



# Half Year Report

AND UNAUDITED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018





# At a glance

## Stronger Connections. Better New Zealand.



### **34 million**

We help commuters make more than 34 million low-carbon journeys each year

### **One million**

We carry more than one million tourist passengers each year

### **20%**

We enable passenger growth of 20% in Auckland over the last two years

### **23 towns & cities**

We connect communities around the country and across Cook Strait, stopping at 23 towns and cities across New Zealand

### **18 million**

We move 18 million tonnes of freight each year

### **16%**

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

### **25%**

We transport around 25% of New Zealand's exports

# Highlights from HY19



## Financial

- \$16.3 million operating surplus up 7% on prior year
- \$328.8 million revenue up 12% on prior year
- Growth in domestic freight of 30% following the full reopening of the Main North Line
- Growth in forestry of 15% as the Wall of Wood comes onstream and KiwiRail increases its log wagons fleet
- Growth in bulk freight of 8% despite a shortened milk season and on the back of strong coal and export markets
- 8% increase in tourism revenue on the Great Journeys of New Zealand rail and ferry services
- Expect to meet full year operating surplus commitment to the Shareholder



## People

- Innovative RMTU 2-year Collective Agreement gives highest increase to lowest paid
- Staff engagement at highest levels from -21 to +1 in three years
- Completion of Safety Culture Survey
- 33% increase in safe work conversations
- 56% reduction in terminal collisions and 20% reduction in terminal derailments
- Toi Toi (Maori Leaders) programme for 2018 completed and 2019 programme underway
- Creation and delivery of our first Future You programme, in conjunction with MSD



## Skills and Know-How

- Network performance in Wellington and Auckland exceeds reliability and punctuality targets
- Implementation of HPHE 2.0 underway
- Adoption of new digital engagement model, through Agile Projects, to drive technology improvements



## Assets

- Delivery of 15 DL Gen 2.3 Locomotives and 235 wagons
- Regional rail expansion through funding for freight hub, tourism investment, Napier to Wairoa, and feasibility studies



## Environment

- Reduced heavy vehicle impact of 595,739 truck trips, saving 48.4 million litres of fuel and 131,658 tonnes of CO2 emissions
- Founding member of Climate Leaders Coalition



## Relationships

- Growth across freight sectors with growing confidence in MNL, strong export market, high log volumes and new business
- Interislander reaches its highest satisfaction levels at 92% and hit 94% on-time performance
- Working closely with the Government on Future of Rail Review

## Awards

- Kaikoura rebuild wins International Civil Engineers Award
- Interislander wins the Overall Customer Experience Award at a Direct Ferries ceremony in London

## Challenges

- Aged infrastructure including 40 years plus locomotives; ferries at end of life; bridges, tunnels, track
- Increased cost pressures: increased regulation, compliance and committing to future investments

## Outlook

- Reopening of the Napier to Wairoa line for forestry wagons
- Marsden Point Spur line preparation
- Premium carriages and extra capacity on scenic rail services
- Design and procure two new rail-enabled ferries
- Locomotive procurement programme underway
- Hamilton to Auckland commuter service by March 2020





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Alyssa Mitchell and Regina Bauer, Cabin Attendants Interislander

# Chairman's report



The pleasing signs of growth highlighted in this half year result to December 2018 show the great heart KiwiRail as an organisation is in, despite the challenges it has faced in the past two years.

I joined the KiwiRail Board in September after many years of leadership in Toll Holdings,

TranzRail, and the Mainfreight group. Thirty-three years of exposure in global supply chains across many territories - local and international - has prepared me well for the challenge ahead. I feel privileged to have worked from the bottom up in an industry full of great challenges and exceptional characters right across the sector.

It's an honour to have been selected as Chairman of KiwiRail to take the organisation through a transformation of unparalleled proportion in its rich 155 years of history. Our Board's skill and involvement with our executive in this transformation will be more apparent as we move through the capital projects that will redesign our future.

There is a story to tell in the half year results in review: an operating surplus 7% up on the previous year with revenue up 12% shows the increasing demand for rail and the constraints that remain in the business.

The natural events of the past two years – Kaikoura earthquake; fires on the West Coast line; increasing storm events – and the resulting disruption to customers will take some time to recover from. They have added to the cost of doing business as has the legacy of underinvestment in our bridges, tunnels, tracks and rolling stock.

But nothing unites this organisation like a challenge, and the catch-up





within KiwiRail is on. Importantly, the Government also supports the benefits rail delivers to our regions and our cities; to exporters and commuters; to communities and to tourism.

They are on the verge of committing to long-term, sustainable funding that will put KiwiRail on an even footing with its road freight competitors and will help us replace our ageing ships and locomotives, building a modern multimodal transport network fit for the future.

These intergenerational investments are critical for our customers who use rail for its efficiency and sustainability. Every tonne of freight carried by rail has 66% fewer carbon emissions than heavy road freight. When our customers choose rail they are making New Zealand's roads safer, reducing road maintenance costs and easing congestion in our cities.

KiwiRail also enables 34 million low-carbon commuter journeys on our metro rail networks in Auckland and Wellington each year. That demand is also growing as New Zealanders

see the value rail delivers in our increasingly populated cities.

The highlights of this half year result are undoubtedly the 7% increase in operating surplus; the growing

“Our people live and breathe our ‘Care and Protect’ value and we continue to drive a belief that every incident is preventable”

demand in domestic freight up 30% since the reopening of the Main North Line post the Kaikoura earthquake; and the revenue increases in forestry (15%), bulk freight (8%) and tourism (8%).

Of significance during this time of disruption and growth is the culture of the organisation which

in the half year in review is at its highest engagement levels, from an Employee Net Promoter Score of -21 three years ago to +1 today.

