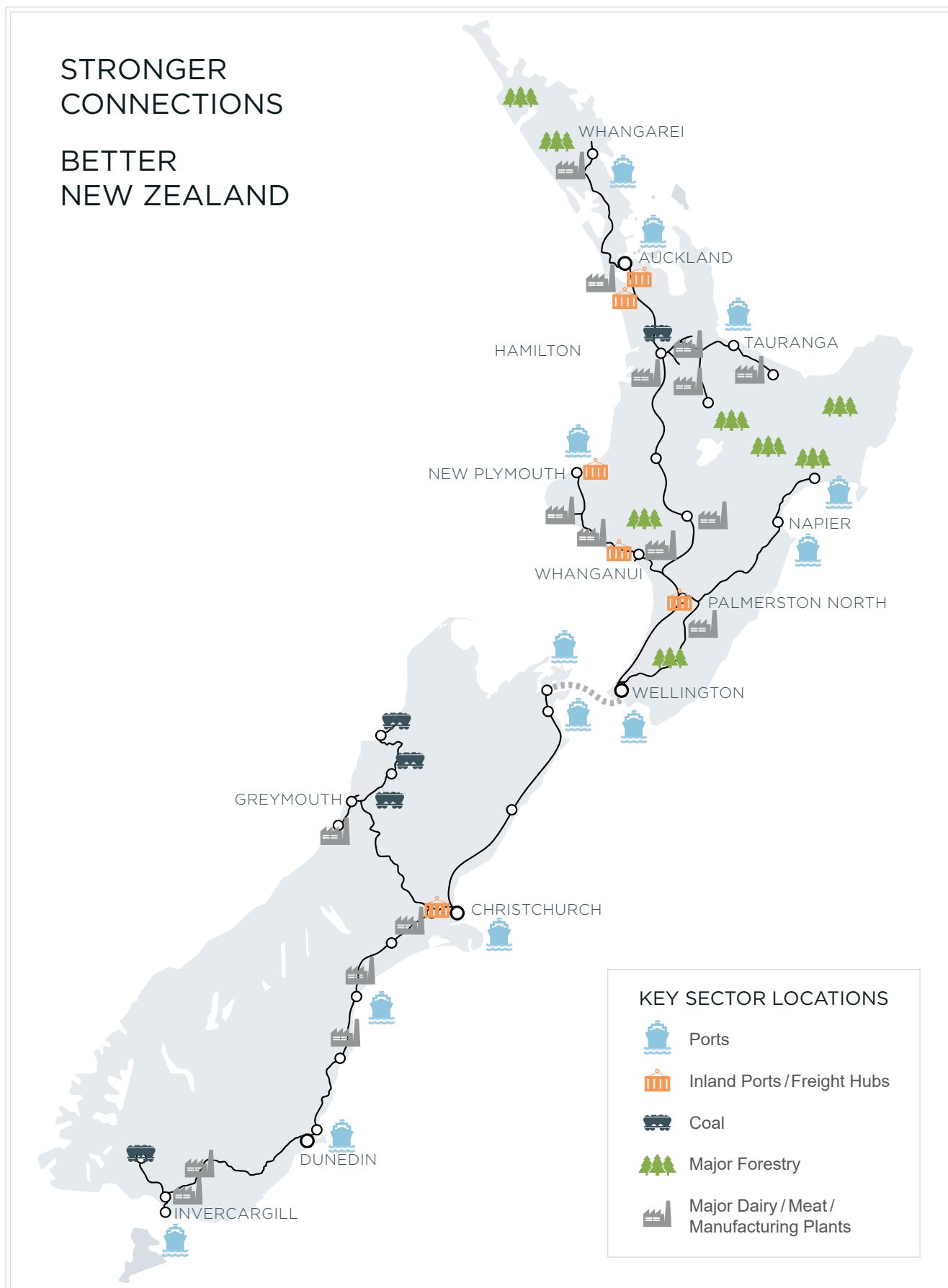
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A freight train passes through the Heatherlea East Road level crossing just north of Levin. KiwiRail continues to promote safe behaviour at railway level crossings and has worked closely with Waka Kotahi NZ Transport Agency and road controlling authorities to help deliver a \$26 million nationwide programme of level crossing upgrades.

OUR PURPOSE

STRONGER
CONNECTIONS
BETTER
NEW ZEALAND





Commuters

Commuters make 28 million low-carbon journeys each year on our network



Freight

More than 18 million tonnes of freight is transported each year

Property

Manage more than 17,800 hectares of land



Own more than 1,350 buildings

Manage 10,000+ leases, licences and grants

Sustainability



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

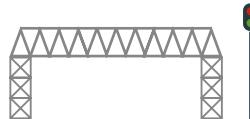
Every tonne of freight carried by rail is a 70% emissions saving over road

Track



3,700 km of track operated and maintained six million sleepers, of which 50% are concrete

Infrastructure



3,100 signals
1,500 public level crossings
106 tunnels
1,344 bridges

Tourism



Around 12% of New Zealand's total freight task (tonnes-km) is carried on rail



Value

The total value of rail to New Zealand's economy is approximately \$1.5 billion every year*

Interislander



Three ships
747,000 passengers
3,700 sailings per year

Exports



Transport around 25% of New Zealand's exports

Our team



4,213 employees

18% female

17% 30 years old and under

Freight services

43,000 freight train departures each year
247 locomotives

* The Value of Rail in New Zealand – 2016

HIGHLIGHTS FROM HALF YEAR 2021



FINANCIAL

\$28.6 million operating surplus¹ up \$1.7 million on prior year.

\$326.5 million revenue¹, excluding the impact of fuel cost recoveries up \$4.8 million on prior year.

Growth in domestic freight and Interislander commercial vehicles of 11% and 6% respectively on HY20 with increased volumes moving between the North and South Islands.

**\$28.6M
OPERATING SURPLUS UP
\$1.7 MILLION
ON PRIOR YEAR**



PEOPLE

Staff engagement score (eNPS) improved from +24 to +27, meaning that more of our people would recommend KiwiRail as a place to work.

New flexible working guidelines were embedded, with more employees set up to work from home, alternating with working on site.

Increased focus on diversity and inclusion, with Mana Wahine (our women's network) operating in three main centres (Wellington, Auckland and Christchurch), Rainbow network, Kapa Kotahi (younger workers network) and Te Kupenga Mahi (our Māori network) all showing growth. Pink Shirt Day was again well supported as we took a stand to stamp out bullying.

Investment in Toi Toi Leadership programme developing leaders who are making a difference in their workplace, whanau and in their local communities.

