



Reliable.  
Sustainable.  
Valuable.

ANNUAL  
INTEGRATED  
REPORT 2017



## Welcome – Tēnā koe

For more than 150 years rail has played a vital role as an enabler of economic growth in New Zealand, evolving and adapting to meet customer needs despite significant geographical challenges and changing trends in trade.

In the 1800s engineers designed a rail network that could operate in New Zealand's uncompromising landscape, implementing wooden infrastructure that ran across swamps, rugged mountains, dense forests and wide rivers, to connect otherwise isolated communities and industries to the market.

Much has changed since KiwiRail's humble beginnings in 1863. Wooden infrastructure has been replaced by more resilient materials and today we look to advanced technological solutions to ensure the safety of the network and our people. To this day KiwiRail's rail network continues to connect businesses, communities, importers and exporters to the world.

As history shows, rail is adept at changing its services to meet the evolving needs of industry. As port flows increase and commuter demands continue to grow, KiwiRail is developing dynamic and innovative solutions to meet New Zealand's changing transport requirements.



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Tim Eddy, Matt Thompson, Kevin Day, Paul Jones, Bob Day and Jamie Williams, KiwiRail staff working with the NCTIR alliance

# At a glance

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## Highlights from FY17



### Relationships

- In Budget 2017, the Government announces two year funding of \$450 million and a Rail Review to investigate long-term funding options
- Interislander customer satisfaction ratings reach 90% in June 2017, up from 82% June 2016



### Financial

- \$52 million operating surplus
- \$92 million underlying operating surplus excluding \$40 million impact from Kaikoura earthquake, exceeding FY16 underlying result
- \$18 million productivity and efficiency savings, building on \$27 million saved from initiatives in FY16



### People

- Participation in the employee survey increases from 47% in FY16 to 74%
- 12% of workforce complete in-house leadership programmes
- 15% reduction in total injuries and a 45% reduction in Total Recordable Injuries Frequency Rate over three years



### Assets

- \$322 million is invested in renewal and upgrade of network, property and rolling stock, excluding Main North Line reinstatement
- 150 new intermodal IH wagons and 15 diesel locomotives are purchased to better On-Time Performance (OTP)
- On Time Performance for premium freight trains improves by 20% year-on-year to 89%
- KiwiRail acquires Interislander ferry, Kaitaki, securing capacity to move freight and people between islands for years to come



### Skills and Know-How

- KiwiRail's operational response keeps the North Island to South Island supply chain moving after the Kaikoura earthquake
- The award-winning TranzAlpine returns to service six weeks after a 300ha fire closes the Midland Line
- A 24 hour, 10 day operation delivers new rail sidings at Southdown (Auckland) container terminal
- An intermodal solution enables road bridging while the Aratere is in dry-dock



### Environment

- Reduced heavy vehicle impact on New Zealand roads of 1.1 million truck trips, saving 69.5 million litres of fuel and 188,939 tonnes of CO<sub>2</sub> emissions
- KiwiRail's award winning fuel efficiency programme Driver Advisory System saved 5.7 million litres of fuel
- 93% of EECA energy saving target reached two years ahead of schedule



The High Performance High Engagement team wins the New Zealand Workplace Safety Awards 'Engagement' category, recognising the best initiative to encourage worker involvement in health and safety

## Achievements

- KiwiRail's work with customers in the aftermath of the Kaikoura earthquake, wins the Rail Excellence Award at the Australasian Rail Industry Awards 2017
- High Performance High Engagement initiative, Hotworks, wins the Engagement category of the 2017 New Zealand Workplace Health and Safety Awards
- Locomotive Fuel Conservation project wins the Large Energy User Initiative of the Year category at the 2016 Deloitte Energy Excellence Awards
- Integrated Report 2016 wins bronze and the Special Award for Communications at the 2017 Australasian Reporting Awards
- TrackSAFE NZ and KiwiRail's social/digital media campaign for Rail Safety Week 2016, Conscious Crossings, wins eight golds at the Axis Awards and the overall Grand Axis Award
- The Auckland Electrification Project wins the Best Project Award at the Conference on Railway Excellence 2016
- KiwiRail's Back to Basics programme is a finalist in the Skills Highway category at the 2017 Diversity NZ Awards
- Track Occupancy is a finalist in the Work-Related Safety category at the 2017 New Zealand Workplace Health and Safety Awards
- KiwiRail is a finalist for the Auckland University of Technology Business School's Excellence in Business Support Awards in two categories: Export Support and Government
- Great Journeys of New Zealand is nominated for a Tourism Industry Federation Award in the Business Excellence category
- Great Journeys' experience, the TranzAlpine, is rated one of the top 10 most scenic train journeys in the world by National Geographic.

# Who we are and what we do

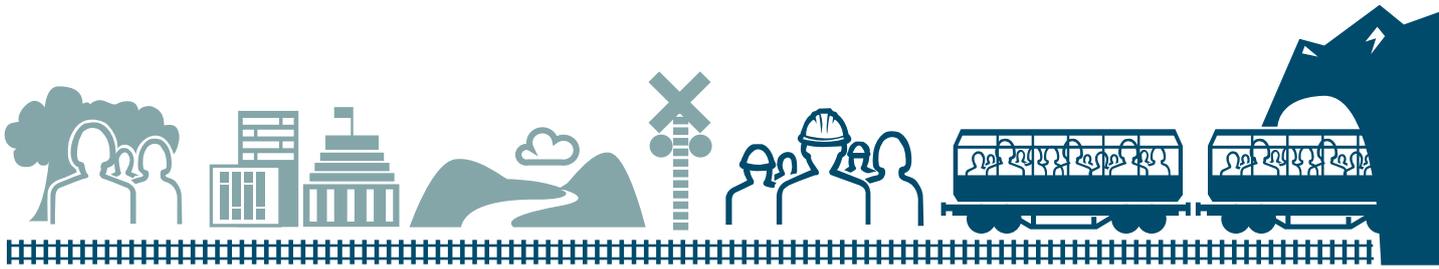
Our Vision:  
Trusted Kiwi-owned logistics partner  
growing New Zealand

## We connect people and communities

**32 million**  
We help commuters make more than 32 million low-carbon journeys each year

**One million**  
We carry more than one million tourist passengers each year

**17%**  
We enable passenger growth of 17% in Auckland (2016/17)



- 3,500 km of track operated and maintained
- 6.6m sleepers, of which 48% are concrete
- Over \$1b invested in renewal and upgrade of rail network, rolling stock and property over the last five years
- Manage 18,000ha of land
- Own more than 1,500 buildings
- 3,090 signals
- 1,500 public level crossings
- 3,400 employees
- 76% union members
- 46 years - average employee age
- 45% decrease in Total Recordable Injury Frequency Rate in last three years
- 3 long distance passenger experiences between Auckland and Greymouth
- 160,000 passengers per year
- Stops at 23 towns and cities in NZ

## We keep freight moving

**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



- 98 tunnels
- 1,322 bridges
- 4,578 wagons

- 3 ships
- 750,000 passengers
- 4,000 sailings per year
- 1 million net tonnes of freight carried per annum
- 244 locomotives
- Average locomotive age 30 years
- 91% of all freight arrives on time

- Reduce heavy vehicle impact by more than one million truck trips per year
- Every tonne of freight carried by rail is a 66% emissions saving over road



James Gobbe, Senior Track Maintainer, Christchurch

# Our reporting approach

This is KiwiRail's second Integrated Report, which uses the International Integrated Reporting Council's (IIRC) framework to explain KiwiRail's business performance.

It sets out to provide in-depth information about our relationship with stakeholders, what we do in our business and our role as an enabler of growth in New Zealand for the year to 30 June 2017.

Within the report we demonstrate how we create value for our stakeholders, our customers, and our business in the short, medium and long term. The report also covers key material issues, the issues that are most important to KiwiRail and its stakeholders: customer relationships, financial performance, work health and safety, operational efficiency, energy and carbon emissions, transport resilience, commercial focus, employee relations, and public safety.

Our title, 'Reliable. Sustainable. Valuable.' highlights the integral role KiwiRail plays in New Zealand's

transport system and in the health of the economy, our communities and people. Reliability is about meeting our customer promise and empowering our people to succeed. Sustainability explains how rail can create enduring, long-term value and explores more than just KiwiRail's environmental credentials, encompassing the safety and Zero Harm of our people and the public. KiwiRail's value lies in our role in growing our customers and the economy, in working closely with our agency partners on New Zealand's future transport needs and in our long-term ability to deliver for all New Zealanders.

This report is also designed to provide an overview of KiwiRail activities, to describe how each capital contributes to our strategy and to provide a transparent assessment of overall performance, future prospects and risks in relation to finance, people, assets, knowledge, relationships and the environment. Each area has an overview of our activities describing how that area contributes to our strategy to simplify, standardise and

invest and demonstrates how it creates value through reliable, sustainable and cost-effective services.

This year there is a strong focus on the reporting capital areas of People and Environment, to reflect the growing importance and influence of these activities on our day-to-day operations. These areas are growing and changing in line with evolving business and customer needs and are at different stages of development and implementation.

In People, we discuss the successful application of a Zero Harm culture across all levels of KiwiRail and the development of visible health and safety leadership and ownership. We also detail our desire to drive greater diversity across the business.

We also delve deeper into material issues, environmental and social values, and we discuss what each issue means to our stakeholders.

More information on the Integrated Reporting framework can be found at: <http://integratedreporting.org>

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## Statement of Responsibility

We, the Board of KiwiRail, acknowledge our responsibility to ensure the integrity of this Integrated Report. In preparing and approving the content of the report, we are confident that it aligns with the principles of the International Integrated Reporting Framework.

Audit New Zealand has provided a statement of assurance for the financial statements in this report, but we have not sought external assurance of the contents of this Integrated Report.



Trevor D Janes  
Chairman



Dame Paula Rebstock  
Deputy Chair

# How KiwiRail creates value



Facilitating efficient flows to/ from ports

Delivering world class tourism experiences

Providing a sustainable transport alternative and reducing emissions\*

Connecting people and places by enabling commuter journeys



## and freight

### Our values:



\*Around 16% of all total freight task carried, under 1% of all transport emissions

### Our outcomes:



Reliable



Sustainable



Valuable

# Chairman's message

“  
The culture of an organisation is brought to the fore in the face of crisis and challenge and I want to thank KiwiRail's 3,400 people for their immense efforts this year.”



It has been an extraordinary 10 months since I joined the KiwiRail Board on 1 November 2016, just a fortnight before the Kaikoura earthquake hit, devastating our rail network in the South Island.

I took over the Chairman's role from John Spencer who had spent six years at the helm of KiwiRail. John, more than anyone, knows the intestinal fortitude required of our people this year as they tackled the biggest rebuild of rail since World War II. It has been a privilege for me to be part of it.

As this publication goes to press, the Main North Line from Picton to Christchurch is carrying some of its first freight loads on services at night, while we work with our NZTA partner in the North Canterbury Transport Infrastructure Recovery (NCTIR) alliance on the continuing rebuild of the road and rail during daylight hours.

This partnership has highlighted just how important an integrated transport network is for New Zealand. We are stronger together, road and rail, and this alliance is paving the way for even greater collaboration in future.

That we could run freight just 10 months after that dramatic natural

event is testament to the skills of all those involved and the support that has been received from our customers and stakeholders.

The speed of KiwiRail's recovery was assisted by the Government's early and welcome commitment to fund any uninsured portion in our rebuild costs. In Budget 2017 two years' of Government funding was confirmed, with the promise of longer-term funding through a Rail Review to ensure KiwiRail is operating on the most sustainable footing possible.

The challenge of running a business that invests in multi-decade assets on a year-by-year funding basis should not be underestimated and I am pleased that the Government is recognising and addressing this issue.

The earthquake may have defined much of our year, but it does not define our business. The results to 30 June 2017, impacted as they are by the disrupted freight flows and tourism services in the South Island, are testament to the success of KiwiRail's strategy and the transformation of the business in recent years.

We have achieved a creditable \$52 million operating surplus. If the impact

of November's earthquake and resulting decrease in revenue and increase in costs is taken into account, a \$92 million Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) would have been achieved. That underlying operating surplus, which takes into account the earthquake's \$40 million impact, meets our commitment to Government and is ahead of budget, forecast and last year's underlying \$86 million result.

One of the earthquake's stranger effects is that it has increased asset impairment. An accounting requirement of the organisation means capital expenditure is written off each year, which consequently values assets at substantially below replacement cost.

This treatment has never been more anomalous than this year as we have written off all of the earthquake rebuild costs, despite it delivering significant value to New Zealand.

When a large forestry fire took out KiwiRail's award-winning TranzAlpine service just three months after November's earthquake, it appeared nature was working against us.

However, the revenue impact of that event has effectively been absorbed by the business – testament to the strong operational platform that Peter Reidy and his management team have spent the past three years building.

Productivity and efficiency gains, more reliable services for our customers, strong partnerships with New Zealand's ports for our importers and exporters and the ability to adapt to the changing nature of international freight through the "big ships" now plying our waters, have all set the organisation in good stead for the challenges faced.

The importance of safety for our people and the public is always top of mind at KiwiRail, and is as critical for the Board as it is for our frontline workers. Some good results in injury reduction have been recorded this year, building on previous years' work, but there is always more to do and it will continue to be a focus of our High Performance High Engagement programme of work with our union partners.

The culture of an organisation is brought to the fore in the face of crisis and challenge and I want to

thank KiwiRail's 3,400 people for their immense efforts this year. Our valued customers have also shown remarkable support for the organisation, even as their own businesses were disrupted by events.

Those customer relationships and partnerships will be a key part of our next 12 months as we look to continue our strategy to simplify the business, standardise our operations and invest in our people. Rail is of growing importance to New Zealand in both our congested cities and for the efficient movement of freight, as has been seen by the events in the South Island this year.

We look forward to embracing the challenges of the 12 months ahead.