That commitment from our frontline and the strength of our relationships with our union partners are critical to a successful future. Our focus on Maori leadership and diversity is changing the DNA of our culture.

Safety is at the heart of what we do and KiwiRail continues to make headway with our safety culture and ownership from the frontline to the Board. Our people live and breathe our ‘Care and Protect’ value and we continue to drive a belief that every incident is preventable.

We are seeing a renaissance of rail around the world for the benefits it delivers to business, to commuters and to visitors. New Zealand is no different. We are all excited and committed to our future in Aotearoa.

Greg Miller



Sleeper replacement team working at Waimiha

# Chief Executive's report



KiwiRail's purpose of creating stronger connections for a better New Zealand is evident in this Half Year result to December 2018.

From domestic customers resuming rail freight volumes in the South Island post the Kaikoura earthquake, to the increasing volumes of logs we are carrying as the 'Wall of Wood' comes onstream, and the near record levels of international visitors we are hosting on our Great Journeys of New Zealand rail and ferry services, each of our businesses are delivering for the greater good of NZ Inc.

All of this has contributed to an operating surplus of \$16.3 million, 7% up on the previous year and the first result we have posted without accounting for lost revenue and additional cost incurred by the loss of the Main North Line between Picton and Christchurch following the Kaikoura quake.

This return to normalcy is not, however, at its end-point: increased insurance premiums and increasing compliance requirements continue to challenge the business while planning for the major projects ahead has added cost while positioning the organisation for the longer term.

This is, however, a strong financial result which shows the confidence of our customers, the work that has gone into the business over the past two years and the strength of our staff engagement and partnership with our union partners.

The reopening of the Main North Line to 24-hour freight in October 2018 was a significant milestone for KiwiRail and for domestic freight in New Zealand. What the earthquake highlighted was the critical importance of rail to supply chains

with significant levies implemented after the event which were felt by consumers around the country. The 30% increase in domestic revenue in this result is due to full utilisation during our peak period by the market of the capacity we can now provide.

Forestry is also experiencing significant volume increases. Shifting export logs by rail takes trucks off often vulnerable regional roads, improving safety for communities and reducing road

“We are heartened by the support shown by Government and the commitment they have made to long-term sustainable funding”

maintenance costs. We have increased our log wagon capacity through repurposing end-of-life container wagons and that has contributed to the 15% increase in revenue in this half year.

A shortened milk season was offset in bulk freight by increasing coal volumes and a strong export market. Tourism is booming and the return of the Coastal Pacific on the Main North Line from December 1 saw tourism revenue up 8% over the previous year.

Despite the disruptions experienced post-quake, our focus on customer satisfaction has not wavered. KiwiRail's Interislander ferries had their best

December ever with fare revenue up 13%, reached their highest customer satisfaction levels, hit 94% on-time performance and won the Overall Customer Experience award at a Direct Ferries ceremony in London.

That is a remarkable achievement and our ferry teams are now focussed on the planning, design and procurement of a new ferry fleet to be in service by 2024.

This improved financial result shows the focus our people have on delivery for our customers. We have restructured our operations, network services and rolling stock teams to ensure greater alignment and efficiency. That has seen improvements in network reliability, a plan to rejuvenate our aged locomotive and wagon fleets and a commitment to further increase our on-time performance and efficiency.

In the six months to December we also completed a significant piece of work into customer insights which will drive our future strategy and deliver digital improvements to how we interact with customers.

That digital transformation is critical for the business as we head into our next phase of growth.

The Government has recognised the value KiwiRail delivers to regional communities and has pledged significant investment through the Provincial Growth Fund on projects that will be delivered in the next few years. That requires our teams to be innovative, efficient and nimble while retaining a steely focus on safety.

There is much more we can do but, as with railways around the world, investment is required to reap the benefits. In 2016, EY conservatively estimated the value rail delivers in New Zealand at \$1.5 billion per year, far outweighing the cost to Government.

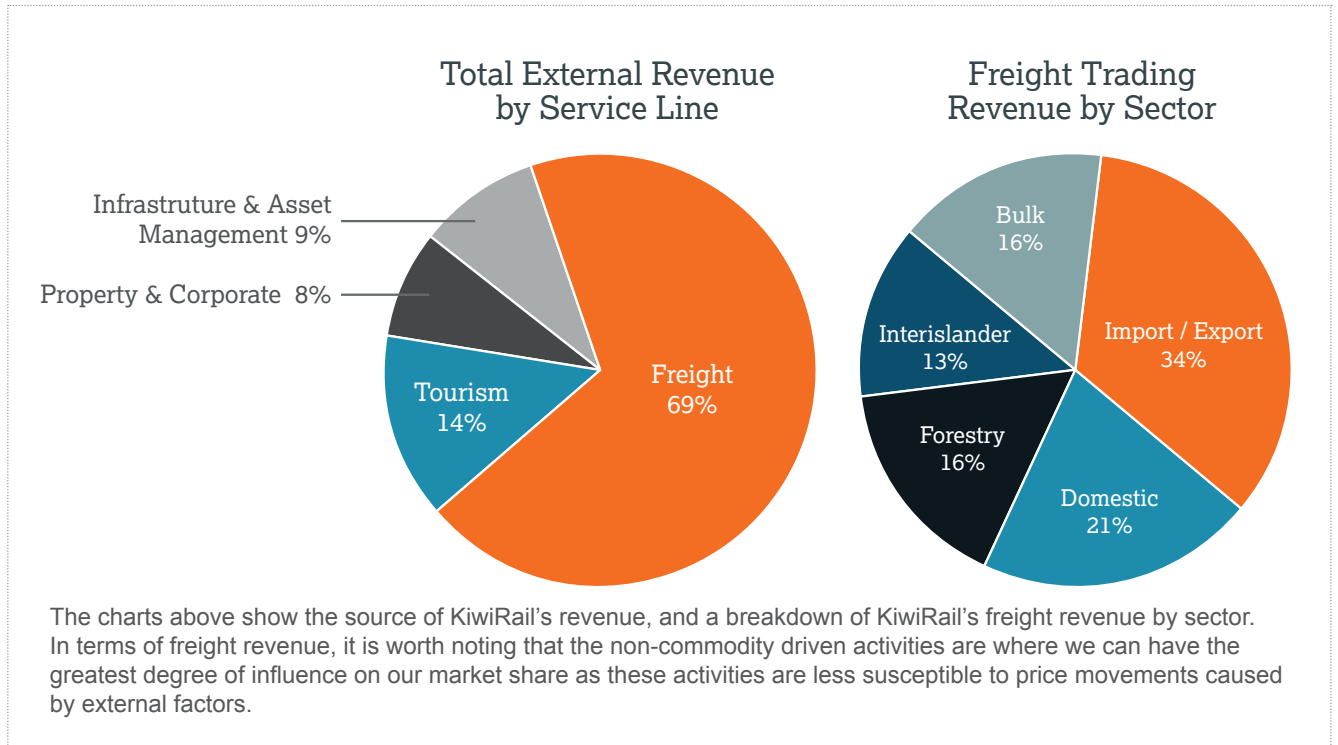
We are heartened by the support shown by Government to that value and the commitment they have made to long-term sustainable funding. We know that rail can sustainably deliver intergenerational wellbeing for New Zealand. This result is another step in that direction.