Continued progress with improving fixed and portable amenities for our staff, with particular attention on providing practical amenities for our female employees.

+27
STAFF ENGAGEMENT SCORE (eNPS) IMPROVED FROM +24 TO +27



ASSETS

Substantial progress made on Auckland Metro Recovery Project, with 86km of re-rail, 15,300 sleepers and 72km of destress completed.

KiwiRail named Hyundai Mipo Dockyard (HMD) based in Ulsan, South Korea as its preferred shipyard to build the two new Interislander ferries.

Kaiwharawhara settled on as the location of the Wellington Ferry Terminal and work progresses on the design and commercial arrangements for the Picton Terminal.

KiwiRail committed to buying 10 more DL locomotives to add to its North Island fleet.

Significant progress on the Northland Line work to enable Hi-Cube services to run on the line.

AUCKLAND METRO RECOVERY PROJECT ACHIEVES

86KM OF RE-RAIL

15,300 SLEEPERS REPLACED

72KM RAIL DESTRESSED

1. Operating surplus represents earnings before depreciation & amortisation, interest, impairment, capital grants and fair value changes. HY21 revenue and operating surplus excludes impact of non-recurring items.



RELATIONSHIPS

Kawenata, or understanding of joint behaviour, confirmed with four Iwi/Hapū. To be formally signed with Tainui, Ngāti Kauwhata, Ngāti Hine, and Te Korowai.

Interislander reached impressive customer satisfaction levels at 91%, alongside a 61 net promoter score.

Working alongside the RMTU, our 'High Performance High Engagement' approach continues to deliver positive outcomes for safety, productivity and engagement. For example, we worked with staff, the RMTU and health experts to complete a fatigue study which has improved safety and wellbeing for our locomotive engineers.

Rail safety week ran from 10 August, with the theme of "near miss" memorials. The safety campaign generated more than 1.5 million views of the safety video, alongside over 630,000 people reached on social media platforms.

Carrying out the Northland Line upgrade, KiwiRail was committed to ensuring Northland businesses benefitted from the project, with a focus on using local contractors and suppliers where possible.

1.5M

MORE THAN 1.5M
VIEWS OF RAIL
SAFETY WEEK
CAMPAIGN VIDEO



ENVIRONMENT

Reduced heavy vehicle impact of 546,979 truck trips, saving 49.9 million litres in fuel and 134,104 tonnes of CO₂-e emissions.

Renewed our partnership with the Energy Efficiency and Conservation Authority (EECA) for another three-year term. As part of the new partnership, we successfully applied for co-funding to support two energy efficiency projects: an energy audit of our Southdown Container Terminal site, and a timetable optimisation review of our South Island coal freight route.

We have completed 16 waste reviews across different areas of the business, and held workshops to identify opportunities to reduce waste being sent to landfill.



SKILLS AND KNOW-HOW

KiwiRail, along with Waka Kotahi NZ Transport Agency, the North Canterbury Transport Infrastructure Recovery Alliance and Te Rūnanga o Kaikōura received the Prime Minister's Award for the work done in restoring transport networks following the 2016 Kaikōura earthquake.

More than 19,800 e-learning modules completed, 88 per cent of the full-year target.

We launched BeSafe4, a new programme that is part of our Zero Harm strategy to build a strong safety culture.

**MORE THAN
19,800
E-LEARNING
MODULES
COMPLETED BY
OUR EMPLOYEES
AND
CONTRACTORS**

**49.9M
LITRES OF FUEL &
134,104
TONNES OF
CO₂-e EMISSIONS
SAVED**

CHAIR'S REPORT

KiwiRail is in the midst of an exciting transformation on the back of Government investment of more than \$4 billion since 2017. While it has been rewarding to see the tangible evidence of that in new and upgraded rail infrastructure in the first half of FY2021, more than just visible changes are underway.



Aside from renewing rail assets, rail is being integrated into the transport funding system and we're improving our commercial return through our "Pathway to Profit" strategy.

New Zealand's railways are the product of generations of investment by successive governments, and the outcome of consistent effort by many generations of workers. Right now, New Zealand has an opportunity to renew its railways to make better use of what it has, including the 3,700km of track that KiwiRail operates and maintains. For its part, KiwiRail aims to generate commercial returns, and unlock economic, transport network and environmental benefits for New Zealanders.

This objective is within our grasp. The Government's continued investment in the future of rail will ensure New Zealand's rail network is, like its road network, resilient and reliable. Trade is a cornerstone of New Zealand's economy and rail plays a vital part in

moving exports and imports to and from ports. Rail has long been part of a physically integrated transport network and now it's also being integrated in transport planning and funding.

In 2021, the New Zealand Rail Plan and the first Rail Network Investment Programme (RNIP) will be released. These follow the passage in 2020 of the Land Transport (Rail) Legislation Bill, enabling Waka Kotahi NZ Transport Agency to fund rail infrastructure from the National Land Transport Fund (NLTF) and providing a long-term pipeline of infrastructure investment. This is critical for funding and planning investment in long-life assets. The RNIP will identify the key rail investments required to bring our rail network back to a resilient and reliable state. These investments are aimed at shifting more freight from road to rail, extending options for passenger rail, and unlocking development potential in our communities. In short, it means

an integrated funding model for all transport modes. It maximises the benefits that road, rail, shipping and aviation each bring to the transport sector, enabling stronger economic and social connections and contributing to New Zealand's national decarbonisation objectives.

KiwiRail is also pursuing its pathway to profitability. The "above rail" activity – or the operations that we run on our network – comprises our rail freight, Scenic trains and Interislander businesses. Rail freight and Interislander together shift enormous volumes of freight and enable efficient movement of products for major New Zealand exporters. We have commenced the programme of renewing our locomotives, wagons and ferries – many of them ageing and with growing maintenance costs – to position our company for long-term sustainability. We thank our shareholder for the continued support to recapitalise the rail industry.

Of course, the past six months were impacted by COVID-19, including the second partial lockdown in August. The impact on our tourism trains – the Northern Explorer, Coastal Pacific, and TranzAlpine services – has been immense. The superb service provided by our team has had a far smaller market in the absence of international visitors. We look forward to the services recovering after it is deemed safe for New Zealand to reopen its borders. In the meantime, we must continue to monitor and respond to the market.