Trevor D Janes  
Chairman KiwiRail

# Milestones



## July

- KiwiRail signs an agreement to purchase 15 diesel locomotives
- Road-bridging successfully fulfills customers' needs when the Aratere's dry dock leaves New Zealand without a rail enabled ferry for the first time in 56 years



## August

- The opening of the Waingawa transport hub in Wellington takes 16,000 trucks off roads per annum
- Two Auckland – Whangarei freight services are consolidated into a single service, maximising operating efficiencies



## September

- KiwiRail and the Rail and Maritime Transport Union sign a joint High Performance High Engagement Charter to guide future engagement and projects
- The 007 bridge programme replaces eight timber bridges along the North Island Main Trunk (NIMT)



## October

- Napier Port signs an agreement for a log service between Napier and Wairoa, signalling the reopening of the Napier/Gisborne line
- The arrival of Aotea Maersk marks the beginning of "big ships" in New Zealand waters, to meet increased demand
- KiwiRail upgrades services to and from the Port of Tauranga
- KiwiRail signs an agreement for 150 new intermodal IH wagons



## November

- A 7.8 magnitude earthquake strikes Kaikoura suspending the freight and Coastal Pacific services on the Main North Line
- KiwiRail signs an agreement with the Energy Efficiency and Conservation Authority (EECA)



## December

- KiwiRail enters the coastal shipping freight market with NZ Connect which operates between Auckland and Christchurch
- The Northern Explorer passes the one million kilometre mark since commencing service in June 2012
- KiwiRail decides to replace electric locomotives with diesel locomotives on the NIMT enhancing reliability and efficiency

2016



## January

- The first work train since the earthquake transports equipment along the Main North Line between Grassmere and Clarence River



## February

- A 300ha fire results in the cancellation of freight and passenger services on the Midland Line
- The Discovery Channel airs a Megatrains episode about KiwiRail internationally



## March

- The Midland Line reopens and the TranzAlpine returns to service six weeks after the 300ha fire
- A three-year project to strengthen the line between Castlecliff and Port Taranaki commences



## April

- Railbike Adventures wins the bid for the Wairoa – Gisborne section of the Napier/Gisborne Line
- Ventilation, track and communications upgrades strengthen resilience in the Kaimai Tunnel, on the route between Auckland – Hamilton – Tauranga



## May

- KiwiRail purchases Interislander ferry, Kaitaki, securing capacity to move freight and people between islands for years to come
- The Coastal Pacific, Northern Explorer, TranzAlpine and Interislander tourism journeys are rebranded as The Great Journeys of New Zealand



## June

- The Clarence Bridge reopens on the Main North Line enabling the first work train since the earthquake to travel from Kaikoura to Picton
- KiwiRail commences e-learning, providing our people with the tools needed to develop their skills anywhere, anytime

2017

# Chief Executive's report

“  
KiwiRail will invest to build an efficient and reliable operating platform with a highly engaged and productive team focused on customer growth strategies and the safety of all”



There is an overused sporting axiom that describes a match as a “game of two halves”. I’m loathe to repeat it but if ever a year deserved that cliché, it has been this year in review.

When we kicked off last July 1, all of the key rail and ferry system elements were in place to produce what our teams expected to be a record peak freight and passenger year for KiwiRail.

We had made significant progress in standardising our train fleet, simplifying our asset maintenance and train planning and investing in the network to ensure the best reliability for our customers, lifting the average On-Time Performance (OTP) by 22% in the four months of FY17.

Tourism was booming with rail passenger numbers up 12%. Our partnerships and commercial arrangements with ports were paying off with the Port of Tauranga tracking 19% up in volume. Interislander customer ratings were up and we’d successfully completed a drydock for our Aratere ferry – the first time in 56 years that we’d kept freight moving

across the Strait without a rail enabled ferry.

Months of planning meant we were heading into a peak season having reduced speed restrictions by 45 minutes on the North Island Main Trunk Line, with our highest wagon availability in years.

Our people were focused and driven, the result of two years’ work to transform our organisation into a customer-focused, commercially driven business helping to grow our customers and the New Zealand economy.

The whistle blew when the 7.8 earthquake struck near Kaikoura just after midnight on November 14. What ensued as the dust settled, fundamentally changed not only that peak season, but our year and our priorities: New Zealand’s supply chain was disrupted, Wellington’s port closed and our domestic freight revenue was impacted in the South Island. We had to close our successful Coastal Pacific rail journey for at least 12 months and we were facing the biggest rail rebuild in generations.

Our response to that natural event required innovation at speed: our teams got two Cook Strait ferries up and running within 24 hours, beginning plans for our first coastal freight shipping service NZ Connect from Auckland to Lyttelton. We opened a new inland freight hub in Blenheim for customers to enable the transfer of freight from rail to road so it could still reach Christchurch through the inland routes. We shifted passenger carriages to the North Island and brought our key freight customers together in Auckland to plan for the next 10 months of disrupted service.

The results of that work and the organisation we had built for success prior to the earthquake can be seen in the numbers reported in this publication - an operating surplus of \$52 million despite the earthquake's \$40 million impact on our freight and passenger revenues; On-Time Performance that is still 20% up year on year for our premium trains; growth in forestry and ports; productivity and efficiency gains of \$18 million building on the \$27 million achieved the year prior, and signs that our tourism revenue will return with gusto when the Coastal Pacific is back.

It is an incredible testament to the skills and determination of our people that these results have been achieved in such a challenging year, and that through this time our employee engagement measures have risen so dramatically, with participation increased by 27%.

It is a year in which we have had to work closely with our freight customers

to find solutions to the challenges they – and we – faced. The investment we had made prior to the quake to build an efficient and reliable operating platform made that work possible but I thank them for their patience and encouragement as we worked to get the Main North Line (MNL) reopened in a limited capacity, months ahead of schedule, and to rebuild the Midland Line after Waitangi weekend's unexpected fire.

We are heading into a new financial year in better shape than most expected, but there is still a lot of work to be done.

Like many organisations which are some way down the road to health and safety success, our focus on awareness, education and cultural change over the past two years has paid dividends in reducing safety incidents. KiwiRail has achieved significant reductions in Total Recordable Injuries Frequency Rate (TRIFR), medical injuries and Lost Time Injuries Frequency Rate (LTIFR), meeting its targets and celebrating that success.

But in the past year those achievements have levelled off and we need the next intervention to make a step-change in the organisation, empowering our people to see safety as a capability not an outcome. Our focus is systems and people, building our risk management and assurance for our critical risks and independent key controls to reduce risks if our processes and assets fail. We are also engaging our people through our local Health & Safety Action Teams

(HSAT) and introducing lead indicators to stimulate health and safety as everyone's responsibility. Our ambition is still to be one of New Zealand's leading health and safety organisations and that goal will be a key strategic focus in the next 24 months.

As we rebuild from this unexpected six months of disruption, challenge and opportunity, our long-term vision remains: KiwiRail will invest to build an efficient and reliable operating platform with a highly engaged and productive team focused on customer growth strategies and the safety of all.

As the second half of this year closed out, the public support KiwiRail received has been overwhelming. New Zealanders have embraced the MNL rebuild and recognised the benefit that our critical infrastructure plays in our transport system to help New Zealand grow.

I am pleased that our people have continued to drive the business forward for New Zealand through every challenge this year and committed to a continuing improvement focus for future generations.



Peter Reidy  
Chief Executive KiwiRail

# Performance of our business units

## Freight

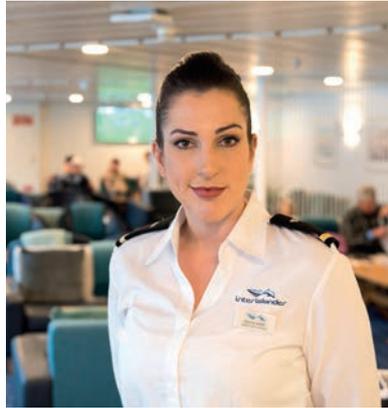


Freight remains the biggest income earner for KiwiRail and contributes 58% of total operating revenue. Volumes of freight were significantly affected by the Kaikoura earthquake in 2016/17, when Centreport sustained damage to its infrastructure and roads and rail closed in the South Island, changing freight flows across the country. These disruptions were partially offset by continued growth in forestry freight volumes and KiwiRail's drive to support port growth through strategic port partnerships.

KiwiRail works closely with its port partners to progress new rail-served operations. Rail infrastructure such as intermodal hubs, will see more customers and ports using rail as an integral component in their supply chains, leading to overall efficiencies that will support the positive growth of New Zealand's ports.

Reliability for freight customers remains KiwiRail's core strategic focus, with a number of improvements implemented over the last year under the strategy to simplify train plans, improve network reliability and invest in new rolling stock. This sustained focus has resulted in KiwiRail's On-Time Performance (OTP) average for all freight trains increasing to 91% in FY17 from 83% in FY16.

## Interislander



Interislander is an extension of State Highway One, linking road and rail networks between Auckland and Christchurch. In 2016/17 the ferries carried more than one million net tonnes of freight and transported more than 750,000 passengers.

This year 85% of sailings were on or ahead of their scheduled arrival times resulting in continued improvement of Interislander's customer satisfaction ratings, which were 90% as at June 2017.

The Kaikoura earthquake had a significant effect on passenger and rail freight volumes, as some tourists avoided the upper South Island and freight shifted from rail to trucks. During this period, Interislander saw an increase of 67% in commercial vehicle activity and a decline in passenger numbers of 6%.

In June 2017, KiwiRail purchased the Kaitaki ferry which was previously leased until 2020, ensuring that it has the capacity to move freight and people between islands while continuing to work on a long-term fleet strategy.

## Tourism



This year KiwiRail rebranded its acclaimed Scenic Journeys the TranzAlpine, Coastal Pacific and Northern Explorer rail journeys and Interislander ferries under one streamlined service, "The Great Journeys of New Zealand". The experiences are continuing to gain national and international recognition with all three rail services receiving a Certificate of Excellence from Trip Advisor and regularly topping lists of the best long-distance rail services in the world.

Great Journeys' rail services were impacted by the Kaikoura earthquake in November 2016 and the Midland Line fire in February 2017. The earthquake resulted in the cancellation of the Coastal Pacific for the remainder of the 2017 season and the fire saw the TranzAlpine suspended for six weeks. As a result, revenue for our long-distance passenger services is down 23% compared to June 2016.

In spite of these events, demand for Great Journeys' experiences remains high and gives the business confidence that the 8% growth seen before the Kaikoura earthquake is sustainable in the longer term.

## Infrastructure



KiwiRail continues to align its infrastructure investment priorities with customer needs and freight demand. Over the last 12 months the organisation invested \$185 million in the renewal and upgrade of network including work to upgrade the Kaimai Tunnel, Makatote Viaduct and the Southdown Container Terminal in Auckland.

KiwiRail continues to focus its investment on growth corridors including the freight critical Auckland-Hamilton-Tauranga route with targeted infrastructure investments that will support growing volumes at New Zealand ports.

Continuing to maintain and upgrade urban metro rail networks in Auckland and Wellington to enable passenger growth is a key area of focus for KiwiRail. In 2018 work will begin to upgrade the Wellington Metro, increasing network resilience by removing speed restrictions and improving reliability for passenger and freight customers.

In Auckland, the key focus will be the on-going consideration of the wider transport requirements including how best KiwiRail can work with key stakeholders to reduce congestion, improve network resilience and better freight flows to and from the Ports of Auckland and Port of Tauranga (see p.35).

## Property



KiwiRail is driving a commercial approach to the property portfolio it manages, with more than 1,500 property assets and over 8,000 third party interests in its land.

Over the last 12 months KiwiRail has continued to review its property portfolio, to ensure that lease and licence arrangements are managed in a fair and commercial manner, and has partnered with a number of customers to lease land for new rail served operations adjacent to rail yards. These initiatives have enabled KiwiRail to improve the efficiency of customers' supply chains and to generate income growth through long term, sustainable, leasing arrangements.

The revised FY18 KiwiRail property strategy focuses on protection of the active rail portfolio and increasing revenue from this land, streamlining the grant and encroachment processes, optimisation of the yard and terminal assets and maximising the release of capital from non-active rail land.

## Rolling stock



KiwiRail is transitioning to an intermodal asset base, providing customers with flexibility within the transport system when moving goods around New Zealand and beyond. More than half of the wagon fleet is now intermodal and in the year ahead KiwiRail will embark on a rolling stock fleet renewal strategy to ensure the optimisation of its assets for customers.

In FY17 our diesel locomotive reliability programme made pleasing progress, with locomotive availability at 95% and wagon availability at 90%. KiwiRail also undertook initiatives to standardise, simplify and invest the rolling stock area: investing in control, asset procurement and maintenance specific teams, and continuing its development of a 10 year fleet plan to meet forecast freight growth.

In June 2017, 150 new intermodal IH wagons arrived in New Zealand, adding to the 1,200 wagons purchased since 2008 and 15 additional diesel locomotives were purchased in August 2016. The addition of new rolling stock to KiwiRail's ageing fleet is crucial for the improvement of asset reliability and On-Time Performance, two factors which are key criteria for customers as they look to move more freight onto rail.

# Main North Line (MNL)



Staff on the Main North Line worked long hours in difficult conditions, often far from home. Maungamaunu, just north of Kaikoura

On 14 November 2016, mountains moved, tracks twisted, tunnels cracked and bridges shifted when a 7.8 magnitude earthquake struck Kaikoura just after midnight. In the immediate aftermath, all passenger and freight rail services across New Zealand stopped, and Interislander sailings were anchored for 48 hours. At the heart of Kaikoura, where the effects of the earthquake were most devastating, the land rose up by 1.5 metres sweeping the tracks of the Main North Line (MNL) towards the sea, resulting in 750 separate worksites, more than 90 slips and landslides, and damage to 21 tunnels and nine bridges between Christchurch and Picton.

KiwiRail acted quickly to lessen the significant impact of broken freight links for its customers. While two of our ferries were back in operation within 48 hours of the event, the MNL required the biggest rail rebuild in New Zealand since World War II. The line, which typically carries one million tonnes of freight per annum, is a critical transportation link between the North and South Islands and is vital to the success of our customers' operations.

To enable freight flows between the islands, KiwiRail established two new freight options for our customers within weeks of the quake. The Blenheim freight hub ensured the smooth transfer of freight from rail to road at the top

of the South Island, and NZ Connect, our first coastal shipping service, integrated road and rail links between Auckland and Lyttelton. Our quick customer-centric response won the Freight Rail Excellence Award category at the Australian Rail Industry Awards in July 2017.

The skill of our workforce and the strength of our partnerships with NZTA through the North Canterbury Transport Infrastructure Recovery (NCTIR) alliance enabled us to expedite MNL repairs. Teams of world-class engineers moved across the country to Kaikoura to progress the reinstatement of the line through accelerated bridge, signal and tunnel designs, condensing processes that typically take several months, into weeks. This expedited the physical rebuild, enabling work trains to operate on sections of the line from January 2017 to assist road crews in the rebuild of State Highway One, delivering building materials to remote locations, and preparing the line for freight trains.

Just 10 months after the earthquake devastated the MNL, restricted, freight-only services, are operating again, providing much needed capacity and resilience to New Zealand's transport system, while taking 2000 trucks per month off the vulnerable alternate routes and continuing to assist in the rebuild of State Highway One.



Bridge 90, which crosses Boundary Stream just north of Ferniehurst, was so badly damaged it had to be demolished

### Main North Line reinstatement key statistics

**>1,500**  
people involved  
in the project

**150,000**  
average person hours  
worked each month

**150km**  
line tamped

**5,000**  
new concrete  
sleepers laid

**5km**  
track realigned

**12km**  
track has been rebuilt

### Within six months of the earthquake:

**40%**  
damaged rail sites fully repaired

**50%**  
track repairs required for a restricted opening of line were complete

**60%**  
of slips (372,788 cubic metres) had been cleared

### Work trains running

between the following routes:

- Christchurch and Claverley
- Picton and Mirza
- Claverley and Oaro
- Mirza and Wharanui

# Financial

“KiwiRail has achieved significant productivity and efficiency improvements over the last two years, despite the challenges of the November 2016 earthquake and Midland Line fire”

*Minister of Transport, Hon Simon Bridges*



KiwiRail has made significant achievements throughout a challenging year while continuing to operate in a commercial manner for its shareholders. The FY17 result shows a \$52 million operating surplus achieved despite \$40 million revenue and cost impact from the Kaikoura earthquake.