Todd Molyneux



# Revenue

for the six months ended 31 December 2018



Ray Brown, Locomotive Engineer / Pou Arahi, Te Kupenga Mahi

# Financial Statements

KiwiRail Holdings Limited

## Statement of Comprehensive Income

For the six months ended 31 December 2018

| GROUP   | Note | 6 months ended             | 6 months ended             | Year ended                |
|---|------|----------------------------|----------------------------|---------------------------|
|   |      | 31 Dec 2018<br>(Unaudited) | 31 Dec 2017<br>(Unaudited) | 30 June 2018<br>(Audited) |
|   |      | \$m                        | \$m                        | \$m                       |
| Operating revenues  | 1    | 328.8                      | 292.7                      | 615.8                     |
| Operating expenses  | 2    | (312.5)                    | (277.4)                    | (567.3)                   |
| <b>Operating surplus</b>  |      | <b>16.3</b>                | <b>15.3</b>                | <b>48.5</b>               |
| Capital grants  | 3    | 39.4                       | 16.2                       | 39.8                      |
| Depreciation and amortisation expenses                            |      | (44.2)                     | (41.5)                     | (86.2)                    |
| Foreign exchange and commodity (losses)/gains                     |      | (2.5)                      | 7.8                        | 9.3                       |
| Impairment  | 9    | (66.8)                     | (56.3)                     | (27.0)                    |
| Impairment – earthquake   | 9    | (70.2)                     | (134.1)                    | (221.6)                   |
| Insurance proceeds  |      | 26.1                       | 6.8                        | 8.0                       |
| Movement in value of investment properties                        |      | -                          | 0.2                        | 4.0                       |
| Net finance expenses  | 4    | (2.0)                      | (5.6)                      | (7.9)                     |
| Other costs – earthquake  |      | (0.7)                      | (1.8)                      | (2.8)                     |
| <b>Net deficit before taxation</b>                                |      | <b>(104.6)</b>             | <b>(193.0)</b>             | <b>(235.9)</b>            |
| Income tax expense  |      | -                          | -                          | -                         |
| <b>Net deficit after taxation</b>                                 |      | <b>(104.6)</b>             | <b>(193.0)</b>             | <b>(235.9)</b>            |
| <b>Other comprehensive income/(loss)</b>                          |      |                            |                            |                           |
| <i>Items that can be reclassified into net deficit/surplus</i>    |      | -                          | -                          | -                         |
| <i>Items that cannot be reclassified into net deficit/surplus</i> |      | -                          | -                          | -                         |
| <b>Total comprehensive loss</b>                                   |      | <b>(104.6)</b>             | <b>(193.0)</b>             | <b>(235.9)</b>            |

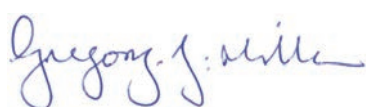
The accompanying notes form part of these financial statements.