Notwithstanding the difficulties of operating in a Covid environment, the future for rail and for KiwiRail is exciting. A number of projects funded by the New Zealand Upgrade Programme and the Provincial Growth

Fund are under way at KiwiRail and we are immensely grateful for this investment. We are also growing our digital strategy so that it will be easier for our customers to do business with us, and there will be real time visibility of freight for them and for us. We remain committed to improving our environmental performance. Currently 42 per cent of KiwiRail's emissions are from ferries, and

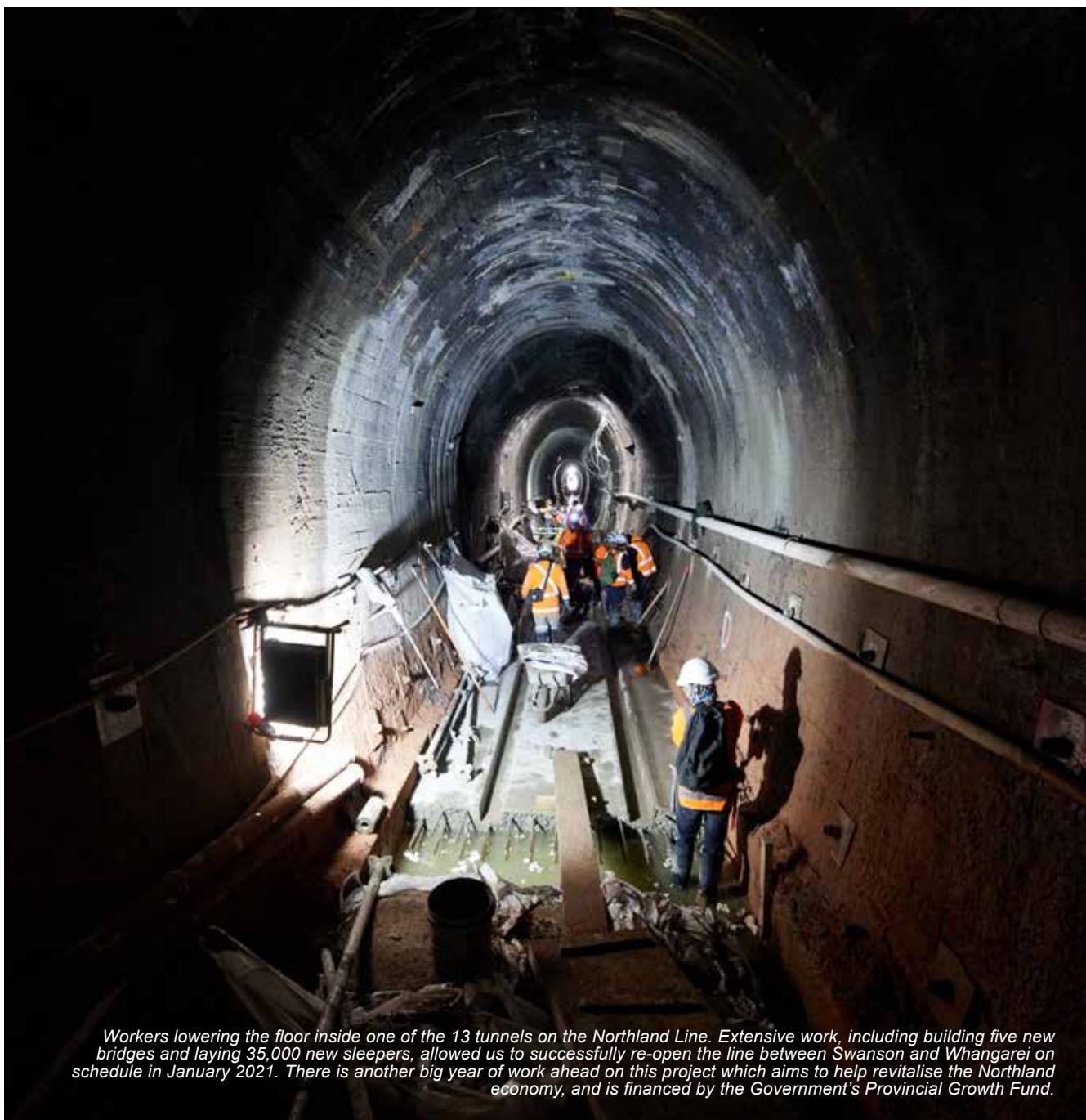
51 per cent from rail operations. Our Interislander greenhouse gas emissions will improve as soon as our new ferries, due mid-decade, are commissioned.

My sincere thanks go to all those who contribute to KiwiRail's half-year result, which was pleasing in the circumstances. Thanks to the board, to the skilled leadership of Group Chief Executive Greg Miller,

the Executive and management, and to the whole KiwiRail team for their input.



Brian Corban CNZM, QSO
Chair



GROUP CHIEF EXECUTIVE'S REPORT

This is a watershed period for KiwiRail, as we swing into development mode alongside business as usual. The Government has made a huge commitment to rail which is positioning us well for the future.



The global COVID-19 pandemic has added an unprecedented level of uncertainty to the logistics sector and I'm proud of how well KiwiRail handled that challenge in the first half of the 2021 financial year. Further, we managed our business-as-usual operations while making excellent progress on delivering some of our significant capital projects.

The first lockdown, which started in March last year, was a jolt for all New Zealanders. In the space of one week we went from running more than 900 trains a week to fewer than 500 – roughly the equivalent of cancelling more than 1,200 line-haul truck movements around New Zealand per week. KiwiRail's Executive, managers and workers together ensured our response was safe, workable, and appropriate. The lockdown, along with an uncertain international and domestic economic outlook and falling freight revenue – was the backdrop for us starting FY21.

Getting back up to speed again after the first lockdown carried its own risks. Since Covid first hit New Zealand's shores, KiwiRail's priority at all times

has been the safety of our team, customers and the public, while still keeping freight moving and the vital Cook Strait link operating.

HY21 was also notable for the enormous effort made to remedy serious track deficiencies in the Auckland metro area after track inspections using new equipment revealed the extensive presence of Rolling Contact Fatigue, caused by the friction of train wheels on the rails. Over time, it was determined that about 150km of rail needed replacing, and in August we began an ambitious programme to get the work done as quickly as possible.

With an important role to play in New Zealand's economy – the spotlight turned on us when international disruption to supply chains caused by Covid led to congestion at New Zealand's ports which were already facing the usual pre-Christmas peak freight demand. We stepped up to meet most of the extra demand from ports, importers and freight forwarders but the episode highlighted that some of our rolling stock is in urgent need of replacement.

During the temporary shutdown over Christmas, at any one time there were more than 100 people working on the network around the clock, allowing commuter trains to return to their normal frequency early in 2021. It was a project management achievement and I thank all the teams involved, and the people of Auckland for their patience.