This year KiwiRail's focus was on achieving underlying financial targets and managing costs with the reduced available cash flow. The business was able to absorb the impacts of the Midland Line fire (\$9 million) and reach an underlying operating surplus of \$92 million. This is an

improvement on the underlying FY16 results of \$86 million, and exceeds KiwiRail's SCI target of \$80-\$85 million for a second year running.

A key part of KiwiRail's strategy is to simplify our business, standardise our assets, and invest in our people. We continue to work with teams across the organisation to identify a range of productivity initiatives, that will enable the delivery of a more efficient and effective service to our customers and shareholders. In FY16 productivity and efficiency initiatives resulted in savings of \$27 million and in FY17 productivity initiatives delivered a further \$18 million in savings, a reflection of KiwiRail's commitment to efficient services for our customers and shareholders. Key initiatives included: continuing to target efficiencies in labour, materials and fuel spend, and simplifying our train plan.

## Rail Review

In Budget 2017, the Government announced a rail review which will assess KiwiRail's operating structure and longer-term capital requirements. At the time of the announcement Transport Minister, Hon Simon Bridges stated that the review will provide KiwiRail with a “long-term, transparent, sustainable model.”

The review is an opportunity to highlight KiwiRail's role in an integrated transport system delivering for New Zealand. It will look at rail's purpose and will establish a position on KiwiRail's role within an integrated transport system. The review will also investigate the wider benefits of transporting freight by rail.



## Highlights

**\$52m**

Operating surplus

**\$92m**

Underlying operating surplus

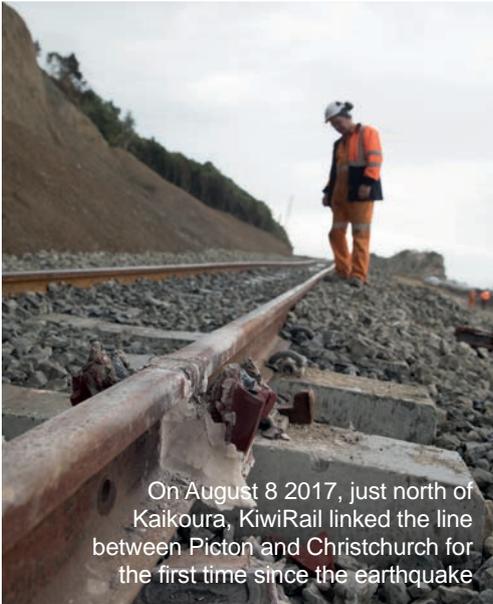
**\$18m**

Productivity and efficiency savings

## Challenges

**\$40m**

Earthquake impact on operating surplus



On August 8 2017, just north of Kaikoura, KiwiRail linked the line between Picton and Christchurch for the first time since the earthquake

### Financial statements

The financial statements are included from page 60 onwards and detail the financial performance for the year and the financial position at 30 June 2017.

Notes which may be of particular interest to our readers are:

**Note 2 – Revenue** provides the split of revenue between business units

**Note 3 – Operating Expenses** shows KiwiRail's key operating costs

**Note 9 (c) – Impairment** explains why KiwiRail impairs \$296 million of railway infrastructure assets

**Note 26 – Financial Risk Management Policies and Objectives** explains the financial risks KiwiRail faces, how these risks impact the financial statements and how KiwiRail manages these risks

**Note 27 – Impact of earthquake** outlines the earthquake impacts on the financial statements

### Economic Value of Rail

Rail freight delivers a range of benefits to New Zealand which are not recognised when undertaking traditional “return on investment” analysis of expenditure on the rail network. These benefits include a range of positive outcomes that would not be possible without rail and are considered to be items that would incur costs for other parties in the absence of rail freight. These represent the value of rail, rather than a narrow view of the cost of rail. Benefits of rail include:

- reduced ongoing road maintenance costs
- a safer national transport network for New Zealanders to connect, work and travel
- reduced traffic congestion which saves millions of hours in lost productivity
- reduced CO<sub>2</sub> emissions
- a resilient transport network that underpins New Zealand's growth in overseas trade



Reducing heavy vehicle impact by more than **one million** truck trips



Helping commuters make **32 million** low-carbon journeys each year



Avoiding over **188,000** tonnes of carbon emissions



Avoiding approximately **69 million** litres of diesel consumption by road freight



Reducing congestion, making our roads safer



Contributing to New Zealand's economic growth



Helping community groups, schools and sports groups to travel



Creating long-lasting two-way relationships with customers, suppliers and other stakeholders

## Outlook and challenges

### **67% of KiwiRail's revenue in FY18 is expected to come from rail freight and Interislander commercial vehicles**

The current outlook for coal, forestry and milk-based products is positive and volumes have lifted. To support increasing demand from these sectors, KiwiRail has continued to drive a strong partnership strategy with New Zealand's exporters and ports, leveraging our ability to move large volumes of freight as customers experience growth. KiwiRail is developing long term strategies in preparation for expected increases in coal export volumes and the 'wall of wood', which is predicted to reach peak harvest in 15 years' time.

In September 2017, KiwiRail reset prices on key domestic corridors to optimise freight services and to lift contribution. The new prices, whilst remaining a competitive option compared to road, secure a fair return for the services provided. It will reward customers booking return journeys, removing the costs incurred when repositioning empty equipment.

New Zealand ports are responding

to the change in international freight flows and "big ships" by investing in infrastructure to receive larger ships. KiwiRail is supporting parties that are investing in inland ports to be ready for the expected customer growth (see more on p.36).

### **18% of KiwiRail's revenue in FY18 is expected to come from tourism**

International tourism is forecast to grow and KiwiRail is actively targeting strategic partnerships with other tourism operators that will support and enable the growing demand for services. KiwiRail's tourism strategy is discussed on p.25.

### **We will continue to focus on the on-going reinstatement of the Main North Line as a critical strategic project**

The devastating Kaikoura earthquake had widespread revenue and cost impacts for KiwiRail as freight flows around New Zealand changed, along with the effects on passenger services on the Interislander ferries and rail tourism journeys. The \$40 million impact is made up predominantly of domestic freight revenue loss as the Main North Line closed, plus some

effect from falls in bulk freight such as steel and gas. Passenger volumes on the Interislander also took a hit as tourists avoided road travel to Christchurch, and the Coastal Pacific tourism service was cancelled.

Our focus is to work with our NZTA partner in the NCTIR alliance to get the Main North Line back to full freight capacity, benefitting South Island consumers due to reduced supply chain costs. The Government's commitment to fund the uninsured balance of the Main North Line reinstatement is critical, as without this funding KiwiRail would be unable to undertake the project. The line is a critical part of New Zealand's transport network, carrying around one million tonnes of freight annually before the earthquake. Reopening the line will not only lower the cost to customers of moving freight between the islands, it will reduce greenhouse gas emissions as every tonne of freight carried by rail is a 66% emissions saving for New Zealand. Strong customer demand is expected once the line is again fully operational as freight forwarders have had to use vulnerable alternate road routes while the Main North Line was being rebuilt.



KiwiRail brought in a 132-wheel transporter to tackle the huge job of moving two locomotives, each weighing 102 tonnes, that were stranded by the Kaikoura earthquake

# Tourism

Case study



Tugane Rosson, Customer Services Manager, Interislander

## THE GREAT JOURNEYS OF NEW ZEALAND

KiwiRail's passenger tourism journeys have experienced double digit growth in recent years and continue to deliver strong economic benefits to the country's regions. Our connected journey strategy encourages tourists to explore out-of-the-way destinations, boosting regional towns and cities.

Coastal Pacific, Northern Explorer and the TranzAlpine rail journeys, along with our Interislander ferry services, give international visitors an otherwise unseen view of New Zealand's remote landscapes. Our services are in high demand from international visitors and domestic tourists alike, outpacing the national growth average. The economic benefits of our experiences are most keenly felt in smaller towns, such as Greymouth, where businesses including hotels, restaurants, and car hire companies rely on train passengers. West Coast Tourism estimates that the TranzAlpine brings in excess of \$15 million per annum to the region.

In 2017, KiwiRail rebranded its tourism experiences under The Great Journeys of New Zealand moniker, maximising our unique position as a connected journey throughout the country. This provides wholesalers with the opportunity to bundle all of our services in a single sale and enables our customers to travel seamlessly from Auckland to Greymouth using a streamlined booking service.

The strategy is closely aligned with the Government's Tourism 2025 - Growing Value Together plan which encourages organisations to support regions as visitor numbers increase. KiwiRail is partnering with local tourism operators to provide our customers with premium experiences and packages in areas where our passenger services operate. This will ensure that we offer high quality activities that attract visitors to the regions all year round while increasing demand for our Great Journeys experiences.



Wayne Sullivan was the driver stranded in his locomotive when the earthquake struck in November last year. Just 10 months later, he drove the first freight service back into Christchurch

# People

KiwiRail is one of New Zealand's largest employers with 3,400 people in 50 towns and cities across the country. We share a long and proud history with our people, many of whom are the third or fourth generation of their family to work in rail.

People are vital to the success of our organisation as we transform to a customer-focused, commercial business that helps grow New Zealand. The significant improvements made to KiwiRail's performance in recent years are a testament to the skills of our workforce, our strategy to standardise our business, simplify our operations and invest in our people.

In 2017, several members of the KiwiRail leadership and operational teams were finalists in national awards, reflecting KiwiRail's focus to attract, retain and develop world-class talent across the business.

Areas for focus in the next 12 months include a greater emphasis on communication with people leaders throughout the business, a stronger focus on communicating

company strategy and vision as well as increased opportunities for career growth.

## Zero Harm

KiwiRail's people culture is underpinned by our commitment to Zero Harm, which keeps our people healthy and safe, and our business and the environment sustainable. Zero Harm has been implemented at every level of the organisation, from the frontline to the Executive Team and Board, and is valued as a proxy for leadership within the organisation.

Engagement with our people is key to developing procedures and initiatives that improve worksite health and safety. Our Health and Safety Action Teams (HSAT) engage with our frontline people to facilitate a strong safety culture at local places of work and our leaders are encouraged to place Zero Harm at the forefront of day-to-day work activities. Our goal is to ensure that our employees and contractors get home safely at the end of their day.

We continue to invest in our people, safety initiatives and systems, to



## Highlights

**74%**

Participation in employee survey

**12%**

Of workforce completed in-house leadership programmes

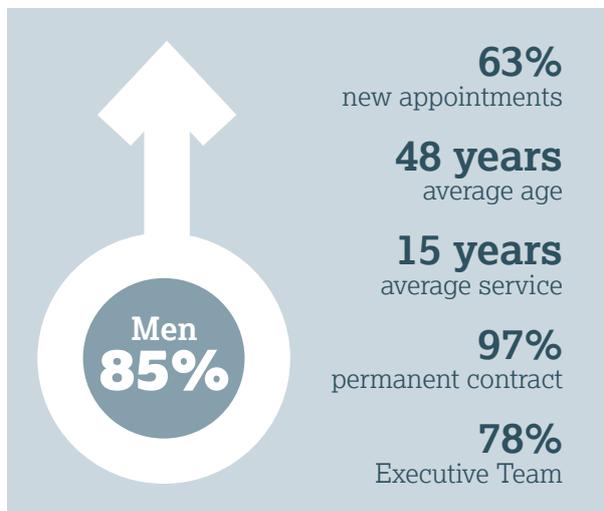
## Hotworks

HPHE initiative wins Engagement category at New Zealand Workplace Health & Safety Awards

## Challenges

Addressing levelled off Injury rates

## Our workforce statistics





Fitting of Self Contained Self Rescuer units in the tunnel simulator during Tunnel Operations training

deliver notable reductions in the number of mainline derailments year-on-year since 2012, as well as our Total Recordable Injury Frequency Rate (TRIFR) and Lost Time Injury Frequency Rate (LTIFR). In the past three years TRIFR decreased by an impressive 45% and in the past 12 months KiwiRail has seen a 15% reduction in total injuries and a 3% reduction in the TRIFR, building on reductions in the previous two years.

To improve safety capabilities, KiwiRail engages leadership through training programmes such as Just and Fair Culture and the Core Leadership programme which provides mid-level and senior leaders with the skills they need to progress as a Zero Harm Leader.

### Diversity

KiwiRail is committed to being an inclusive and diverse workplace with a workforce fit for the future needs of our industry. Currently, our legacy workforce comprises of just 15% women and our average worker age is 46 which could lead to a skills deficit in the next decade as a number of our skilled workers retire.

Senior women in the organisation were boosted by the Executive Team increasing to 22% (two out of nine) this year and the number of women in leadership roles across the business increased to 25%. We are developing KiwiRail's Diversity and Inclusiveness Strategy to establish initiatives that will lift the profile and number of women in the workplace.

KiwiRail this year established a National Diversity Council, which will address the potential skills deficit in 2027. We have also implemented a KiwiRail graduate programme, which will focus on recruitment and retention of a younger workforce.

### High Performance High Engagement

The High Performance High Engagement (HPHE) programme, a joint project with KiwiRail's union partners, empowers our frontline people to find solutions to the challenges facing our business.

HPHE raises productivity, improves safety, engages employees and strengthens our customer commitment through enhanced performance and

more effective processes. The results of early HPHE projects are already making a difference in our worksites, from small scale improvements to processes that focus on larger logistical procedures. A good example of HPHE methods being used to find a solution to frontline issues is the Hotworks safety programme which won the Engagement category of the New Zealand Workplace Health and Safety Awards (see more on p.30).

This year the Rail and Maritime Transport Union (RMTU) and KiwiRail HPHE Governance Council developed an HPHE Charter to provide a solid governance structure to the programme that will guide engagement and projects.

KiwiRail continues to learn from Air New Zealand, the only other New Zealand organisation to implement the programme in such depth, and to invest in HPHE training for delegates and managers.

### Providing leadership and training

KiwiRail actively invests in the leadership and training development of our people. This drives employee engagement across the business, and enables better prospects by extending the capabilities of our workforce.

Leadership development programmes include Diversity NZ Award finalist Back to Basics, which focuses on long-term business issues for KiwiRail while addressing the literacy and numeracy learning needs of our people.

In response to the global trend of digital transformation, KiwiRail has modernised our courses by developing an e-learning platform that provides our people with the tools needed to develop their skills and capabilities anywhere, anytime.