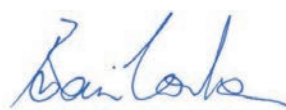
## Statement of Financial Position

As at 31 December 2018

| GROUP                               | 31 Dec 2018<br>(Unaudited) | 31 Dec 2017<br>(Unaudited) | 30 June 2018<br>(Audited) |
|-------------------------------------|----------------------------|----------------------------|---------------------------|
|                                     | \$m                        | \$m                        | \$m                       |
| <b>Current assets</b>               |                            |                            |                           |
| Cash and cash equivalents           | 190.1                      | 163.8                      | 87.0                      |
| Trade and other receivables         | 92.6                       | 84.2                       | 91.0                      |
| Inventories                         | 72.2                       | 72.7                       | 71.6                      |
| Financial assets                    | 2.9                        | 4.7                        | 8.4                       |
|                                     | <b>357.8</b>               | <b>325.4</b>               | <b>258.0</b>              |
| <b>Non-current assets</b>           |                            |                            |                           |
| Property, plant and equipment       | 960.3                      | 788.9                      | 898.2                     |
| Investment property                 | 82.5                       | 76.8                       | 82.8                      |
| Intangible assets                   | 3.2                        | 2.5                        | 0.3                       |
| Financial assets                    | 0.2                        | 1.4                        | 1.0                       |
| Trade and other receivables         | 0.4                        | 0.4                        | 0.4                       |
|                                     | <b>1,046.6</b>             | <b>870.0</b>               | <b>982.7</b>              |
| <b>Total assets</b>                 | <b>1,404.4</b>             | <b>1,195.4</b>             | <b>1,240.7</b>            |
| <b>Current liabilities</b>          |                            |                            |                           |
| Trade and other liabilities         | 107.7                      | 189.0                      | 103.8                     |
| Employee entitlements               | 55.9                       | 58.7                       | 58.5                      |
| Financial liabilities               | 178.7                      | 177.4                      | 181.3                     |
| Income taxes payable                | -                          | -                          | -                         |
| Provisions                          | 6.4                        | 5.1                        | 6.0                       |
|                                     | <b>348.7</b>               | <b>430.2</b>               | <b>349.6</b>              |
| <b>Non-current liabilities</b>      |                            |                            |                           |
| Employee entitlements               | 38.6                       | 36.5                       | 39.3                      |
| Financial liabilities               | 78.8                       | 98.8                       | 86.6                      |
| Provisions                          | 6.0                        | 6.0                        | 6.0                       |
|                                     | <b>123.4</b>               | <b>141.3</b>               | <b>131.9</b>              |
| <b>Total liabilities</b>            | <b>472.1</b>               | <b>571.5</b>               | <b>481.5</b>              |
| <b>Equity</b>                       |                            |                            |                           |
| Share capital                       | 1,508.8                    | 1,053.8                    | 1,233.8                   |
| Retained earnings                   | (596.8)                    | (452.2)                    | (494.9)                   |
| Asset revaluation reserve           | 20.3                       | 22.3                       | 20.3                      |
|                                     | <b>932.3</b>               | <b>623.9</b>               | <b>759.2</b>              |
| <b>Total liabilities and equity</b> | <b>1,404.4</b>             | <b>1,195.4</b>             | <b>1,240.7</b>            |



**Greg Miller**, Chairman  
19 February 2019



**Brian Corban**, Deputy Chairman  
19 February 2019

The accompanying notes form part of these financial statements.

## Statement of Changes in Equity

For the six months ended 31 December 2018

| GROUP                                     | Note | Equity Capital | Retained Earnings | Asset Valuation Reserve | Total          |
|---|------|----------------|-------------------|-------------------------|----------------|
|   |      | \$m            | \$m               | \$m                     | \$m            |
| <b>As at 30 June 2017 (Audited)</b>       |      | <b>833.8</b>   | <b>(264.0)</b>    | <b>22.3</b>             | <b>592.1</b>   |
| Net deficit for the period                |      | -              | (193.0)           | -                       | (193.0)        |
| <b>Total comprehensive loss</b>           |      | <b>-</b>       | <b>(193.0)</b>    | <b>-</b>                | <b>(193.0)</b> |
| <b>Transactions with owners</b>           |      |                |                   |                         |                |
| Capital investment                        |      | 220.0          | -                 | -                       | 220.0          |
| Crown appropriation - land transactions   | 8    | -              | 4.8               | -                       | 4.8            |
| <b>As at 31 December 2017 (Unaudited)</b> |      | <b>1,053.8</b> | <b>(452.2)</b>    | <b>22.3</b>             | <b>623.9</b>   |
| Net deficit for the period                |      | -              | (42.9)            | -                       | (42.9)         |
| <b>Other comprehensive income/(loss)</b>  |      |                |                   |                         |                |
| Buildings revaluation reserve             |      | -              | 2.0               | (2.0)                   | -              |
| <b>Total comprehensive loss</b>           |      | <b>-</b>       | <b>(40.9)</b>     | <b>(2.0)</b>            | <b>(42.9)</b>  |
| <b>Transactions with owners</b>           |      |                |                   |                         |                |
| Capital investment                        |      | 180.0          | -                 | -                       | 180.0          |
| Crown appropriation - land transactions   | 8    | -              | (1.8)             | -                       | (1.8)          |
| <b>As at 30 June 2018 (Audited)</b>       |      | <b>1,233.8</b> | <b>(494.9)</b>    | <b>20.3</b>             | <b>759.2</b>   |
| Net deficit for the period                |      | -              | (104.6)           | -                       | (104.6)        |
| <b>Total comprehensive loss</b>           |      | <b>-</b>       | <b>(104.6)</b>    | <b>-</b>                | <b>(104.6)</b> |
| <b>Transactions with owners</b>           |      |                |                   |                         |                |
| Capital investment                        |      | 275.0          | -                 | -                       | 275.0          |
| Crown appropriation - land transactions   | 8    | -              | 2.7               | -                       | 2.7            |
| <b>As at 31 December 2018 (Unaudited)</b> |      | <b>1,508.8</b> | <b>(596.8)</b>    | <b>20.3</b>             | <b>932.3</b>   |

The accompanying notes form part of these financial statements.