The closed borders throughout HY21 had a severe impact on all tourism operators who rely for revenue on overseas visitors. That includes KiwiRail and we suffered a 65 per cent fall in revenue from our Great Journeys of New Zealand trains during the six months under review. On a brighter note, Scenic Plus – offering high-end cuisine and personal service to customers in their seats – started on South Island trains in October.

A moment of great pride during HY21 came when KiwiRail, alongside Waka Kotahi and others forming the North Canterbury Transport Infrastructure Recovery Alliance, won the Prime Minister's Leadership in Governance Award for the Kaikoura earthquake recovery work.

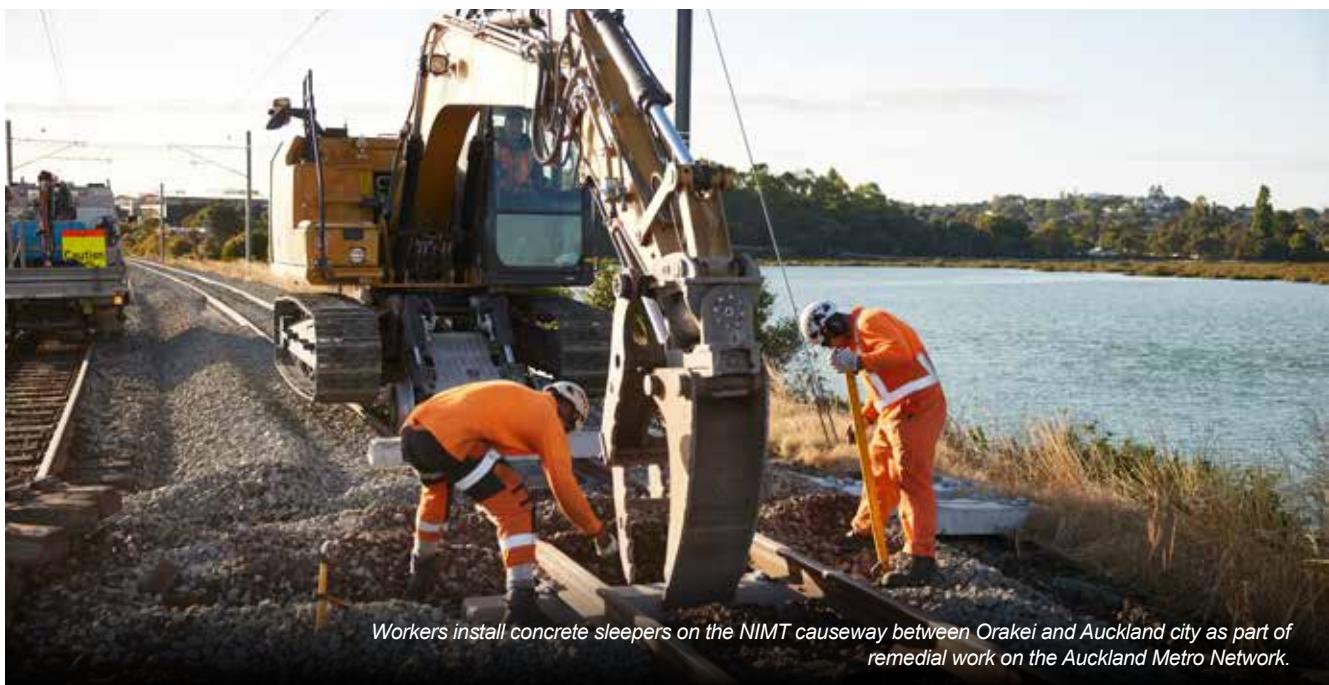
Considering some of the superb achievements of candidates in the running for that award, I was particularly proud of the recognition and, of course, proud of our role in the project itself.

We continue to be well supported by our shareholders and are ensuring there is clear transparency about our operations and strategy. We are also implementing technological innovations across the company to enhance safety productivity and customer experience.

Other highlights of the half year include:

Zero Harm

We are committed to reducing our critical risks and improving our environmental accountability to implement and sustain a Zero Harm environment. HY21 saw:



- A 16 per cent increase in safety conversations with 12,000 reported, well ahead of the target of 8,000.
- Total Recordable Injuries decrease by 30 per cent, with a 33 per cent decrease in Lost Time Injuries and a 28 per cent decrease in Restricted Work Injuries.

New Interislander

This exciting project to replace our three ageing ferries with two new purpose-built, rail-capable ships passed three important milestones in HY21. The ships will run on a new energy system and will improve the strait-crossing experience for passengers. In HY21:

- Hyundai Mipo Dockyard (HMD) based in Ulsan, South Korea was named as the preferred shipyard to build the two new ferries.
- Kaiwharawhara was agreed as the site of a new Wellington terminal.
- The resource consent application for the ferry precinct redevelopment in Waitohi/Picton was lodged.

Redeveloping the terminal sites, and buying new ships is a once-in-a-generation commitment and we're grateful to our shareholder for the support that has allowed this project to progress.

Our Team

Despite the challenges of the half year, KiwiRail worked hard to retain staff and, in fact, slightly increased the overall head count to 4,213 people. Most of the additional staff are in our capital projects area to help us deliver new infrastructure to set the company up for future growth and development. With an eye to the future, we have taken on 10 high-calibre interns. Additionally,

- We were pleased to receive \$4 million in funding through the Provincial Growth Fund to support about 100 new rail apprenticeships over the next two years.
- A \$26 million investment from the PGF has led to about 90 new trainees, mostly working in drainage and vegetation control.
- Working alongside Corrections, a programme aimed at giving prisoners work experience to help them create opportunities for a fresh start, started in Northland. The prisoners have the benefit of KiwiRail's strong Te Kupenga Mahi Māori network.
- Our 12-month Toi Toi leadership programme continues to encourage and support those who want to learn leadership skills, challenge themselves and learn more about Te Ao Māori.

- We scored +27 (up from +24 last year) on our employment engagement survey. The survey measures how likely people are to recommend KiwiRail as an employer.