### Ahurea - Culture

Our Māori network, Te Kupenga Mahi (TKM), helps our people to reconnect with their whakapapa and

advises the business of appropriate ways to implement Māori culture into our day to day activities. TKM is a key part of our public activities and regularly performs karakia (blessings), powhiri (welcoming ceremonies) and te pure (ritual cleansings of sites and machinery) at our events.

KiwiRail's Toi Toi Maori Leadership Programme gives staff members exposure to a Te Ao Maori learning environment using Kaitohutohu (mentors) to aid the personal and professional development of the programme's Taura (cadets).

### Employee survey

The KiwiRail annual employee survey is used to measure our people's engagement and satisfaction levels and to assess potential areas of improvement across the business.

Internal communications and leadership around the survey have been improved and participation increased from 47% in 2016 to 74% in 2017. This result reflects the pride and passion our people feel for their work, their colleagues and the purpose of our business.

### Outlook: Workforce planning

Digital disruption is shaping and transforming society and industry globally. To successfully adapt to changes in rail, freight and engineering technology KiwiRail must plan and prepare for artificial intelligence, big data and the automation of processes.

KiwiRail is seeking ways to prepare our workforce for the rapidly changing future of the logistics industry as technology disrupts traditional work patterns, including investment in programmes that expand transferrable skills of our people.

KiwiRail is also developing initiatives to attract new and diverse talent who will broaden the skill set of the business and meet the future needs of our customers.

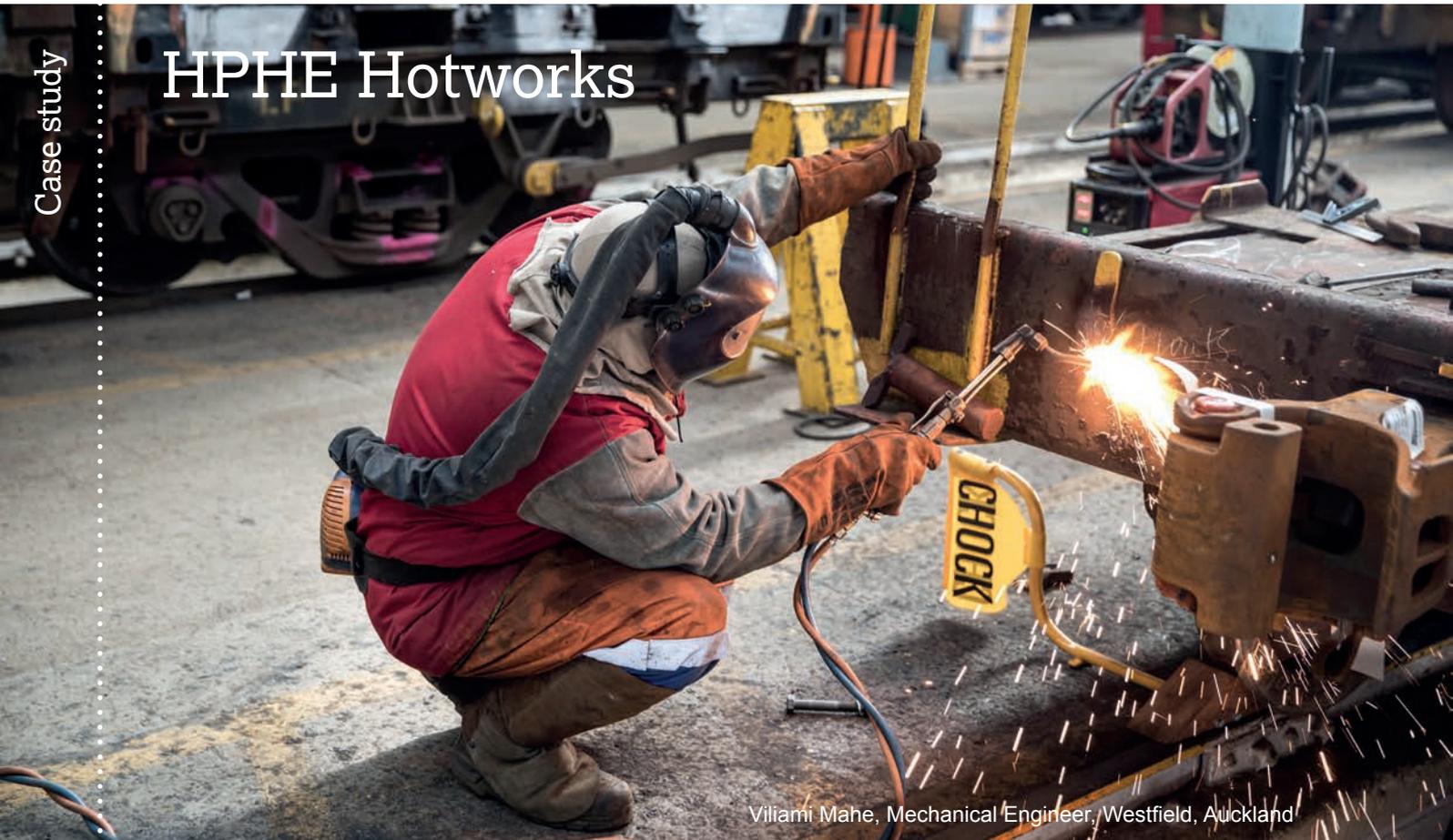
“

Every month managers visit all the teams in their patch to share information that's relevant and which shows how what we do plays a big part in the success of KiwiRail. It's important to let them know the positive impact their work has for our customers and for our company.”

Henare Clarke, North Island Network Services Manager

# HPHE Hotworks

Case study



Viliami Mahe, Mechanical Engineer, Westfield, Auckland

A serious incident that left a worker burned spurred KiwiRail to find a new approach to workplace safety, using the High Performance High Engagement (HPHE) programme to bring frontline solutions to a critical area of work.

Hotworks, tasks that involve flame cutting, welding, grinding and heating are an essential part of KiwiRail operations, but have a high potential for injury. In 2016 a mechanical engineer was burned after boiling residue from a welding torch fell into his overall sleeve and set his clothes alight.

Using the HPHE framework, KiwiRail formed a Hotworks Project Team of frontline staff, managers, engineering, safety advisors, RMTU delegates and technical experts from across the business to address safety concerns and work practices.

Group consensus is key to HPHE. The project team split into two groups to investigate different parts of the problem, reviewing personal protective equipment (PPE), work processes, initial first aid, and staff training.

The teams used their workplace knowledge, experience, and expertise to formalise a number of improvements, including upgrading first aid stations in worksites, implementing a new national standard for PPE equipment for hotwork tasks, educating workers and improving first aid training.

Members of the team then rolled out the changes in worksites across the country training their colleagues in the new, safer way of undertaking hotworks activities.

This approach won the Engagement category of the 2017 New Zealand Workplace Health and Safety Awards, in recognition of the initiative's excellent leadership and commitment to organisational health.

Of the programme, RMTU organiser Stuart Johnstone says: "This project has allowed our members the opportunity to have genuine involvement in bringing about positive change in their workplaces, and the roll-out strategy has been well received as it has been delivered to workers by workers."

# Assets

KiwiRail's assets are one of the hardest working parts of our business. We transport around 25% of New Zealand's exports to the world, enable 32 million commuter journeys on our Auckland and Wellington metro networks and transport more than a million tourists each year on our Great Journeys of New Zealand passenger services.

Ensuring our services are reliable and trusted is key to our customer satisfaction. Underpinning that customer promise is the efficiency and effectiveness of our asset and infrastructure portfolio.

To ensure reliability and availability on a sustainable basis, KiwiRail regularly undertakes track inspections, asset upgrades, preventative maintenance, and repairs across the rail network. In FY17 we invested \$185 million in network capital expenditure alone, targeting key freight lines to and from New Zealand's ports, improving line speed, resilience and operational capacity to ensure that our services can meet growing freight volumes. We also established track protection teams in each region to maintain asset integrity across the network.

KiwiRail's focus over the past 12 months has been to boost the reliability of our assets and to improve the On-Time Performance (OTP) of our network, two areas of focus which are key to getting more freight moved by rail. This involved improvements on the network, in renewing our rolling stock, continuing our intermodal transition and moving to a one-fleet model on the North Island Main Trunk Line (NIMT).

### Improving reliability and performance

Teams across the business are using a One KiwiRail approach to drive improvements in our OTP, working collaboratively to reduce temporary speed and heat restrictions, improve locomotive and wagon availability, and to simplify our train plan. An example of this approach can be found on p.33, which describes changes to our locomotive service exams.

This continuing focus resulted in significant improvements to KiwiRail's OTP for premium services which averaged 89% in FY17, a 20% year-on-year improvement, achieved despite the changing freight flows in the wake of the Kaikoura earthquake.



## Highlights

**15**

New locomotives purchased

**150**

Intermodal IH wagons purchased

**\$322m**

invested in renewal and upgrade of network, property and rolling stock

**89%**

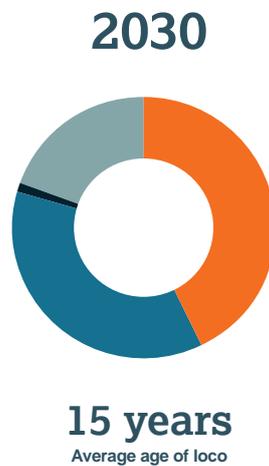
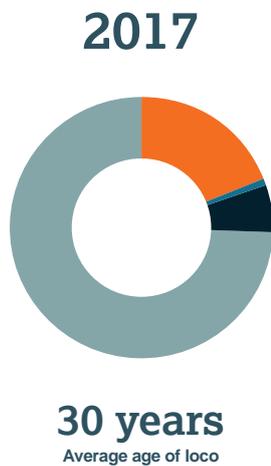
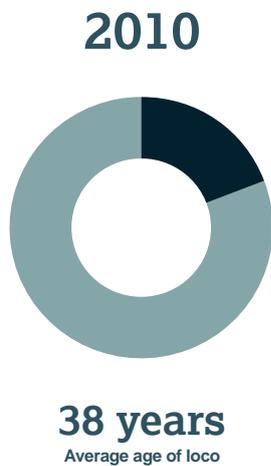
On-Time Performance for premium freight trains

## Challenges

### Investment

Reprioritised due to earthquake

## Age profile of the locomotive fleet



By 2030 the majority of the fleet will be under 30 years of age. A significant change from 2010 when 80% were over 30 years old.

- 1–10 yrs old
- 11–20 yrs old
- 21–30 yrs old
- +31 yrs old

## Rolling stock

KiwiRail's Asset Renewal Programme is addressing our ageing rolling stock fleet. The programme will lift our On-Time Performance by increasing the reliability and availability of our fleet, while improving our carbon efficiency. The purchase of 15 new diesel locomotives and 150 intermodal IH wagons in FY17 marked the beginning of a series of long-term planning investments that are designed to deliver value for years to come.

New assets ensure that KiwiRail has capacity to meet our customers' requirements and further reduces the number of asset variations in our fleet, enabling KiwiRail to drive reliability gains by streamlining our servicing methods. By 2030, the programme will reduce the average age of our fleet to 15, down from 30 in 2017.

## Performance of the North Island Main Trunk

Delivering freight between Auckland and Wellington can require three locomotive services, switching from

diesel to electric to diesel again due to a small section of electrified line between Te Rapa and Palmerston North. Effectively, we are operating a railway within a railway, an inefficient method which impacts negatively on our customers' operations.

In line with our strategy to standardise, simplify and invest, the KiwiRail Board made the decision to replace an ageing electric locomotive fleet with new generation diesel locomotives after two years of external and internal investigation and consultation. The all diesel fleet is expected to be fully in operation by 2019.

This was a challenging but important decision for New Zealand in the drive to get more freight onto rail, and is key to reducing carbon emissions in the long term, as every tonne of freight carried by rail is a 66% emissions saving over road.

While there may be a small increase in carbon emissions in the initial stages of the diesel-only service, improved reliability is the most important criteria for customers deciding to use rail and

should see more volumes transported by rail in the longer-term, lowering New Zealand's total emissions.

## Intermodal assets/systems

We have continued our transition to an intermodal asset base which enables freight to move easily between ships, trains and trucks. 59% of our wagon fleet is now intermodal, making it easier for customers to carry freight on our rail and ferry services and transition between road and rail networks.

## Outlook: Bigger ships

KiwiRail supports freight volume growth and the demands of growing urban populations, through investments in resilience upgrades for the busiest parts of the rail network. In 2016 the first "Big Ship" entered New Zealand's waters, changing the requirements of ports and creating greater need for further rail-enabled infrastructure. KiwiRail continues to work closely with its port partners to play its role in meeting these changing requirements.



Harvey Stoneham, Terminal Manager Day Operations, Te Rapa



# Rolling Stock

Case study

Peter Floyd, Locomotive Servicing Personnel, Palmerston North

Service exams for locomotives are much like a pit stop for a racing car, acting as an opportunity to refuel and to perform a safety check to ensure that the locomotive is in good condition ahead of its next journey.

Typically, locomotives undergo an exam every 30 hours, making service exams the highest performed task undertaken by our Rolling Stock Asset Services (RSAS) teams. On average, each service exam requires 45 minutes and two staff members to complete. In FY17, around 50,000 Service exams were performed by RSAS teams across a fleet of 200 locomotives.

This year we developed the Service Standardisation Project in collaboration with the Rail and Maritime Transport Union (RMTU), using a “High Performance High

Engagement” approach which encourages and facilitates engagement with frontline workers across the whole organisation.

To standardise our service exam processes we provided our people with a step-by-step guide that ensures the process is consistent across the organisation while reducing the risk of harm to our people through a set of clear instructions.

The project is not only a key frontline initiative but also an important productivity initiative. It reduces the cost of third parties performing an external exam and improves services for our customers by improving the availability and reliability of our fleets for customers.

The project continues to be co-governed and co-led with leaders from our management team and the RMTU.

# Skills & know-how

KiwiRail's people are experts in their field and leaders in the rail industry, renowned for their innovative approach to developing solutions that perform in New Zealand's unique and challenging rail environment. Examples of our people's impressive feats this year include:

- the removal of a 3,500kg ventilation system from the Kaimai tunnel
- development of a complex lead paint stripping system at the Makatote Viaduct to ensure the safety of our people and the protection of the surrounding ecosystem
- the introduction of Head Repair Welding which enables rail to be repaired at its original location, eliminating the need to remove sections of rail.

The skills of our people were tested by two significant events in FY17, the Kaikoura earthquake and the Midland Line fire on Waitangi weekend, but our blend of world-class engineering skills, rail knowledge and decades of experience enabled us to successfully meet these challenges and still deliver results for our customers (see Main North Line case study on p.20).

Following the return of restricted freight services to the Main North Line (MNL) in September, KiwiRail and its NZTA partners in the NCTIR Alliance installed state-of-the-art safety devices to live monitor slips and seismic activity. These included sensors over slope faces which measure movement in real time and seismic detectors which intercept and forewarn of seismic activity. In the event of a slip or earthquake the devices alert KiwiRail's National Train Control Centre of issues which require action and/or a response, providing round the clock protection for our people and customers.