## Statement of Cash Flows

For the six months ended 31 December 2018

| GROUP   | Note | 6 months ended             | 6 months ended             | Year ended                |
|---|------|----------------------------|----------------------------|---------------------------|
|   |      | 31 Dec 2018<br>(Unaudited) | 31 Dec 2017<br>(Unaudited) | 30 June 2018<br>(Audited) |
|   |      | \$m                        | \$m                        | \$m                       |
| <b>Cash flows from operating activities</b>                         |      |                            |                            |                           |
| Receipts from customers   |      | 340.0                      | 296.9                      | 620.0                     |
| Interest received   |      | 1.6                        | 1.3                        | 2.7                       |
| Payments to suppliers and employees                                 |      | (324.2)                    | (310.5)                    | (590.9)                   |
| Interest expense  |      | (5.9)                      | (6.4)                      | (13.1)                    |
| <b>Net cash from/(used in) operating activities</b>                 | 7    | <b>11.5</b>                | <b>(18.7)</b>              | <b>18.7</b>               |
| <b>Cash flows from investing activities</b>                         |      |                            |                            |                           |
| Sale of property, plant and equipment                               |      | 0.2                        | 0.9                        | 1.1                       |
| Capital grant receipts  |      | 33.3                       | 16.2                       | 33.7                      |
| Insurance proceeds  |      | 26.1                       | 29.7                       | 29.9                      |
| Sale of investment in joint venture                                 |      | -                          | 2.7                        | 2.7                       |
| Purchase of property, plant and equipment and investment properties |      | (236.4)                    | (189.9)                    | (491.8)                   |
| Purchase of intangibles   |      | (3.5)                      | (2.5)                      | (6.7)                     |
| <b>Net cash used in investing activities</b>                        |      | <b>(180.3)</b>             | <b>(142.9)</b>             | <b>(431.1)</b>            |
| <b>Cash flows from financing activities</b>                         |      |                            |                            |                           |
| Crown capital investment  |      | 275.0                      | 250.0                      | 430.0                     |
| Proceeds from NZRC land sales                                       |      | 3.1                        | -                          | -                         |
| Repayment of borrowings   |      | (5.6)                      | (7.3)                      | (12.5)                    |
| Repayment of finance lease liability                                |      | (0.6)                      | (0.7)                      | (1.5)                     |
| <b>Net cash from financing activities</b>                           |      | <b>271.9</b>               | <b>242.0</b>               | <b>416.0</b>              |
| <b>Net increase in cash and cash equivalents</b>                    |      | <b>103.1</b>               | <b>80.4</b>                | <b>3.6</b>                |
| Cash and cash equivalents at the beginning of the period            |      | 87.0                       | 83.4                       | 83.4                      |
| <b>Cash and cash equivalents at the end of the period</b>           |      | <b>190.1</b>               | <b>163.8</b>               | <b>87.0</b>               |

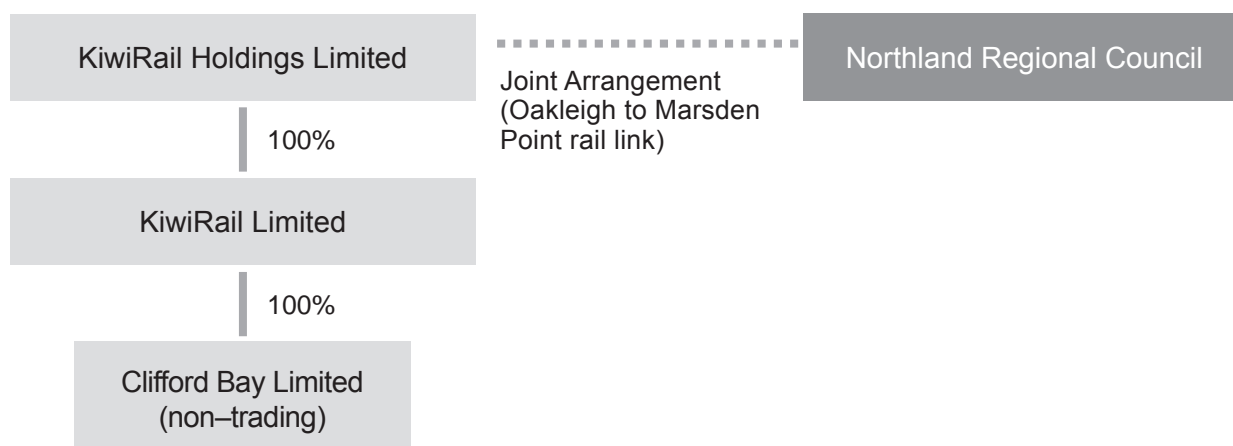
The accompanying notes form part of these financial statements.

## Notes to the Financial Statements

For the six months ended 31 December 2018

### REPORTING ENTITY

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



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

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

The interim financial statements of the Group are for the six months ended 31 December 2018 and were authorised by the Board of Directors on 19 February 2019.

### BASIS OF PREPARATION

#### Statement of compliance

These interim financial statements for the six months ended 31 December 2018 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 2018.

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 2018, with the exception that NZ IFRS 15 Revenue from Contracts with Customers (IFRS 15) has been adopted during the period.

Effective 1 July 2018, the Group adopted NZ IFRS 15 and based on the assessment performed by the Group, the impact of the revised standard on the Group’s revenue recognition is minimal and no transition adjustments have been made. The majority of revenue earned by the Group is derived from the satisfaction of a single performance obligation for each contract which is the provision of freight and passenger services. Under IFRS 15 revenue is recognised when or as performance obligations are satisfied by transferring control of goods and services to the customer at the transaction price specified in the contract.