Sustainability

KiwiRail's goal is to reduce greenhouse gas emissions by 30 per cent by 2030 (compared with a 2012 baseline) and to be net zero carbon by 2050. As a company that currently depends on fossil fuels to power many of our locomotives and all three of our Interislander ferries, we will be looking for improved environmental performance as we replace ageing assets, and also adopting new initiatives to help us reach our targets. In HY21 we:

- Researched new energy systems to support our shareholders' policy and to further our own sustainability objectives.
- Reduced heavy vehicle impact of 546,979 truck trips, saving 49.9 million litres in fuel and 134,104 tonnes of CO₂-e emissions.
- Renewed our partnership with the Energy Efficiency and Conservation Authority (EECA) for another three-year term. As part of the new partnership, we successfully applied

for co-funding to support two energy efficiency projects: an energy audit of our Southdown Container Terminal site, and a timetable optimisation review of our South Island coal freight route.

- Completed 16 waste reviews across different areas of the business, and held workshops to identify opportunities to reduce waste being sent to landfill.

Information technology

In IT we're continuing to work on a suite of programmes. These include real time visibility of assets on the network and customer digital engagement. We are about to unveil myKR which will provide managers with accurate team and people information together with increased recruitment and onboarding visibility.

Other ongoing priorities include cyber security strengthening and mobility solutions for field staff.

Northland

- The re-opening of the Northland Line between Swanson and Whangarei, on schedule, was made possible thanks to a great effort by our staff and contractors who lowered the floor in 13 tunnels, and replaced five bridges so trains can take hi-cube containers. This gives us an initial capacity of 200,000 tonnes a year, with room for growth. In HY21, more than 10km of new track was laid on the line and the total number of new sleepers reached 35,000. There's more to do but it's been a great effort, using money from the Provincial Growth Fund.
- Meanwhile, land acquisition has continued along the route of a future line to link the railway to Marsden Point.

Auckland

- Early work continued on the \$1 billion Auckland Metro Programme – a suite of projects which, over time, will include building new track and a third main line, extending electrification to Pukekohe, building new stations in South Auckland and delivering city-wide renewals that will cut delays ahead of the start of the City Rail Link in 2024.

“...we will be looking for improved environmental performance as we replace ageing assets, and also adopting new initiatives to help us reach our targets

- The Third Main and electrification project are funded by the New Zealand Upgrade Programme and will together directly support more than 400 Kiwi jobs, including about 140 in KiwiRail. Downer NZ was awarded the contract for the Third Main project, in Auckland, with KiwiRail leading on track and signals work.
- Electrification of the line between Papakura and Pukekohe will be delivered by eTRACS – a consortium of McConnell Dowell and John Holland, with KiwiRail again leading on track and signals.

Central North Island Freight Hub

On July 2 we announced the site of KiwiRail's planned 2.5km long Central North Island freight hub, between Palmerston North Airport and Bunnythorpe. New Zealand's freight volumes are forecast to increase by more than 50 percent in the decades ahead. This hub is part of a 100-year vision and, when operational, will transform our business and provide significant value to our customers.

Wellington

- The Wellington Metro Upgrade Programme (WMUP) is making excellent progress in improving the network's capacity, resilience, performance and reliability. It has included replacing hundreds of old traction poles, double tracking between Upper Hutt and Trentham, with work now stepping up at both Plimmerton and on the Wairarapa Line.

Christchurch

- A smart, new train wash is now operating as part of a wider investment in the Waltham mechanical facility.

West Coast

- A platform extension in Greymouth is now finished and will allow longer trains when tourism picks up again.
- Early work is under way at Omoto where a large slip in 2019 stopped train services and impacted SH7 traffic to and from the town for more than a month. The stabilisation work is paid for with \$13 million from an infrastructure fund announced by the Government in Budget 2020.
- It's been a challenging and busy half year that KiwiRail can look back on with a sense of satisfaction. To have completed so much infrastructure upgrade in Northland and Auckland would have been remarkable in any six-month period. To have done so against the backdrop of Covid and while facing supply chain disruptions, yet returning a positive half-year result, is a source of particular satisfaction. I thank customers for their support, shareholders for their endorsement of our strategy, and our workforce for their commitment to serving New Zealand with pride.

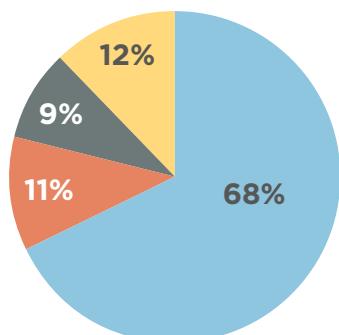
Ngā mihi

Greg Miller
Group Chief Executive

REVENUE

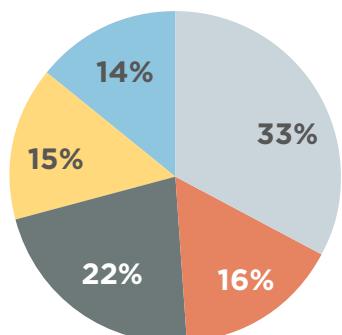
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

TOTAL EXTERNAL REVENUE¹
BY SERVICE LINE



- Freight
- Tourism
- Property & Corporate
- Infrastructure & Asset Management

TOTAL TRADING REVENUE
BY SECTOR



- Import/Export
- Bulk
- Domestic
- Forestry
- Interislander

The charts above show the source of KiwiRail's revenue, and a breakdown of KiwiRail's freight revenue by sector. In terms of freight revenue, it is worth noting that the non-commodity driven activities are where we can have the greatest degree of influence on our market share as these activities are less susceptible to price movements caused by external factors.

1. HY21 revenue excludes impact of non-recurring items



Downer engineer Sarah Doyle is using GPS at Trentham Station to mark out locations for new light poles and underground services. This work is part of the Trentham to Upper Hutt double-tracking project, one of several projects included in a coordinated programme of investment packages to upgrade the Wellington commuter rail network. The works are being funded by Waka Kotahi and the Ministry of Transport.