During the rebuild of the MNL, the knowledge and experience of our people resulted in a number of innovative solutions to complex issues. For example, to catch falling material from slopes we engineered solutions such as flow channel safety bridges which reroutes material away from the rail tracks.

KiwiRail also deployed a 132-wheel transporter to remove two 102-tonne locomotives stranded on the MNL and a 230-tonne ballast tamper, which was used to make the rail bed stable and correct track alignment.

## Safety Initiatives

Zero Harm is KiwiRail's ultimate goal. We closely monitor global and national trends in rail incidents and pioneer rail safety technologies to keep our people and the public safe around the rail corridor.

Following a rise in incidents between trains and pedestrians using devices such as mobile phones, KiwiRail developed and trialled footpaths with LED lights near busy railway stations in Wellington. The lights provide a visual cue for distracted pedestrians, reminding them to look up from their phones and to engage with their surroundings as they approach a level crossing.

## Intermodal

KiwiRail draws on its logistics, rail and maritime expertise to deliver exceptional results for our customers. In mid-2016, New Zealand was without a rail enabled ferry for the first time in 56 years when the Aratere entered an eight-week dry-dock. To enable rail capabilities on the ferry, teams across the business developed an intermodal wheelset rack, which enabled the successful handling of rail traffic by road bridging, ensuring that our customers continued to experience an uninterrupted freight service between the North and South Islands.

## Outlook: Safety

KiwiRail continues to find solutions to operational challenges and to innovate to create new safety systems. These include Project Interceptor which uses a locomotive's GPS system to send speed and stop check information to a train when it's issued a track warrant and applies the brakes if the train does not slow as required.



## Highlights

### 6 weeks

KiwiRail's world-class engineers reopen the Midland Line six weeks after a 300ha fire

### 24 hr, 10 day

A 24 hour, 10 day operation delivers new rail sidings at Southdown Container Terminal

## Intermodal

An intermodal wheelset rack enables road bridging while the Aratere is in dry-dock

## Challenges

### Main North Line

Focus on rebuild will continue through FY18

“

Just wow! Knew you guys were good but you just keep raising the bar. There's heritage in that line and this generation of gangers can stand proudly beside any that went before them. Well done.”

Malcolm, Waikuku Beach shares his views on the MNL rebuild on KiwiRail's Facebook page

# Port of Tauranga



KiwiRail and Port of Tauranga have increased capacity to handle the much larger volumes of cargo at New Zealand's busiest port.

Port of Tauranga's \$350 million expansion in the last six years, including dredging Tauranga Harbour to widen and deepen shipping channels, has enabled bigger container vessels to call in New Zealand. The Tauranga Container Terminal handled more than a million TEUs (twenty-foot equivalent units) in the 2016/2017 financial year, a record for any New Zealand port.

Bigger vessels mean much larger cargo transfers per shipment. The number of containers transferred by KiwiRail between Tauranga and Auckland has increased by 64% over the past two years, with the number of container trains increasing from 54 to more than 78 per week.

Port of Tauranga's Chief Executive, Mark Cairns, says importers and exporters demand a high level of reliability, cost efficiency, service frequency and speed. KiwiRail's continuous investment and responsiveness has ensured the Port can meet these needs.

"KiwiRail has been a fantastic business partner of the Port. We've worked closely with KiwiRail to ensure we have the capacity we need at a time of unprecedented growth," says Mark.

"We're also alongside KiwiRail to plan ahead for the next 10 to 15 years, making sure we can keep pace with cargo increases."

The expected continued growth has prompted KiwiRail to invest \$15 million in upgrading its facilities and equipment at Port of Tauranga's inland port in Auckland, MetroPort, to future-proof the freight hub.

KiwiRail has also invested in the tracks, tunnels and bridges on the "golden triangle" cargo route between Auckland, Hamilton and Tauranga. Crossing loops have been added to allow increased train frequency, and new locomotives will be added to the fleet servicing the port.

Port of Tauranga's preference for rail has major environmental benefits too. KiwiRail's partnership with Port of Tauranga has kept more than 450,000 truck movements off roads, saving around 21.3 million litres of diesel and reducing carbon emissions by 58,000 tonnes in the last year alone.

# Relationships

The strength of KiwiRail's relationships in our communities are central to the commercial success of our business and critical to our ability to meet the priorities of our customers and stakeholders

KiwiRail employs 3,400 New Zealanders in 50 towns and cities across New Zealand. We are appreciative of the importance of rail to the communities in which we operate and mindful of our role as one of New Zealand's largest managers of land.

We serve a diverse group of stakeholders from Government and its agencies, to customers, partners, train operators, communities and our people. Our operations stretch across freight, passenger and property businesses where our daily interactions and long-term strategies determine the strength of these relationships.

## Customer partnerships

Keeping abreast of international freight trends is critical to the success of our customers and KiwiRail works

proactively to ensure we are evolving to meet changing customer needs.

Intermodal freight hubs, which enable freight to be collected and stored in large quantities before being transported to ships, are changing the flow of global freight volumes and have become a vital logistical component for New Zealand's ports following the introduction of "big ships" to New Zealand last year. To support the growth of New Zealand businesses, KiwiRail collaborates with its port partners to service intermodal hubs across New Zealand, bringing significant benefits to the country.

The strength of our customer relationships provides KiwiRail with a greater understanding of the requirements of individual businesses and the needs of each sector. For example, to enable the easy and efficient transportation of Fonterra's products to 20 world markets, KiwiRail operates dedicated rail services to and from the dairy plants and invests in upgrades and new rail infrastructure along key routes, such as the siding at Pahiatua which can accommodate up to 2.5 million litres of milk per day.



## Highlights

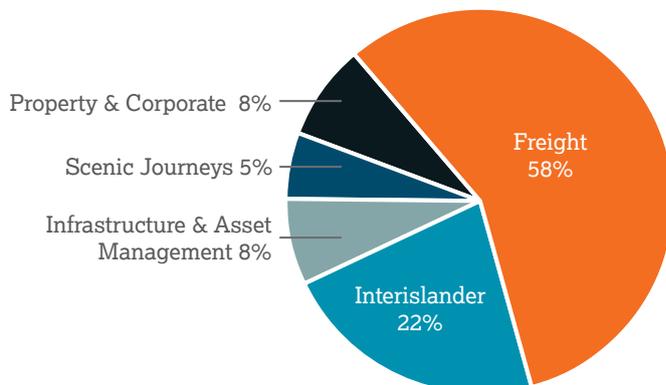
**2 year**  
funding announced by Government of \$450 million in Budget 2017

**90%**  
Interislander customer satisfaction rating in June 2017

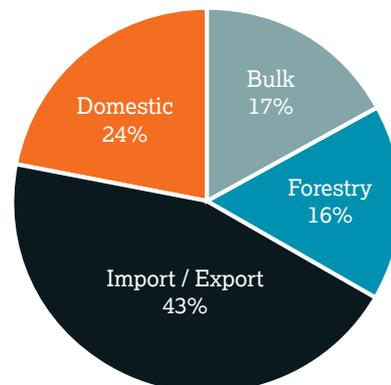
## Challenges

**Supporting**  
Our customers to bring freight back to the Main North Line

Total External Revenue



Freight Trading Revenue by Sector



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.

The Midland Line fire in February 2017 spread across 300ha, devastating several bridges between Christchurch and Greymouth, and rendering the Midland Line unusable to the disappointment of our freight customers and more than 17,000 TranzAlpine passengers.

To ensure that our freight customers' operations were supported during this time, KiwiRail instigated regular communications to provide affected stakeholders with up-to-date information about the status of the fire and the rebuild process.

Within six weeks of the fire our world-class engineers enabled the line to reopen to freight services. In this time, Solid Energy's operations were significantly affected by the loss of the Midland Line, which is used to transport coal to Lyttelton port from Solid Energy's remote Stockton base. The closure of the line resulted in 600 tonnes of stockpiled coal.

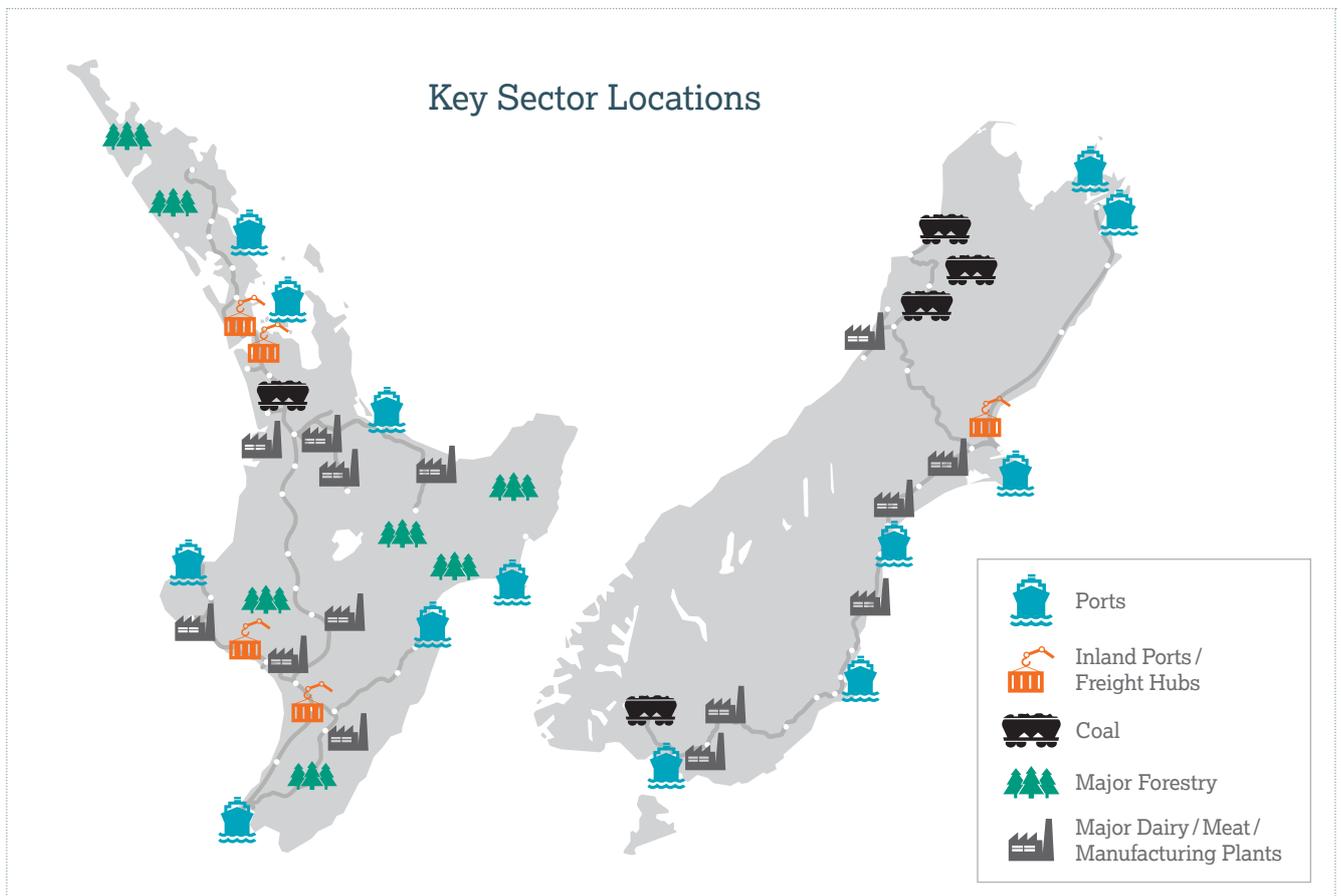
To ensure Solid Energy could meet its customer commitments,

KiwiRail worked with Solid Energy to coordinate an efficient 24-hour train programme with designated services that cleared the backlog in just four months. KiwiRail's efforts and customer centric focus ensured that Solid Energy was able to meet its targets for FY17.

Another example of our customer-centric focus was the work undertaken to upgrade the Kaimai Tunnel, a critical link which all rail traffic travels through to reach Tauranga Port. Following discussions with key customers, KiwiRail undertook work to strengthen the resilience of the track, and to improve ventilation and communication systems, in scheduled maintenance timeslots instead of shutting the tunnel down for 12 hour periods for up to 10 days. This minimised disruptions to our customers' freight services, while securing greater resilience for the tunnel so that it can carry larger volumes of freight in the future.

“  
You guys are absolute stars, with very experienced people with the determination to overcome the odds to keep that tremendous rail service running.”

David, Auckland shares his views on the Midland Line rebuild on KiwiRail's Facebook page.



### Building safer communities

KiwiRail is a key sponsor of TrackSAFE NZ, a charitable trust that raises awareness about rail safety and ways to keep safe around tracks and trains. Rail Safety Week, a nationwide campaign, is planned and coordinated by KiwiRail in close association with TrackSAFE NZ and key stakeholders including New Zealand Police, NZTA, Auckland Transport, Transdev and Greater Wellington Regional Council.

We engage with local communities and regional branches of organisations such as New Zealand Police, to address incidences of dangerous behaviour and trespass on the rail corridor and to provide safety awareness information to local communities following such incidences. Following a near miss incident at Tawa Street rail crossing, TrackSAFE NZ and KiwiRail developed a partnership with the Tawa Community Board which has produced a rail safety programme for local schools, safety messages in local media and awareness initiatives at level crossings.

### Community engagement

KiwiRail continues to work proactively with the communities in which it operates, building partnerships with local leaders and agencies to arrange community focused events such as the annual Safe Kids day in Ngaruawahia and events that commemorate New Zealand's rich rail history including this year's centennial ceremony for Victoria Cross recipient, and railwayman, Leslie Andrew.

Our people are passionate about their work within their communities and often donate their time to teaching school children the value of rail safety, and to initiatives such as The Great Melling Line clean up in Wellington, which saw local volunteers join KiwiRail employees to beautify the rail line over a weekend.

KiwiRail has a comprehensive maintenance programme to address the upkeep of its land and to effectively manage the concerns of residents along the rail corridor in relation to noise pollution, fire risks, fencing and vegetation. To mitigate the negative effects of operational rail maintenance, we actively engage with local residents, authorities and regional media to ensure that the community is well informed and to allay any potential concerns, before rail-related activities in the area commence.

### Outlook: Auckland resilience

Auckland is experiencing a period of sustained population growth and within the next 30 years it is predicted that more than half of New Zealand's population growth will occur in the region.

KiwiRail and Auckland Transport work together to identify the rail works necessary to accommodate forecast growth in the region, and KiwiRail continues to provide engineering and operational advice to parties investigating the merits of investing in commuter rail.

“ Thanks for inviting Tawa School to be part of the launch for Rail Safety Week 2017 yesterday, our students were buzzing and it's most relevant for us here in Tawa.”