## Notes to the Financial Statements

For the six months ended 31 December 2018

### 1. OPERATING REVENUES

| GROUP                           | 6 months ended 31<br>Dec 2018 (Unaudited) | 6 months ended 31<br>Dec 2017 (Unaudited) | Year ended 30 June<br>2018 (Audited) |
|---------------------------------|---|---|--------------------------------------|
|                                 | \$m                                       | \$m                                       | \$m                                  |
| Freight                         | 198.0                                     | 167.8                                     | 350.7                                |
| Interislander                   | 63.8                                      | 63.2                                      | 137.0                                |
| Infrastructure                  | 28.8                                      | 26.2                                      | 52.5                                 |
| Property                        | 22.6                                      | 21.9                                      | 45.1                                 |
| Scenic                          | 13.7                                      | 12.1                                      | 27.8                                 |
| Other                           | 1.9                                       | 1.5                                       | 2.7                                  |
| <b>Total operating revenues</b> | <b>328.8</b>                              | <b>292.7</b>                              | <b>615.8</b>                         |

### 2. OPERATING EXPENSES

| GROUP  | 6 months ended 31<br>Dec 2018 (Unaudited) | 6 months ended 31<br>Dec 2017 (Unaudited) | Year ended 30 June<br>2018 (Audited) |
|--|---|---|--------------------------------------|
|  | \$m                                       | \$m                                       | \$m                                  |
| Salaries and wages                                       | 137.4                                     | 126.7                                     | 256.5                                |
| Restructuring  | 0.3                                       | 0.6                                       | 1.9                                  |
| Defined contribution plan employer contributions         | 5.9                                       | 5.6                                       | 11.2                                 |
| Other employee expenses                                  | 6.3                                       | 4.2                                       | 8.2                                  |
| <b>Total employee expenses</b>                           | <b>149.9</b>                              | <b>137.1</b>                              | <b>277.8</b>                         |
| Materials and supplies                                   | 58.0                                      | 52.3                                      | 109.2                                |
| Fuel and traction electricity                            | 44.0                                      | 32.5                                      | 70.1                                 |
| Lease and rental costs                                   | 22.2                                      | 22.7                                      | 44.6                                 |
| Incidents and insurance                                  | 9.4                                       | 6.9                                       | 15.3                                 |
| Contractors' expenses                                    | 3.2                                       | 4.2                                       | 8.2                                  |
| Audit fees   | 0.2                                       | 0.2                                       | 0.4                                  |
| Impairment/(recovery from impairment) of receivables     | 0.1                                       | 0.2                                       | (0.5)                                |
| Directors' fees  | 0.2                                       | 0.2                                       | 0.4                                  |
| Loss/(gain) on disposal of property, plant and equipment | 0.7                                       | (0.5)                                     | (0.9)                                |
| Other expenses   | 24.6                                      | 21.6                                      | 42.7                                 |
| <b>Total operating expenses</b>                          | <b>312.5</b>                              | <b>277.4</b>                              | <b>567.3</b>                         |

### 3. CAPITAL GRANTS

| GROUP   | 6 months ended 31<br>Dec 2018 (Unaudited) | 6 months ended 31<br>Dec 2017 (Unaudited) | Year ended 30 June<br>2018 (Audited) |
|---|---|---|--------------------------------------|
|   | \$m                                       | \$m                                       | \$m                                  |
| Capital grants (Ministry of Transport funded) | 17.2                                      | 3.9                                       | 15.0                                 |
| Other capital grants                          | 22.2                                      | 12.3                                      | 24.8                                 |
| <b>Total capital grant income</b>             | <b>39.4</b>                               | <b>16.2</b>                               | <b>39.8</b>                          |

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

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

## Notes to the Financial Statements

For the six months ended 31 December 2018

### 4. NET FINANCE EXPENSES

| GROUP   | 6 months ended<br>31 Dec 2018<br>(Unaudited) | 6 months ended<br>31 Dec 2017<br>(Unaudited) | Year ended<br>30 June 2018<br>(Audited) |
|---|--|--|---|
|   | \$m  | \$m  | \$m                                     |
| <b>Finance income</b>                           |  |  |   |
| Interest income on bank deposits                | 2.0  | 1.5  | 3.2                                     |
|   | 2.0  | 1.5  | 3.2                                     |
| <b>Less finance expenses</b>                    |  |  |   |
| Interest expense on borrowings                  | (6.3)  | (7.2)  | (13.7)                                  |
| Interest expense on finance lease               | (0.1)  | (0.2)  | (0.4)                                   |
| Net change in fair value of interest rate swaps | 2.4  | 0.3  | 3.0                                     |
|   | (4.0)  | (7.1)  | (11.1)                                  |
| <b>Net finance expenses</b>                     | <b>(2.0)</b>                                 | <b>(5.6)</b>                                 | <b>(7.9)</b>                            |

### 5. OPERATING LEASE COMMITMENTS

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

The Group leases vessels, property and plant and equipment in the normal course of its business. Included in these lease commitments is the Group's charter for the MV Kaiarahi. The lease for the MV Kaiarahi is non-cancellable for five years expiring July 2020.

Motor vehicle leases generally have a non-cancellable term of three years. The future aggregate minimum lease payments payable under non-cancellable operating leases are as follows:

| GROUP   | 31 Dec 2018<br>(Unaudited) | 31 Dec 2017<br>(Unaudited) | 30 June 2018<br>(Audited) |
|---|----------------------------|----------------------------|---------------------------|
|   | \$m                        | \$m                        | \$m                       |
| Total minimum lease payments due:                 |                            |                            |                           |
| Not later than one year                           | 27.1                       | 25.8                       | 25.3                      |
| Later than one year but not later than five years | 46.7                       | 56.5                       | 52.4                      |
| Later than five years                             | 35.1                       | 37.8                       | 38.7                      |
|   | <b>108.9</b>               | <b>120.1</b>               | <b>116.4</b>              |

### 6. CAPITAL AND OTHER COMMITMENTS

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

| GROUP   | 31 Dec 2018<br>(Unaudited) | 31 Dec 2017<br>(Unaudited) | 30 June 2018<br>(Audited) |
|---|----------------------------|----------------------------|---------------------------|
|   | \$m                        | \$m                        | \$m                       |
| Capital expenditure commitments:                  |                            |                            |                           |
| Not later than one year                           | 87.2                       | 92.1                       | 89.2                      |
| Later than one year but not later than five years | -                          | 21.4                       | 21.4                      |
|   | <b>87.2</b>                | <b>113.5</b>               | <b>110.6</b>              |