FINANCIAL STATEMENTS

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

GROUP	Note	6 months ended 31 Dec 2020 (Unaudited)	6 months ended 31 Dec 2019 (Unaudited)	Year ended 30 June 2020 (Audited)
		\$m	\$m	\$m
Operating revenues	1	354.4	333.6	639.2
Operating expenses	2	(297.9)	(306.7)	(599.2)
Operating surplus		56.5	26.9	40.0
Capital grants	3	180.3	78.4	196.4
Depreciation and amortisation expenses		(67.9)	(67.5)	(142.3)
Foreign exchange and commodity (losses)/gains		(2.1)	4.4	5.1
Impairment	8	(184.5)	(80.0)	(338.1)
Impairment – Kaikōura earthquake	8	-	(6.8)	(79.8)
Insurance proceeds		34.1	14.2	74.6
Movement in value of investment properties		-	-	5.7
Net finance expenses	4	(0.5)	(2.5)	(5.5)
Other income		9.0	-	17.2
Other costs – Kaikōura earthquake		(0.6)	(0.8)	(1.4)
Net surplus/(deficit) before taxation		24.3	(33.7)	(228.1)
Income tax expense		-	-	-
Net surplus/(deficit) after taxation		24.3	(33.7)	(228.1)
Other comprehensive income/(loss)				
<i>Items that can be reclassified into net deficit/surplus</i>				
Losses from cash flow hedges		(54.2)	-	(3.3)
<i>Items that cannot be reclassified into net deficit/surplus</i>				
Building revaluation		-	-	(2.7)
Total comprehensive loss		(29.9)	(33.7)	(234.1)

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

GROUP	31 Dec 2020 (Unaudited)	31 Dec 2019 (Unaudited)	30 June 2020 (Audited)
	\$m	\$m	\$m
Current assets			
Cash and cash equivalents	215.8	305.9	285.0
Short-term deposits	332.8	-	40.0
Trade and other receivables	149.6	120.5	112.7
Inventories	97.9	86.0	87.1
Financial assets	1.2	4.1	3.5
	797.3	516.5	528.3
Non-current assets			
Property, plant and equipment	1,221.2	1,110.3	1,051.1
Right of use assets	92.0	90.5	101.8
Investment property	88.1	85.4	87.3
Investment in joint venture	1.1	-	1.1
Intangible assets	14.6	7.2	0.9
Financial assets	-	0.1	0.4
Trade and other receivables	0.3	0.3	0.3
	1,417.3	1,293.8	1,242.9
Total assets	2,214.6	1,810.3	1,771.2
Current liabilities			
Trade and other liabilities	176.5	155.2	196.6
Employee entitlements	80.0	96.3	104.6
Financial liabilities	94.4	196.3	231.5
Income taxes payable	-	-	-
Provisions	9.1	5.5	8.6
	360.0	453.3	541.3
Non-current liabilities			
Employee entitlements	48.2	45.3	48.9
Financial liabilities	127.0	161.8	124.5
	175.2	207.1	173.4
Total liabilities	535.2	660.4	714.7
Equity			
Share capital	2,751.1	1,979.2	2,088.0
Retained earnings	(1,031.6)	(849.4)	(1,045.6)
Asset revaluation reserve	17.4	20.1	17.4
Cash flow hedge reserve	(57.5)	-	(3.3)
	1,679.4	1,149.9	1,056.5
Total liabilities and equity	2,214.6	1,810.3	1,771.2



Brian Corban CNZM, QSO
Chair
23 February 2021



Bruce Wattie
Chair of the Risk, Assurance and Audit Committee and Director
23 February 2021

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES
STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

GROUP	Note	Equity Capital	Retained Earnings	Asset Valuation Reserve	Cash Flow Hedge Reserve	Total
		\$m	\$m	\$m	\$m	\$m
As at 30 June 2019 (Audited)		1,668.8	(815.7)	20.1	-	873.2
Net deficit for the period		-	(33.7)	-	-	(33.7)
Other comprehensive income/(loss)						
Building revaluation reserve		-	-	-	-	-
Total comprehensive loss		-	(33.7)	-	-	(33.7)
Transactions with owners						
Capital investment		310.4	-	-	-	310.4
Crown appropriation - land transactions	7	-	-	-	-	-
As at 31 December 2019 (Unaudited)		1,979.2	(849.4)	20.1	-	1,149.9
Net deficit for the period		-	(194.4)	-	-	(194.4)
Other comprehensive income/(loss)						
Losses from cash flow hedge reserve		-	-	-	(3.3)	(3.3)
Buildings revaluation reserve		-	-	(2.7)	-	(2.7)
Total comprehensive loss		-	(194.4)	(2.7)	(3.3)	(200.4)
Transactions with owners						
Capital investment		108.8	-	-	-	108.8
Crown appropriation - land transactions	7	-	(1.8)	-	-	(1.8)
As at 30 June 2020 (Audited)		2,088.0	(1,045.6)	17.4	(3.3)	1,056.5
Net surplus for the period		-	24.3	-	-	24.3
Other comprehensive income/(loss)						
Losses from cashflow hedge reserve		-	-	-	(54.2)	(54.2)
Buildings revaluation reserve		-	-	-	-	-
Total comprehensive loss		-	24.3	-	(54.2)	(29.9)
Transactions with owners						
Capital investment		663.1	-	-	-	663.1
Crown appropriation - land transactions	7	-	(10.3)	-	-	(10.3)
As at 31 December 2020 (Unaudited)		2,751.1	(1,031.6)	17.4	(57.5)	1,679.4

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS.

STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

GROUP	Note	6 months ended 31 Dec 2020 (Unaudited)	6 months ended 31 Dec 2019 (Unaudited)	Year ended 30 June 2020 (Audited)
		\$m	\$m	\$m
Cash flows from operating activities				
Receipts from customers		358.9	339.8	625.2
Receipt of government wage subsidy		-	-	26.4
Interest received		1.9	1.6	4.4
Payments to suppliers and employees		(349.8)	(292.5)	(568.0)
Payments for interest on borrowings		(1.8)	(3.8)	(4.0)
Payments for interest on leases		(1.7)	(1.7)	(3.7)
Net cash from operating activities	6	7.5	43.4	80.3
Cash flows from investing activities				
Sale of property, plant and equipment		0.3	0.7	1.8
Capital grant receipts		174.4	75.6	224.1
Insurance proceeds		7.8	22.5	74.6
Sale of investment in joint venture		-	-	(2.8)
Purchase of property, plant and equipment and investment properties		(424.1)	(366.2)	(686.4)
Purchase of intangibles		(13.8)	(6.8)	(18.1)
Transfer to short-term deposits		(292.8)	-	(40.0)
Net cash used in investing activities		(548.2)	(274.2)	(446.8)
Cash flows from financing activities				
Crown capital investment		488.8	411.4	539.2
Proceeds from NZRC land sales		-	0.1	9.2
Loans		-	25.3	25.3
Repayment of borrowings		(9.1)	(5.1)	(14.2)
Repayment of leases		(8.2)	(9.8)	(22.8)
Net cash from financing activities		471.5	421.9	536.7
Net (decrease) / increase in cash and cash equivalents		(69.2)	191.1	170.2
Cash and cash equivalents at the beginning of the period		285.0	114.8	114.8
Cash and cash equivalents at the end of the period		215.8	305.9	285.0