Ailsa,  
Tawa School Teacher



KiwiRail honoured Victoria Cross recipient and Railwayman Leslie Andrew with a plaque in Wellington Railway Station. Corporal Andrew's descendants attended the unveiling, along with Willie Apiata VC and Peter Reidy, KiwiRail CE



Kyle Swainson, Locomotive Engineer, Christchurch, who is also a volunteer firefighter for his community

### Social media channels

In December 2016 KiwiRail launched external Facebook and Twitter profiles, providing the public with a convenient and transparent method of communication with the organisation.

Our social media channels also enable KiwiRail to inform and engage with stakeholders in a different way, using videos and images to promote safety messages, celebrate our history and to provide updates on activities such as the progress of the Main North Line rebuild.

In the first nine months of the channels operating, KiwiRail amassed more than 6,300 external followers and organically reached more than 800,000 unique users through engaging Facebook posts.



# Stakeholder relationships

Who	How we engage with our stakeholders	
<p><b>Customers</b></p>	<p>KiwiRail is a customer-focused organisation committed to offering regular, safe and efficient passenger and freight services. Our communications with customers include regular newsletters and meetings, small group workshops and other engagement as required. Passengers and customers use Facebook and Twitter to engage with our business, sharing posts and tweets of interest on their own profile pages. There are also designated social media pages for our Great Journeys experiences,</p>	<p>providing passengers with up-to-date travel information. Following the Kaikoura earthquake, KiwiRail established a fortnightly MNL newsletter for customers affected by reduced freight flows, provided briefings through KiwiRail's freight website and held workshops with focus groups.</p> <p>Our Steel Wheels programme for customers provides a transparent report on the environmental impact of rail through avoided truck trips and reduced CO<sub>2</sub> emissions.</p>
<p><b>Employees</b></p>	<p>KiwiRail employs 3,400 people across 50 towns and cities. Each month a senior member of each team presents a briefing to staff which features video from the Chief Executive, key company statistics and strategies, as well as a safety update.</p> <p>In addition to monthly briefings and regular</p>	<p>team meetings KiwiRail engages with our people through a number of direct communications including a monthly newsletter and weekly Chief Executive emails. In 2017, we launched an internal Facebook page for staff to share their views and successes, promoting greater two-way communication across the business.</p>
<p><b>Government</b></p>	<p>KiwiRail is registered as a State-Owned Enterprise (SOE) and operates within the policy and regulatory frameworks of the State-Owned Enterprises Act (1986) as well as the New Zealand Railways Corporation Act 1981, the New Zealand Railways Corporation Restructuring Act 1990 and the New Zealand Railways Staff Welfare Society Dissolution Act 1999. These Acts define KiwiRail's activities.</p>	<p>KiwiRail has two shareholding Ministers, Minister of Finance and the Minister for State Owned Enterprises, and works closely with the Minister of Transport. We liaise directly with the ministers' offices on a range of transport and rail related issues and through our working relationships with Ministry of Transport (MoT), Treasury, New Zealand Transport Agency (NZTA) and the Ministry of Business, Innovation and Employment (MBIE) as significant matters arise.</p>
<p><b>Transport agencies and local government</b></p>	<p>KiwiRail provides information on critical economic issues, business initiatives, and rail matters to government agencies including NZTA, MoT, Department of Conservation (DoC), MBIE, WorkSafe, Greater Wellington</p>	<p>Regional Council, Auckland Transport and Maritime Safety Authority (MSA) to assist in the development of timely solutions to challenges and opportunities as they arise.</p>
<p><b>Commuter rail operators</b></p>	<p>In Wellington and Auckland, we liaise directly with passenger service operator, Transdev, as problems arise to ensure</p>	<p>passengers receive clear and transparent communications.</p>
<p><b>Local communities</b></p>	<p>At the forefront of local matters is our community liaison team which offers timely information and responses to correspondence, and provides transparency to local communities.</p>	<p>The community raises its queries through several communication channels, including an out of hours call line, dedicated email address, and recently KiwiRail Facebook and Twitter.</p>



Jane James, Sustainability Manager

# Tangiwai Memorial Service



From left: Phil Wagener, retired Locomotive Engineer (in cab), John Trewaves and Blair Jordan, Locomotive Engineers based in Palmerston North

Engaging with community events and commemorating KiwiRail's long heritage is a key part of the organisation's culture. KiwiRail sponsors the annual memorial service for victims of the Tangiwai disaster, working closely with the local community, business and organisations to commemorate the 151 people who perished during the disaster. This year's event was particularly memorable as it commemorated the actions of two heroes who had previously gone unrecognised.

On Christmas Eve 1953 the rim of Mt Ruapehu's Crater Lake gave way, unleashing a six metre wave, filled with ice and rocks, down the Whangaehu River. The water and rubble hit the pylons underneath the Tangiwai railway bridge, weakening the structure so that it was unable to hold the weight of Night Express No 626 when it tried to pass just minutes later.

Seeing the unfurling horror before them, Locomotive Engineer Charles Parker and Locomotive Fireman Lance Redman used their training to prevent the last three carriages, guards and postal van from falling into the river below, saving 134 lives at the cost of their own.

The men's actions went unrecognised for 60 years, until this year's Tangiwai memorial service which was held in Charles

and Lance's honour. The service was a joint initiative from KiwiRail, the Rail and Maritime Transport Union (RMTU), Ruapehu District Council, Ruapehu Lions Club and Main Trunk Ohakune. KiwiRail also worked closely with rail enthusiast associations to organise two steam engines from Auckland and Palmerston North which carried well-wishers to the event and the NZ Army, which provided the public with safe transportation to and from the memorial site. KiwiRail also liaised with the Department of Conservation to beautify the memorial site in time for the event.

Throughout the process KiwiRail was in discussion with Charles and Lance's relatives to ensure that the families were at the forefront of each memorial activity. This culminated in the families unveiling the Charles Parker and Lance Redman Memorial stone which was donated by KiwiRail.

Speaking after the event, Beryl Donovan, Lance Redman's daughter, commented "it was a truly memorable day, made so much greater by the efforts of KiwiRail and the other organisations. The ceremony was a wonderful tribute to our father and our family now has a sense of closure and a wonderful place to visit and remember."

# Environment

Rail has several advantages as a natural energy efficient mode of transport, including its ability to reduce air pollution and congestion by taking more than one million truck trips off New Zealand roads each year. Every tonne of freight delivered by rail results in 66% fewer carbon emissions than road, enabling our customers to reach their sustainability targets while supporting New Zealand's commitment to carbon reduction.

As a Zero Harm employer, KiwiRail is responsible for ensuring our business and the environment in which we operate are sustainable. KiwiRail recognises that the success of our long-term sustainability targets relate directly to the business using its resources efficiently and taking a long-term view of our interactions with natural capital.

While we are proud our services enable New Zealand to continue

its journey towards a low carbon future, we are committed to further initiatives to improve the sustainability of our operations and the energy efficiency of our business. In the year ahead we will drive initiatives to reduce waste, decrease our electricity usage and further improve the fuel efficiency of our locomotive fleet.

## Carbon emissions

Emissions from rail are currently less than 1% of all transport emissions, with transport accounting for 17% of overall emissions in New Zealand. In FY17 we carried 4.1 billion Net Tonne Kilometres (NTK) of freight resulting in a significant CO<sub>2</sub> emission saving of more than 188,000 tonnes and a fuel saving of over 69 million litres.

Since 2010, KiwiRail has reduced the carbon intensity of its freight operations by 23%. To maintain



## Highlights

### Driver Advisory System

wins Deloitte Energy Excellence Award

**93%**

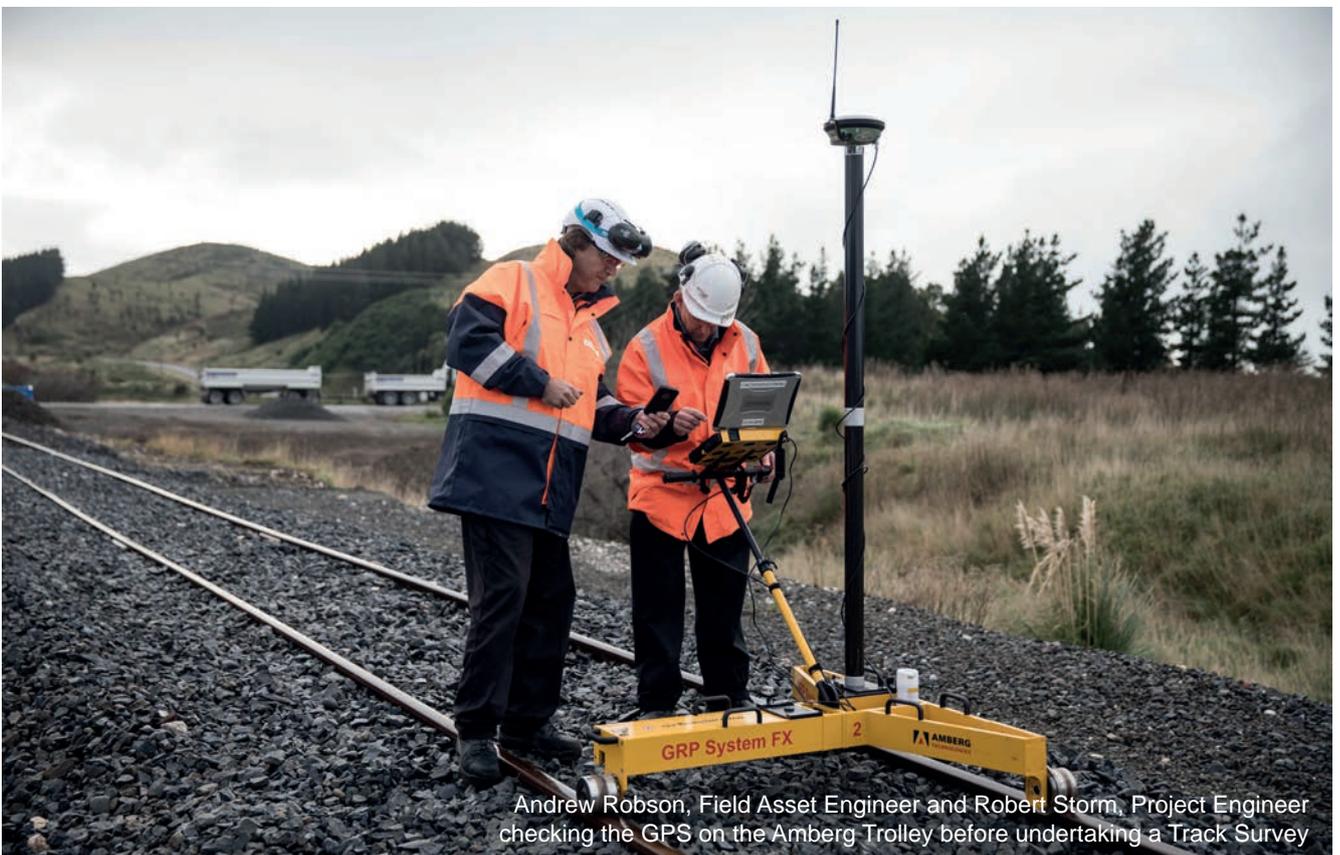
energy saving target reached

**69.5m**

litres fuel saved in FY17

## Challenges

**Increasing freight from road to rail to assist New Zealand's emissions target**



Andrew Robson, Field Asset Engineer and Robert Storm, Project Engineer checking the GPS on the Amberg Trolley before undertaking a Track Survey

this significant momentum, and to boost the natural advantages of our eco-friendly services, KiwiRail is developing a business-wide Energy Management Plan. The plan signals our commitment to bettering our resource and operational efficiency through the implementation of long-term targets and objectives for energy efficient initiatives, including the goal of reducing our direct carbon emissions.

In November 2016, KiwiRail entered into partnership with the Energy Efficiency and Conservation Agency (EECA), reaching a key milestone in our sustainability drive. Our agreement commits KiwiRail to energy savings of 20 gigawatt hours (GWh) across the business by 2020, through initiatives that will lower fuel consumption and improve our work place efficiencies. By June 2017, 93% of that target had already been achieved through additional improved performance in diesel locomotive fuel burn.

### Improving Our energy efficiency

KiwiRail's ground-breaking fuel efficiency programme is designed to address resource efficiency, improve business performance and reduce emissions from our activities. For example, Driver Advisory System (DAS) advises drivers when to brake, coast and accelerate, achieving significant fuel savings whilst keeping our trains running on-time. The programme won the prestigious Deloitte Energy Excellence Award for Large Energy User Initiative of the Year in 2016.

DAS reduced fuel use to an impressive 5.37 litres per Gross Tonne Kilometres (GTK), saving 5.7 million litres of fuel in the 12 months to June. The next stage of DAS will investigate use of the programme on passenger trains and the application of specific speed restrictions according to the locomotive's class, further improving fuel efficiency

across New Zealand's rail operations.

Planning is underway to install a similar fuel efficiency programme on the Interislander ferries and to undertake an efficiency audit which will assess the fuel usage and engine activity of our fleet to deliver fuel savings.

### Waste management

KiwiRail uses a recycling programme for building materials, including sleepers and rail that have yet to reach the end of their natural lives. Our people repurposed a number of these materials to expedite the Main North Line rebuild, including 'ugly' bridge 131 which was repaired using graffitied steel spans that were no longer needed at another site.

### Outlook: Emission targets

The Government is committed to the reduction of emissions by 30% by 2030, however freight growth is projected to grow by 30% over the same period. If the current mix of road and rail remains the same, then emissions are predicted to increase to match freight growth. Rail is building on its natural advantage as an energy efficient mode of transport, and the improvements in fuel efficiency and increases in freight volumes diverted from road will gradually reduce the carbon intensity of freight services.

Continuous improvement in these areas is critical as emission targets place a greater focus on carbon emissions per net tonne kilometre of freight services. KiwiRail is actively working with the Government and businesses to facilitate modal shift from road to rail to achieve safer, cleaner and more efficient transport for New Zealand.

**In November 2016, KiwiRail entered into partnership with the Energy Efficiency and Conservation Agency (EECA), our agreement commits KiwiRail to energy savings of 20 gigawatt hours (GWh) across the business by 2020.**



# Environment

Case study

Vanita Kutia, Materials and Freight Manager, Hamilton

Recycling is big business, especially when the materials you are recycling are as big as KiwiRail's.

In recent years, KiwiRail has implemented a programme to ensure as much of its rail infrastructure materials are recycled as possible.

When assets such as bridges are replaced, KiwiRail removes all serviceable material and holds it for possible repurposing within the business or for potential sale to the public, preventing tonnes of material from being disposed of in landfills. In 2016/17 sales of our repurposed materials generated more than \$2 million in gross revenue, with timber rail sleepers the most popular item amongst buyers.

A good example of our repurposing work is the salvaging of hardwood timber for bridge rebuilds. In instances where the wood has suffered decay or damage,

KiwiRail reshapes the material and retains the healthy parts for use as shorter building components.