## Notes to the Financial Statements

For the six months ended 31 December 2018

### 7. RECONCILIATION OF NET DEFICIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| GROUP   | 6 months ended             | 6 months ended             | Year ended                |
|---|----------------------------|----------------------------|---------------------------|
|   | 31 Dec 2018<br>(Unaudited) | 31 Dec 2017<br>(Unaudited) | 30 June 2018<br>(Audited) |
|   | \$m                        | \$m                        | \$m                       |
| Net deficit after taxation  | (104.6)                    | (193.0)                    | (235.9)                   |
| <b>Add/(deduct) items classified as investing or financing activities</b> |                            |                            |                           |
| Loss/(gain) on sale of assets   | 0.7                        | (0.5)                      | (0.9)                     |
| Fair value movement in derivatives  | 2.2                        | (8.0)                      | (13.6)                    |
| Capital grant receipts  | (33.3)                     | (16.2)                     | (33.7)                    |
| Insurance proceeds  | (26.1)                     | (29.7)                     | (29.9)                    |
|   | (161.1)                    | (247.4)                    | (314.0)                   |
| <b>Add non-cash items</b>   |                            |                            |                           |
| Depreciation and amortisation expense                                     | 44.2                       | 41.5                       | 86.2                      |
| Movements in provisions   | (0.2)                      | (0.3)                      | 3.5                       |
| Impairment of non-financial assets  | 137.0                      | 190.4                      | 248.6                     |
| Movement in fair value of investment properties                           | -                          | (0.2)                      | (4.0)                     |
|   | 19.9                       | (16.0)                     | 20.3                      |
| <b>Add/(deduct) movements in working capital</b>                          |                            |                            |                           |
| (Increase)/decrease in trade and other receivables                        | (1.6)                      | 22.8                       | 16.1                      |
| Increase in inventories   | (0.6)                      | (7.7)                      | (6.6)                     |
| (Decrease)/increase in trade payables                                     | (17.9)                     | (17.7)                     | 1.9                       |
| Increase/(decrease) in other payables                                     | 11.7                       | (0.1)                      | (13.0)                    |
| <b>Net cash flows from/(used in) operating activities</b>                 | <b>11.5</b>                | <b>(18.7)</b>              | <b>18.7</b>               |

### 8. SALE AND PURCHASE OF LAND

On 31 December 2012 there was a restructure of the Crown's investment in rail operations. In accordance with the KiwiRail Holdings Vesting Order 2012 which took effect from 31 December 2012, the KiwiRail business was transferred from NZRC into KHL. All land previously held by KiwiRail 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 their ultimate parent. The sale of NZRC's land is regarded as an increase in equity of the Crown to the Group whilst the Group's acquisition of land for NZRC is treated as a reduction from Crown's equity to the Group.

The total net proceeds from land sold is represented below:

| GROUP                                 | 31 Dec 2018 | 31 Dec 2017 | 30 June 2018 |
|---------------------------------------|-------------|-------------|--------------|
|                                       | (Unaudited) | (Unaudited) | (Audited)    |
|                                       | \$m         | \$m         | \$m          |
| Net proceeds from sale of NZRC land   | 2.7         | 4.8         | 3.0          |
| <b>Net movement charged to equity</b> | <b>2.7</b>  | <b>4.8</b>  | <b>3.0</b>   |



## Notes to the Financial Statements

For the six months ended 31 December 2018

### 9. RECONCILIATION OF IMPAIRMENT MOVEMENTS TO NET DEFICIT

| GROUP                                   | 31 Dec 2018<br>(Unaudited) | 31 Dec 2017<br>(Unaudited) | 30 June 2018<br>(Audited) |
|---|----------------------------|----------------------------|---------------------------|
|   | \$m                        | \$m                        | \$m                       |
| Impairment of Rail Cash Generating Unit | 66.8                       | 56.3                       | 27.0                      |
| Impairment of earthquake damaged assets | 70.2                       | 134.1                      | 221.6                     |
| <b>Impairment in net deficit</b>        | <b>137.0</b>               | <b>190.4</b>               | <b>248.6</b>              |

The Rail Cash Generating Unit (“CGU”) was impaired to its recoverable amount as at 30 June 2018. As a result of the capital spend on the Main North Line (“MNL”) rebuild 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 2018 within the Rail CGU.

### 10. IMPACT OF 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 MNL.

#### *Impact on assets*

KiwiRail has continued to work on the rebuild during the six month period ended 31 December 2018 and an additional impairment charge of \$70.2m has been recognised for the capital cost of reinstatement incurred as at 31 December 2018 (30 June 2018: \$221.6m).

#### *Insurance*

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 \$25.0m during the six month period ended 31 December 2018. This has been reflected in the Statement of Comprehensive Income. While a claim has been submitted as at 31 December 2018, 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 2018 an insurance receivable of \$6.0m is reflected in the financial statements for the estimated recoverable costs incurred to date (30 June 2018: \$6.0m).

#### *Crown support*

The Crown has agreed to fund the uninsured cost of the rebuild. \$85.0m was received through equity funding in the six month period ended 31 December 2018 (30 June 2018: \$180.0m).

#### *Cash*

The cash balance at 31 December 2018 includes the insurance proceeds received of \$25.0m (30 June 2018: \$27.9m) and Crown injection received of \$85.0m.

### 11. CONTINGENT LIABILITIES

#### *Marsden Point rail corridor designation*

The Group has confirmed its designation of the rail corridor from the North Auckland Line to Marsden Point. The Group has an agreement with the Northland Regional Council that it will have a half share in the acquisition and holding costs of land purchases with the Council.