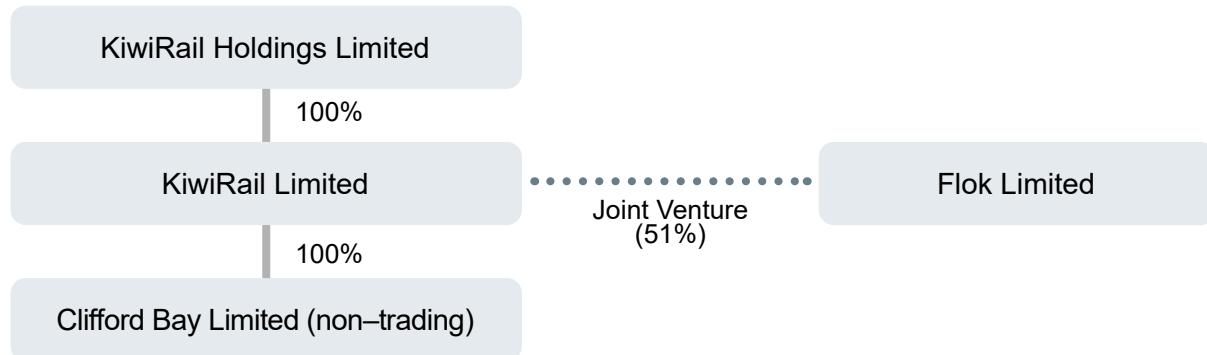
THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

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:

- 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 operations and appropriate third-party land use

The interim financial statements of the Group are for the six months ended 31 December 2020 and were authorised by the Board of Directors on 23 February 2021.

BASIS OF PREPARATION**STATEMENT OF COMPLIANCE**

These interim financial statements for the six months ended 31 December 2020 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 2020.

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).

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 2020.

IMPACT OF COVID-19

As a consequence of the COVID-19 global pandemic, in late March 2020 the New Zealand Government declared a State of National Emergency. This resulted in New Zealand entering a 4-week national lockdown. Restrictions were then gradually lifted and from early June 2020, New Zealand moved to alert level 1. At alert level 1, there are no significant restrictions within New Zealand however there continue to be significant border controls severely limiting access into New Zealand.

We have considered the impact of COVID-19 on the Group in preparing the financial statements. While the specific areas of judgement outlined in the notes did not change, the impact of COVID-19 resulted in the application of further judgement within those areas. Any adjustments deemed necessary were made in accordance with NZ GAAP.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

1. OPERATING REVENUES

	6 months ended 31 Dec 2020 (Unaudited)	6 months ended 31 Dec 2019 (Unaudited)	Year ended 30 June 2020 (Audited)
	\$m	\$m	\$m
Freight	191.9	200.4	371.7
Interislander	61.1	62.8	130.2
Infrastructure	38.6	32.1	62.2
Property	27.6	24.5	49.1
Scenic	6.0	12.9	24.6
Holidays Act Remediation Appropriation	27.9	-	-
Other	1.3	0.9	1.4
Total operating revenues	354.4	333.6	639.2

2. OPERATING EXPENSES

	6 months ended 31 Dec 2020 (Unaudited)	6 months ended 31 Dec 2019 (Unaudited)	Year ended 30 June 2020 (Audited)
	\$m	\$m	\$m
Salaries and wages	135.3	147.6	290.9
Restructuring	0.1	0.3	2.1
Defined contribution plan employer contributions	6.6	6.6	13.2
Other employee expenses	9.1	6.8	11.1
Total employee expenses	151.1	161.3	317.3
Materials and supplies	67.8	56.0	112.8
Fuel and traction electricity	31.3	42.7	75.0
Lease and rental costs	7.0	6.7	13.2
Incidents and insurance	13.7	10.4	23.8
Contractors' expenses	3.1	2.7	5.8
Audit fees	0.2	0.2	0.5
(Reversal of) / Impairment of receivables	(0.1)	0.5	2.8
Directors' fees	0.2	0.2	0.4
Loss on disposal of property, plant and equipment	0.1	0.1	0.1
Other expenses	23.5	25.9	47.5
Total operating expenses	297.9	306.7	599.2

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

3. CAPITAL GRANTS

	6 months ended 31 Dec 2020 (Unaudited)	6 months ended 31 Dec 2019 (Unaudited)	Year ended 30 June 2020 (Audited)
	\$m	\$m	\$m
Ministry of Transport	87.5	16.2	38.9
Auckland Transport	12.4	6.1	10.7
New Zealand Transport Agency	3.6	3.7	2.8
City Rail Link	7.2	14.7	29.9
Local and Regional Councils	61.2	26.8	61.9
Ministry of Business, Innovation and Employment	5.7	4.8	39.6
Other capital	2.7	6.1	12.6
Total capital grants	180.3	78.4	196.4

4. NET FINANCE EXPENSES

	6 months ended 31 Dec 2020 (Unaudited)	6 months ended 31 Dec 2019 (Unaudited)	Year ended 30 June 2020 (Audited)
	\$m	\$m	\$m
Finance income			
Interest income on bank deposits	2.1	2.0	4.3
	2.1	2.0	4.3
Less finance expenses			
Interest expense on borrowings	(1.7)	(3.3)	(6.7)
Interest expense on leases	(1.6)	(1.7)	(3.8)
Net change in fair value of interest rate swaps	0.7	0.5	0.7
	(2.6)	(4.5)	(9.8)
Net finance expenses	(0.5)	(2.5)	(5.5)

5. CAPITAL AND OTHER COMMITMENTS

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

	31 Dec 2020 (Unaudited)	31 Dec 2019 (Unaudited)	30 June 2020 (Audited)
	\$m	\$m	\$m
Capital expenditure commitments:			
Not later than one year	192.7	76.6	174.0
Later than one year but not later than five years	50.5	-	34.1
	243.2	76.6	208.1

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

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

	6 months ended 31 Dec 2020 (Unaudited)	6 months ended 31 Dec 2019 (Unaudited)	Year ended 30 June 2020 (Audited)
	\$m	\$m	\$m
Net surplus/(deficit) after taxation	24.3	(33.7)	(228.1)
Add/(deduct) items classified as investing or financing activities			
Loss on sale of assets	0.1	0.1	0.1
Fair value movement in derivatives	5.4	(1.1)	1.7
Capital grant receipts	(174.4)	(75.6)	(224.1)
Insurance proceeds	(7.8)	(22.5)	(74.6)
	(176.7)	(132.8)	(525.0)
Add/(deduct) non-cash items			
Depreciation and amortisation expense	67.9	67.5	143.9
Movements in provisions	(0.2)	0.2	6.9
Impairment of non-financial assets	184.5	86.8	417.9
Movement in fair value of investment properties	-	-	(5.7)
	75.5	21.7	38.1
Add/(deduct) movements in working capital			
Decrease/(increase) in trade receivables	6.1	(19.6)	(15.0)
(Increase)/decrease in other receivables	(43.0)	20.1	6.6
(Increase) in inventories	(10.8)	(10.2)	(11.3)
(Decrease)/increase in trade payables	(22.1)	13.5	46.4
(Decrease)/increase in other payables	(22.5)	17.9	16.2
Net cash flows from operating activities	7.5	43.4	80.3