To reopen the Main North Line quickly for reduced freight services following November's Kaikoura earthquake, we took a sustainable approach, incorporating strengthened spare steel spans as temporary fixes to rebuild bridges.

Dubbed the "fast but ugly approach" due to the often unappealing visual nature of the recycled materials, this enabled the line to reopen for work trains quickly, assisting the rebuild of the Main North Line and State Highway One through the provision of building materials to isolated sites.

This approach is also adopted when repairing infrastructure that is damaged by heavy vehicles, enabling the railway to reopen to pedestrians and motorists quickly after an accident.



Sleeper replacement team working at Waimiha

# Strategic outlook

Rail is experiencing a global revolution, as its innate abilities to move large volumes of freight and numbers of people reliably, sustainably and at speed is being more widely recognised. This growing momentum has reached New Zealand, where the broader benefits of rail such as reducing congestion and road maintenance costs, lower carbon emissions and its ability to take freight off the roads, are increasingly being recognised as part of an integrated transport system (see Economic Value of Rail p.23).

With the concurrent growth of New Zealand's port volumes, rail is also being recognised as an efficient way to move import/export and domestic freight around the country's busiest routes, resulting in the delivery of larger volumes of freight to ever-larger ships at speed.

The challenges facing KiwiRail in the years to come include technological disruption such as big data, automation and smart transport, shifts in international freight flows, volatile international commodity markets and the changing nature of work which will require our people to learn new skills, and new ways of working.

There is also enormous opportunity in these changes for our customers, our customer offerings and our own business. KiwiRail is addressing the challenges by leveraging rail's natural advantages, following our strategy to simplify the business, standardise our assets and invest in our people while embracing the resurgence of support for rail.

## Rail Review

In Budget 2017, the Government announced funding of \$450 million for KiwiRail over two years. This is only the second time multi-year funding has been allocated to KiwiRail and is a significant milestone for a business investing in multi-decade assets but traditionally operating on a year-to-year funding model.

As part of addressing this challenge the Government has announced a review of rail to investigate longer-term funding options which the

Minister of Transport has said would aim to put the rail network on a more sustainable footing. The review will also look to establish a position on KiwiRail's role within an integrated transport system delivering for all New Zealanders.

## Auckland Resilience: City Rail Link (CRL)

The demands of Auckland's growing population are impacting the operational and infrastructure resilience of rail in the region, with increased demand for freight and commuter rail services. Work is underway on the City Rail Link (CRL) which will extend the passenger rail system in the central city past Britomart, connecting the existing regional rail network at Mt Eden, producing two new underground stations.

The project will reduce journey times, enable higher service frequencies and improve capacity across the Auckland Metro while providing additional benefits across the network to encourage patronage growth. KiwiRail's role in the project as an Access Provider is to set standards to ensure the CRL successfully operates within the wider rail network and to commission rail works.

## Supply chain consolidation

KiwiRail is actively investing in new rolling stock and multimodal assets to assist customers in the easy movement of freight across the transport system. These collaborations enable a sustainable supply chain that links together multiple transport modes including rail, road and coastal shipping, improving supply chain efficiency and reducing costs. The consolidation of cargo and the connectivity of intermodal freight links allow the efficient transportation of freight through a single transport system.

## Smart transport

Technology is changing the way logistics providers interact with customers, goods and people. Big data, Artificial Intelligence and automation provide fertile ground

for improvements in safety, energy efficiency, customer service and the sustainability of organisations like KiwiRail.

KiwiRail is continuing to monitor and explore technological developments closely, and is investing in infrastructure, and technology to advance operational and safety performance, better customer outcomes, and enhance the efficiency of services. This includes smart data options on new locomotives which monitor the health and requirements of rolling stock and the network in real time, and systems which provide for live-tracking of goods for our customers.

The use of this technology will enable the future roll-out of fully integrated and intelligent transport networks which can provide deeper insights into our customers' needs and KiwiRail's operations. The delivery of real time data to customers will enhance user experience, deepen relationships, and enable KiwiRail to make faster and more informed business decisions.

## Sustainability

New Zealand consumers are increasingly looking to business to lead initiatives to tackle environmental and sustainability issues.

The success of our Steel Wheels programme, which highlights carbon emissions and fuel savings for customers shifting freight by rail, points to the growing need to enable our customers to tell their own environmental stories when they enjoy the environmental benefits that using rail provides. Helping customers to tell those stories and to share them with the public is a part of rail's global evolution.

KiwiRail is internally focused on identifying and prioritising further fuel efficiency opportunities and cost effective, but sustainable, upgrades through the implementation of an Energy Management Plan. This will make the organisation even more carbon efficient, ensuring our value to our customers and to New Zealand's sustainability targets.

# Governance

## The KiwiRail Board

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**Trevor D Janes**  
Chairman



**Dame Paula Rebstock**  
Deputy Chair



**John Leuchars**  
Director



**Guy Royal**  
Director



**Paul Harper**  
Director



**Mike Pohio**  
Director



**John Dennehy**  
Director



**Bob Major**  
Director



**Susan McCormack**  
Director

**Trevor D Janes**  
**Chairman**

Trevor Janes joined the Board in November 2016 as Chairman.

Trevor brings an extensive background in investment banking and finance. He is currently Chairman of Abano Healthcare, Certus Solutions, The International Development Commercial Advisory Panel of MFAT, the Tokelau International Trust Fund and Transport Investments Ltd. He is also Deputy Chair and Investment Committee Chair of the Accident Compensation Corporation (ACC). Trevor is a member of the NZ Markets Disciplinary Tribunal and the Postal Network Access Committee. He is a Chartered Fellow of the Institute of Directors, and a Fellow of both the NZ Institute of Financial Professionals and Chartered Accountants of Australia and New Zealand.

**Dame Paula Rebstock**  
**Deputy Chair**

Dame Paula Rebstock joined the Board in 2009.

Dame Paula is an Auckland based economist and company director and brings an extensive governance background to KiwiRail. She is Chair of the Board of the Accident Compensation Corporation. Dame Paula is also Chair of the Insurance and Financial Services Commission, a Director of Auckland Transport, and a Trustee of the W.A. Stevenson Trust. She is a member of the University of Auckland Business School Advisory Board and Chair of the Vulnerable Children's Board.

**John Leuchars**  
**Director**

John Leuchars joined the Board in 2010.

John is a professional company director and civil engineer. He brings significant experience in senior management of international consulting for engineering companies. John also has governance experience in a number of large engineering consultancy firms and not-for-profit organisations, and is a Fellow of the Institution of Professional Engineers New Zealand.

**Guy Royal**  
**Director**

Guy Royal joined the Board in 2013.

Guy has more than 20 years' experience in private equity and commercial and corporate law, in New Zealand, Hong Kong, Vietnam and the United Kingdom. He is Managing Director of Tuia Group, a professional advisory firm with offices in New Zealand and overseas. Guy has sat (and continues to sit) on the Boards of a number of private and public-sector businesses including Crown Forest Rental Trust, Film and Literature Review Board and New Zealand Fast Forward Fund Limited.

**Paul Harper**  
**Director**

Paul Harper joined the Board in May 2016.

He brings experience in directorships and senior management roles across the transport and infrastructure sectors. Paul is Chairman of Netlogix Ltd and a Director of Health Alliance Ltd. His varied roles have included Marine Engineer, shore-based shipping company management in Norway, Scotland, Brazil and Australia, Group General Manager of the Interisland Line, and establishment CEO of Carter Holt Harvey and Lodestar. He is also a chartered member of the Institute of Directors and a member of the Chartered Institute of Logistics and Transport.

**Mike Pohio**  
**Director**

Mike Pohio joined the Board in May 2016.

Mike is a Hamilton-based director. Mike currently holds directorships on the boards of Panuku Development Auckland, NIWA, OSPRI and Te Atiawa Iwi Holdings. He is also Chairman of BNZ Partners, Waikato Region. His Executive career includes CEO of Tainui Group Holdings (TGH) for eight years and senior executive roles for companies including Port of Tauranga, Fonterra, NZ Dairy Group and Elders Pastoral. His governance background includes six years as a shareholder and director of NZL Group Ltd, seven years on the Transpower Board and a Ministerial appointment to the University of Waikato Council. Mike holds an MBA from IMD, Lausanne and an FCA from the Chartered Accountants Australia & New Zealand.

**John Dennehy**  
**Director**

John Dennehy joined the Board in May 2017.

John brings with him a valuable background in financial services focusing on international transport and infrastructure, including rail, shipping, road and aviation in the private and state-owned sectors. John has served on a number of Boards in New Zealand and in the United Kingdom, and is currently Chair of the Mercer Group Ltd.

**Bob Major**  
**Director**

Bob Major joined the Board in May 2017.

Bob brings valuable governance experience to the Board. He has spent many years working in the dairy industry, including the New Zealand Dairy Research Institute, New Zealand Dairy Board and on the senior leadership team of Fonterra. His previous roles include a former director of Sealord Group and Barker Fruit Processors, a current director of Westland Milk Products and BioVittoria Ltd and Chair of Gibb Holdings (Nelson) Ltd.

**Susan McCormack**  
**Director**

Susan McCormack joined the Board in May 2017.

A partner at Mortlock McCormack Law, Sue specialises in corporate and commercial law. She is the Pro-Chancellor of the University of Canterbury and has previously been a director of the Lyttelton Port Company Limited, the New Zealand Symphony Orchestra and the Public Trust.

*Where a date for appointment to the Board precedes 1 January 2013, it is a reference to the date that the Director was appointed to the Board of the New Zealand Railways Corporation (NZRC), the former parent of the Group. Following a restructure of the Crown's rail interests in 2012/13 in which the majority of NZRC's rail assets and liabilities were vested in KiwiRail Holdings Limited, the then Directors of NZRC were appointed to the Board of KiwiRail Holdings Limited as the new parent company for the Group.*

## The KiwiRail Executive Team

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**Peter Reidy**  
Chief Executive



**Kate Jorgensen**  
Chief Financial Officer



**Todd Moyle**  
Group General Manager Network  
Services



**Rob McAlpine**  
Group General Manager Operations



**Alan Piper**  
Group General Manager Sales and  
Commercial



**David Gordon**  
Group General Manager Asset  
Management and Investment



**Andrew Norton**  
Group General Manager Human  
Resources



**Katie McMahon**  
Group General Manager Zero Harm



**Roy Sullivan**  
Group General Manager Rolling Stock  
Asset Services

**Peter Reidy**  
**Chief Executive**

Peter joined KiwiRail as Chief Executive in March 2014.

He brings to KiwiRail a successful track record of building and leading service and infrastructure-based businesses in the logistics, energy, building products and asset management sectors in New Zealand, Australia, Asia and the United Kingdom. Prior to KiwiRail, Peter held a number of senior leadership roles with Downer Group, Fletcher Building, Todd Energy and Freightways.

**Kate Jorgensen**  
**Chief Financial Officer**

Kate joined KiwiRail in March 2015.

She is a strategic CFO who partners with the business to drive results. Prior to KiwiRail, Kate worked for Fletcher Building for six years, where she held several senior commercial roles, including Divisional CFO for Heavy Building Products and Divisional CFO for the Infrastructure Products Division.

**Todd Moyle**  
**Group General Manager Network Services**

Todd joined KiwiRail in February 2007.

He is responsible for leading the maintenance, renewal and upgrade of the KiwiRail's infrastructure network. Todd has held a number of roles within KiwiRail including Southern Development Manager, Southern Region Infrastructure Manager and Project Interface Manager for the Auckland Metro upgrade. Prior to KiwiRail, Todd worked on a number of projects for London Underground as well as consultancy and project roles across the Pulp and Paper sector in New Zealand. Todd has a Bachelor of Mechanical Engineering with First Class Honours.

**Rob McAlpine**  
**Group General Manager Operations**

Rob joined KiwiRail in October 2016.

Rob brings to KiwiRail more than 30 years of operational and strategic experience in the rail sector, and is responsible for the logistics and operations of our freight and Interislander services. Prior to KiwiRail, Rob was Global Freight Rail Director at AECOM. He also worked for QR National in Australia as General Manager Operations and then Group General Manager Intermodal and Regional Freight.

**Alan Piper**  
**Group General Manager Sales and Commercial**

Alan joined KiwiRail in September 2013.

He is responsible for the freight, commercial vehicles and passenger revenue portfolios. This includes marketing, pricing and sales planning to improve margin and revenue. Alan previously worked in freight and logistics sales and general management roles with CourierPost and Pace Couriers, and had a successful 20-year career with the Bank of New Zealand in retail banking and branch strategy.

**David Gordon**  
**Group General Manager Asset Management and Investment**

David joined KiwiRail in 2007.

His first role was as Project Director on the Wellington Regional Rail Programme. In his current role, David is responsible for asset and risk management systems, network control, property, Metro and national development projects.

**Andrew Norton**  
**Group General Manager Human Resources**

Andrew joined KiwiRail in June 2014.

He brings extensive experience in Human Resources and Industrial Relations, in both large public and commercial organisations. Andrew has an in-depth understanding of Industrial Relations, strong engagement skills with front line engineering and customer service teams, and experience in developing Executive leadership in large organisations. He previously held high-level roles with Public Service Association (PSA) NZ, Auckland District Health Board and worked as Downer Australia's Executive General Manager Human Resources.

**Katie McMahon**  
**Group General Manager Zero Harm**

Katie joined KiwiRail in June 2017.

She is responsible for leading KiwiRail's health and safety strategy programme. Katie has worked in the rail industry for more than 10 years and has significant leadership experience in leading risk management and health and safety practices for large rail businesses. Katie began her career in the Australian Army and prior to KiwiRail, she was Manager Safety, Health and Environment for Aurizon's Queensland operations.

**Roy Sullivan**  
**Group General Manager Rolling Stock Asset Services**

Roy joined KiwiRail in April 2016.

He brings more than 30 years rolling stock asset maintenance and manufacturing experience. Roy is responsible for specialist teams in fleet mechanical engineering, locomotive and wagon assets and field maintenance service. His portfolio also oversees KiwiRail's workshops and the procurement of new assets. Prior to KiwiRail, Roy held roles with United Kingdom - based Alstom Transport and Downer Rail Australia.