#### *Holidays Act 2003*

A number of New Zealand’s public and private organisations have identified issues with the calculation of leave entitlements under the Holidays Act 2003 (“the Act”). KiwiRail completed its own review of payroll processes which identified instances of non-compliance with the Act. In addition, the Labour Inspectorate completed a payroll audit of KiwiRail. This audit resulted in KiwiRail entering an Enforceable Undertaking to become compliant and remediate historical payroll liabilities for current and former employees. The remediation project is a significant undertaking and work to assess all non-compliance continues through the 2018/19 financial year.

The final outcome of the remediation project cannot be determined with any certainty at this time and therefore no provision has been recognised at 31 December 2018.

## Notes to the Financial Statements

For the six months ended 31 December 2018

Notwithstanding, as at 30 June 2018 KiwiRail carried out some limited work to determine an indicative amount of any potential liability. The Board was of the view that the indicative potential liability could be in the range of \$15 million to \$30 million. This was based on selecting a small, non-statistical sample of current and former employees, making a number of early assumptions, calculating an indicative liability for those current and former employees, extrapolating the result, and considering the degree of uncertainty to determine a range. Given the high level of uncertainty, the final outcome could fall outside of this range. This view remains unchanged as at 31 December 2018.

## Key Performance Indicators

Statement of Corporate Intent comparisons\*

| GROUP   | 6 months ended<br>31 Dec 2018<br>Actual | 30 June 2019<br>Target |
|---|---|------------------------|
| <b>Sustaining a Zero Harm Environment</b>         |   |                        |
| Safe Work Conversation                            | 4,483                                   | 1 per person/per month |
| Total Recordable Injuries                         | 121                                     | 105                    |
| SPAD As   | 7                                       | 16                     |
| Safe working irregularities                       | 143                                     | 203                    |
| Derailments - mainline                            | 5                                       | 5                      |
| Derailments - terminal                            | 39                                      | 62                     |
| GHG emissions per NTK (gms)                       | 27.38                                   | 25.92                  |
| Truck avoidance (million)                         | 0.6                                     | 1.2                    |
| <b>Meeting our financial targets</b>              |   |                        |
| Operating Surplus (\$m)                           | 16                                      | 55-75                  |
| Operating Margin (%)                              | 5                                       | 9-12                   |
| Capital Expenditure - net of grants (\$m)**       | 141                                     | 298                    |
| <b>Property</b>                                   |   |                        |
| Weighted Average Lease Term (WALT %)              | 5                                       | 4                      |
| Yield   | 6                                       | 7                      |
| <b>Empowering our people</b>                      |   |                        |
| Employee Net Promoter Score                       | 1                                       | 5                      |
| <b>Engaging our customers and stakeholders</b>    |   |                        |
| Revenue (\$m)                                     | 329                                     | 640-660                |
| Freight Trading Revenue Growth (%)                | 9                                       | 8-10                   |
| GTK (m)   | 4,226                                   | 8,295                  |
| Revenue as a percentage of FTE                    | 9                                       | 19                     |
| Revenue as a percentage of NTK                    | 15                                      | 15                     |
| Revenue as a percentage of KM of track            | 9                                       | 18                     |
| Passenger Trading Growth (%)                      | 8                                       | 8                      |
| Property Revenue Growth (%)                       | 4                                       | 4                      |
| <b>Delivering operational performance</b>         |   |                        |
| <b>On Time Performance (%)</b>                    |   |                        |
| - Freight Trains - Premium                        | 84                                      | 90                     |
| - % Interislander services to advertised sailings | 99                                      | 99                     |



## Key Performance Indicators

Statement of Corporate Intent comparisons\*

| GROUP  | 6 months ended<br>31 Dec 2018<br>Actual | 30 June 2019<br>Target |
|--|---|------------------------|
| <b>Operating Costs</b>                                     |   |                        |
| Operational costs as a percentage of revenue               | 95                                      | 88-91                  |
| Total staff costs as a percentage of operating costs       | 48                                      | 47                     |
| Operational costs as a percentage of NTK                   | 14                                      | 14                     |
| <b>Network Renewals</b>                                    |   |                        |
| - New Sleepers Laid (000)**                                | 47                                      | 81                     |
| - New Rail Laid (km)**                                     | 9                                       | 29                     |
| - New turnouts**   | 9                                       | 30                     |
| Availability of all locomotives (%)                        | 96                                      | 92                     |
| Wagon availability (%)                                     | 94                                      | 92                     |
| Total capital expenditure as a percentage of revenue**     | 43                                      | 46                     |
| Total capital expenditure as a percentage of NTK**         | 6                                       | 7                      |
| Total capital expenditure as a percentage of KM of track** | 4                                       | 8                      |
| <b>Required Information</b>                                |   |                        |
| <b>Shareholder Return Measures</b>                         |   |                        |
| Total Shareholder Return                                   | N/A                                     | N/A                    |
| Dividend Yield   | Nil                                     | Nil                    |
| Dividend Pay-out   | Nil                                     | Nil                    |
| Return on Average Equity (%)                               | (12)                                    | (49)                   |
| <b>Profitability/Efficiency Measures</b>                   |   |                        |
| Return on Average Capital Employed (%)                     | (9)                                     | (34)                   |
| Operating Margin (%)                                       | 5                                       | 9-12                   |
| <b>Leverage/Solvency Measures</b>                          |   |                        |
| Shareholders' Funds to Total Assets (%)                    | 66                                      | 56                     |
| Gearing Ratio - net (%)                                    | 6                                       | 29                     |
| Interest Cover   | 3.5                                     | 4.5                    |
| Solvency (current assets/current liabilities)              | 1.03                                    | 1.08                   |

\*Refer to Statement of Corporate Intent 2019-2021 for definitions of performance measures

\*\*Excludes South Island MNL rebuild and Provincial Growth Fund