7. 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 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 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 the ultimate parent of the Group and the parent of NZRC. 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 during the year was \$nil (30 June 2020: \$9.2m). The total net land acquisitions during the year was \$10.3m (30 June 2020: \$9.7m). They were treated as transactions with owners in the Statement of Changes in Equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

8. RECONCILIATION OF IMPAIRMENT MOVEMENTS TO NET SURPLUS/(DEFICIT)

	31 Dec 2020 (Unaudited)	31 Dec 2019 (Unaudited)	30 June 2020 (Audited)
	\$m	\$m	\$m
Impairment of Rail Cash Generating Unit	184.5	80.0	338.1
Impairment of earthquake damaged assets	-	6.8	79.8
Impairment in the net surplus/(deficit)	184.5	86.8	417.9

The Rail Cash Generating Unit (“CGU”) was impaired to its recoverable amount as at 30 June 2020. Due to increased capital spend on rail infrastructure renewals and upgrades and re-establishing mothballed lines there has been a significant increase in the carrying amount of the Rail CGU within Assets Under Construction. As a result, an impairment charge has been recognised for the rail infrastructure capital spend as at 31 December 2020 within the Rail CGU.

9. CONTINGENT ASSETS AND LIABILITIES**KAIKOURA EARTHQUAKE**

A 7.8 magnitude earthquake hit the Kaikōura region on 14 November 2016 followed by a number of aftershocks. This caused significant damage to the Group’s infrastructure assets along the Main North Line (MNL).

CONTINGENT ASSET

The Group has insurance coverage in place under an operational infrastructure and consequential loss policy. Cover is provided for loss and damage up to a sum insured of \$350m. The Group has received insurance progress payments of \$34.1m during the six-month period ended 31 December 2020 (30 June 2020: \$80m). This has been reflected in the Statement of Comprehensive Income. While a claim has been submitted as at 31 December 2020, it is not practicable to estimate the full extent of the overall insurance recovery. Only the portion that can be measured reliably has been recognised as a receivable. As at 31 December 2020, \$26.3m has been recognised as an insurance receivable (30 June 2020: \$nil).

CONTINGENT LIABILITY

The Group has received \$589m (30 June 2020: \$555m) to date from the Crown and Insurers to fund the rebuild of the MNL, which is ongoing. When the rebuild and insurance claim are complete and the total project cost is known, a liability may arise to the Crown for any excess funding received (where the total cost of the project is less than funding and insurance proceeds received by the Group).

As at 31 December 2020, it is not possible to measure the amount of this liability with any reliability. Accordingly, no provision for any liability has been made in these financial statements.

KEY PERFORMANCE INDICATORS

STATEMENT OF CORPORATE INTENT COMPARISONS*

	6 months ended 31 Dec 2020 Actuals	FY21 Plan
FINANCIAL		
Revenue (\$million)	354	608-620
Operating surplus (\$million) [Reported]	57	5-20
Operating surplus ratio (%)	16	1-3
Freight NTK carried (million)	2,075	4,140
Yield of property portfolio (%)	6	7
RELATIONSHIP		
Commuter journeys enabled (million)	10.5	29
Tourist passengers carried (million)	0.3	0.6
Number of new partnerships (number)	4	8
ASSETS		
Capital expenditure – BAU (\$million)	113	288
OTP – Freight Premier (%)	86	90
Reliability – locomotive MDBF (thousand kms)	55	40
OTP – Interislander – arrival within 15 mins of scheduled time (%)	84	92
Reliability – ship services to advertised sailings (%)	99	99
Locomotive availability (%)	80	80
Capital expenditure – strategic projects (\$million)	295	958
Average age of rolling stock – locomotives (years)	25.5	25.5
Average age of rolling stock – wagons (years)	24.4	25.3
Average sleeper condition (1-meets code requirements – 5-does not meet code requirements)	2.18	2.02
Average rail condition (1-meets code requirements – 5-does not meet code requirements)	2.14	2.02
Achievement of major milestones	Letter of intent Request for proposal On track June 2021	Award ship contract Award loco contract Complete MNL rebuild
PEOPLE		
Employee Net Promoter Score (number)	27	25
Grow our younger employee demographic (% of total workforce)	17	15
Women in the workforce (%)	18	18

* Refer to Statement of Corporate Intent 2021-2023 for definitions of performance measures

KEY PERFORMANCE INDICATORS

STATEMENT OF CORPORATE INTENT COMPARISONS*

	6 months ended 31 Dec 2020 Actuals	FY21 Plan
PEOPLE (cont.)		
Safety, Health & Environment work conversations & critical control verifications (number)	12,482	21,000
Safety, Health & Environment hazard and near miss reporting (number)	1,189	3,322
Safety, Health & Environment high risk events (number)	48	302
Total Recordable Injury Frequency Rate (number)	26.4	25.4
SKILLS & KNOW-HOW		
Benefits realised through our digital programme (\$million)	0.9	2.9
E-learning programmes run (number)	19,892	22,500
ENVIRONMENT		
GHG emissions per NTK (grams)	27.7	28.1
Truck avoidance (million)	0.55	1.16
REQUIRED INFORMATION		
	6 months ended 31 Dec 2020 Actual	30 June 2021 Target
SHAREHOLDER RETURN MEASURES		
Total shareholder return	n/a	n/a
Return on average equity (%)	2	(16)
PROFITABILITY/EFFICIENCY MEASURES		
Return on average capital employed (%)	1	(14)
Operating margin (%)	16	1-3
LEVERAGE/SOLVENCY MEASURES		
Shareholders' funds to total assets (%) (closing equity/total assets)	76	80
Gearing ratio - net (%) (net debt/closing equity)	(28)	7
Interest cover (operating surplus/net finance costs)	(131.1)	2.3
Solvency (current assets/current liabilities)	2.21	1.80

* Refer to Statement of Corporate Intent 2021-2023 for definitions of performance measures