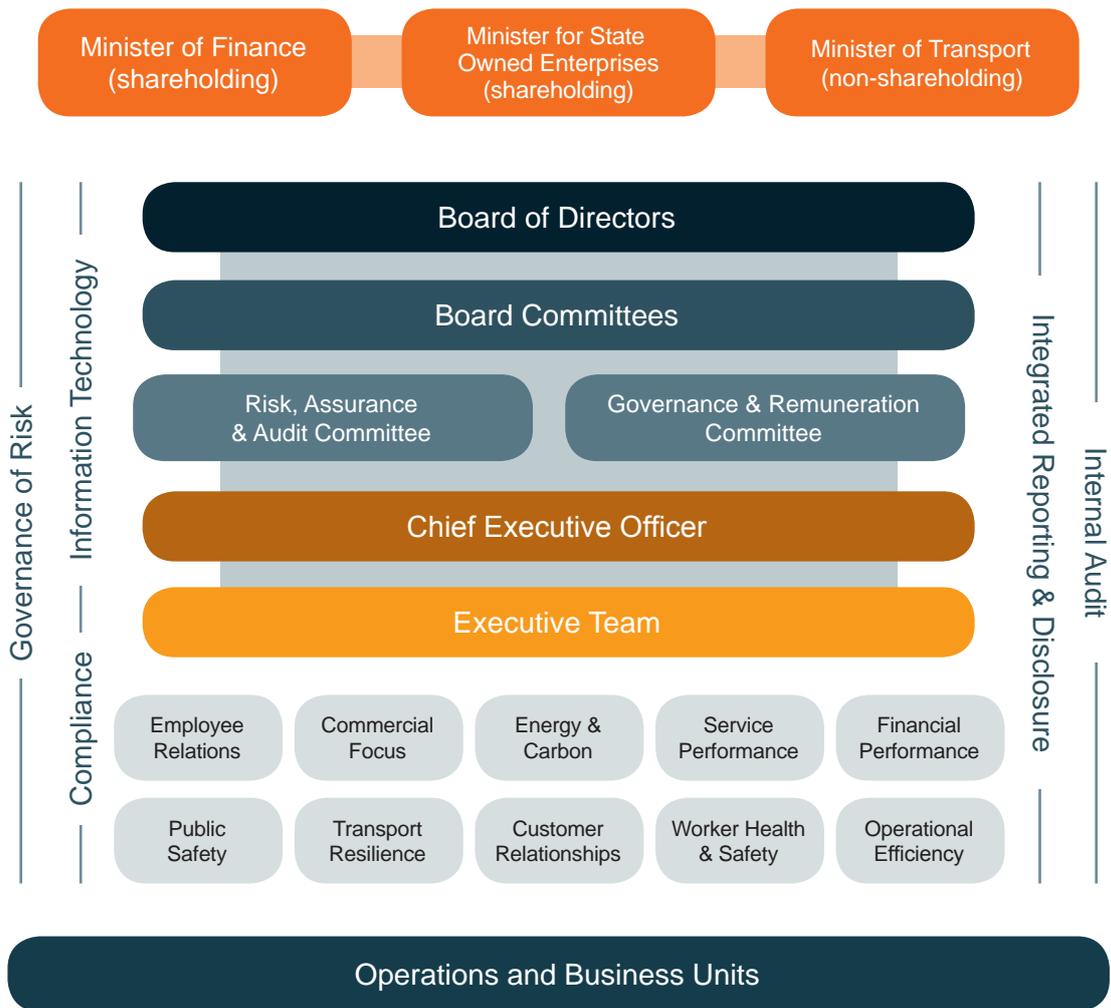
# How we are governed

## Our commercial mandate

KiwiRail Holdings Limited is a limited liability company incorporated under the Companies Act 1993 and a State-Owned Enterprise (SOE) under the State-Owned Enterprises Act 1986.

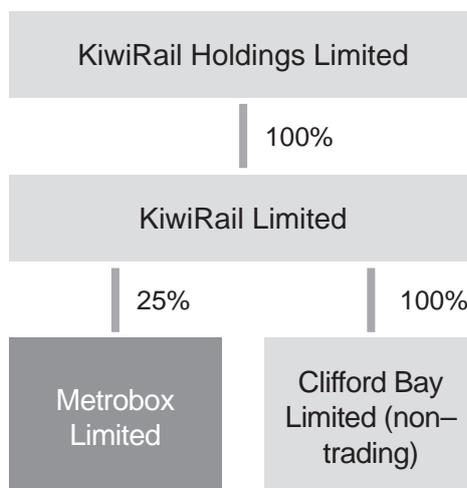
As an SOE, all of KiwiRail’s shares are owned by the Crown. They are held in equal proportions by the Minister of Finance and the Minister for State-Owned Enterprises.

The diagram below shows our governance structure:



The principal objective of every SOE is to operate as a successful business and, to this end, to be as profitable and efficient as comparable businesses that are not owned by the Crown. SOEs are also required to be good employers and to exhibit a sense of social responsibility.

During the financial year ended 30 June 2017 the Group comprised KiwiRail Holdings Limited and its subsidiaries as detailed in the below diagram:



### Governance functions

The Board of Directors of KiwiRail is appointed by the Shareholding Ministers and is accountable to the Shareholding Ministers for the performance of KiwiRail. The Shareholding Ministers may jointly remove Directors at any time and entirely at their discretion.

The role of the Board is to guide the strategic direction of KiwiRail and to direct and oversee management.

The Board establishes objectives and sets strategies to achieve those objectives. The Board, in the context of the approved policy, risk and compliance framework within which the Group operates, monitors the

performance of management and the Group against those strategies. The Board has delegated the day-to-day management of the Group to the Chief Executive.

Typically the Board meets 11 times during the year as part of the regular meeting agenda. In addition, there are two committees of the Board which meet four times a year. These committees are described further below.

The Board is committed to ensuring that the Shareholding Ministers are informed of all major issues and developments affecting the company. Such information is communicated in various ways including Annual/

Integrated reports, half yearly reports and continuous disclosure statements.

### Executive committees

There are four committees which the Board have issued the Executive team responsibility for; these are the Health, Safety and Environment Committee (HSEC), the Asset Management & Infrastructure Committee (AIMC), the Risk Committee, and the Property Committee.

The HSEC is responsible for compliance with all safety licenses, the Health & Safety at Work Act, and legal safety requirements including effective training, resources and processes for the protection of workers

Risk, Assurance & Audit Committee (RAAC)	Governance & Remuneration Committee (GREM)
Four meetings per year	Four meetings per year
Mike Pohio (Committee Chair) Guy Royal John Dennehy John Leuchars Trevor Janes	Dame Paula Rebstock (Committee Chair) Sue McCormack Bob Major Paul Harper Trevor Janes
Assists the Board with the discharge of its responsibilities in relation to audit, finance and risk management. The committee monitors the roles, responsibilities and performance of management and the auditors in financial reporting, business risk management systems and internal control systems.	Assists the Board in establishing remuneration strategies and policies for the Chief Executive and his direct reports that support an increase in productivity and the retention of staff. Also assists the Chairperson and the Board to consider performance and skill set of the Board.

and others who interact with KiwiRail. The committee is also responsible for environment oversight and strategies. Peter Reidy is the Executive owner of this committee.

The AIMC is responsible for the performance and management of, and risks associated with, KiwiRail's material assets. David Gordon is the Executive owner of this committee.

The Risk Committee is responsible for monitoring the development of KiwiRail's Enterprise Risk Management Strategy throughout KiwiRail's business units. David Gordon is the Executive owner of this committee.

The Property Committee is an advisory committee of senior external consultants to advise on KiwiRail's property strategy and planning. Peter Reidy is the Executive owner of this committee.

Each of the committees is comprised of Executive team members, and meets four times each year.

The Executive team provide updates to the Board as required.

### Approach to risk management

KiwiRail is committed to ensuring that risk management is an important element and integral part of the way we undertake our operations. We take an enterprise-wide approach to risk management, and consider the potential impact of risks on our processes, activities, stakeholders, products and services. An Enterprise Risk Management Strategy has been developed and implemented across the organisation. This Strategy is based on principles that are industry best practice and the National Rail Systems Standard 4 (NRSS), which is aligned to the international standard for Risk Management: AS/NZS ISO31000:2009.

At a strategic level, effective governance of risk is achieved through the Risk, Assurance & Audit Committee of the Board. At an operational level, a risk champion

network is in place, and risk is actively managed and reported through an enterprise risk register.

### Insurance and indemnity

In accordance with the Companies Act 1993 and the terms of its constitution, KiwiRail indemnifies the members of the Board in respect of liability for conduct that comprises acts or omissions by the Directors in good faith and in the performance or intended performance of KiwiRail's functions and for any costs incurred in defending or settling any claim or proceeding related to liability for such conduct.

KiwiRail has insured the Directors and employees of the Group against any costs or liabilities of the type referred to in section 162(5) of the Companies Act.

In addition, KiwiRail indemnifies Directors of its wholly-owned subsidiaries against any costs or liabilities of the type referred to in section 162(5) of the Companies Act.

## Directors Attendance and Remuneration

The following Directors attended Board and Committee meetings during the 2017 financial year:

	Board meeting	RAAC meeting	GREM meeting
Trevor Janes	10/10	3/3	2/2
John Spencer	4/4	1/1	1/1
Paula Rebstock	12/12	4/4	3/3
Guy Royal	12/12	4/4	3/3
Mike Pohio	11/12	4/4	-
John Leuchars	10/12	-	-
Paul Harper	11/12	-	-
Kevin Thompson	6/7	-	-
John Dennehy	2/2	-	-
Bob Major	2/2	-	-
Susan McCormack	1/2	-	-
Rebecca Thomas	-	-	-

There were 12 Board meetings held in FY17 as there was a special meeting in January 2017 to consider the Kaikoura earthquake recovery.

Note 23 of the financial statements sets out what fees Directors earned during FY17.

Trevor Janes was appointed as director effective September 2016 and as Chairperson effective 1 November 2016. John Dennehy, Bob Major and Susan McCormack were appointed as Directors in May 2017. John Spencer's term as a Chairperson ended in October 2016. Rebecca Thomas and Kevin Thompson's term as Directors ended in January 2017.

## Employee remuneration

There were 836 KiwiRail employees (or former employees) who received remuneration and benefits in excess of \$100,000 (not including Directors) in their capacity as employees during the year ended 30 June 2017.

### Total employee's remuneration and benefits in \$000

1,170-1,180	1	240-250	4
590-600	1	230-240	4
510-520	1	220-230	2
500-510	2	210-220	10
450-460	1	200-210	12
420-430	1	190-200	17
390-400	2	180-190	17
340-350	1	170-180	19
320-330	1	160-170	26
300-310	1	150-160	30
290-300	3	140-150	46
280-290	4	130-140	80
270-280	1	120-130	95
260-270	1	110-120	179
250-260	5	100-110	269
Total employees earning in excess of \$100,000			836
Employees who are included but who are no longer at KiwiRail as at 30 June 2017			58
Net total employees earning in excess of \$100,000 and employed at KiwiRail as at 30 June 2017			778

This includes fixed remuneration, employee KiwiSaver contributions, settlement payments and redundancy payments for all permanent employees. It also includes short term incentive payments made to eligible staff in accordance with KiwiRail's remuneration policies.

# Statutory review

KIWIRAIL HOLDINGS LTD

## Key Performance Indicators

Statement of Corporate Intent comparisons\*

	2017 Actual	2017 Plan
<b>Sustaining a Zero Harm Environment</b>		
LTIFR	7.4	3.5
TRIFR	16.6	8.9
GHG emissions per NTK (gms)	26.45	29.26
<b>Engaging our customers and stakeholders</b>		
Revenue (\$m)	595	635
Revenue – excluding earthquake impacts (\$m)	633	635
Freight trading growth (%)	(10)	2
Freight trading growth – excluding earthquake impacts (%)	(1)	2
Passenger trading growth (%)	(8)	4
Passenger trading growth – excluding earthquake impacts (%)	0	4
<b>Delivering Operational Performance</b>		
<b>On Time Performance (%)</b>		
- All Freight Trains	91	92
- % Interislander services to advertised sailings*	98	99
<b>Operating costs as a percentage of revenue (%)</b>	91	87
<b>Operating costs as a percentage of revenue – excluding earthquake impacts (%)</b>	85	87
<b>Network Renewals</b>		
- New Sleepers Laid (000)	68	79
- New Rail Laid (km)	22	21
- Lines De-stressed (km)	54	140
<b>Empowering our people</b>		
Employee Net Promoter Score	(7)	0

\*FY17 Actual has been weather adjusted for significant weather events outside of the control of Interislander

KIWIRAIL HOLDINGS LTD

**Key Performance Indicators**

Statement of Corporate Intent comparisons\*

	2017 Actual	2017 Plan
<b>Meeting our financial targets</b>		
Operating Surplus (\$m)	52	80
Operating Surplus – excluding earthquake impacts (\$m)	92	80
Operating Margin (%)	9	13
Operating Margin – excluding earthquake impacts (%)	15	13
Capital Expenditure - net of grants (\$m)**	322	283
<b>Property</b>		
- Reduce Operational Footprint (%)	3	3
- Reduce Inward Lease Liability (%)	3	5
- Reduce Vacant Land (%)	3	3
<b>Shareholder Return Measures</b>		
Total Shareholder Return	n/a	n/a
Dividend Yield	0	0
Dividend Pay-out	0	0
Return on Average Equity (%)	(34)	(52)
<b>Profitability/Efficiency Measures</b>		
Return on Average Capital Employed (%)	(23)	(36)
Operating Margin (%)	9	13
<b>Leverage/Solvency Measures</b>		
Shareholder's Funds to Total Assets (%)	53	53
Gearing Ratio (net) (%)	32	32
Interest Cover	4.7	6.2
Solvency (current assets/current liabilities)	0.77	1.36

\*\* FY17 Actual includes Kaitaki purchase and excludes Main North Line reinstatement

# Vote Transport

## Vote Transport: Non-Departmental Capital & Other Expenditure

Activities undertaken by KiwiRail that are funded through Vote Transport Non-Departmental Capital & Other Expenditure are detailed below.

### Rail – Railway Safety (M72)

This appropriation is limited to public safety works.

	2017 Actual	2017 Target
Amount of Appropriation (\$000)	3,270	3,270
Performance Measure:		
A safer railway system	Achieved	Achieved

### Rail – Public Policy Projects (M72)

This appropriation is limited to public policy rail initiatives.

	2017 Actual	2017 Target
Amount of Appropriation (\$000)	500	500
Performance Measure:		
The public policy projects are carried out in line with the programme	Achieved	Achieved

### Rail – KiwiRail Equity Injection (M72)

This appropriation is limited to equity injections to KiwiRail Holdings Limited offset by property transactions in New Zealand Railways Corporation.

	2017 Actual	2017 Target
Amount of Appropriation (\$000)	14,959	23,600

### Rail – KiwiRail Holdings Limited (M72)

This appropriation is limited to a capital injection to KiwiRail Holdings Limited to finance approved capital expenditure on the New Zealand rail system.

	2017 Actual	2017 Target
Amount of Appropriation (\$000)	190,200	190,200
Performance Measure:		
Capital is invested in the New Zealand rail system as approved by shareholding Ministers	100%	100%

### Rail – Wellington Metro Rail Network Upgrade (M72)

This appropriation is limited to catch up investment in the Wellington metro rail network which will enable sustainable operation of the network through the Metro Rail Operating model.

	2017 Actual	2017 Target
Amount of Appropriation (\$000)	4,553	5,825
Performance Measure:		
Work is carried out per the agreed programme	78% completed with remainder carried forward to 2017/18	100%

KiwiRail also received \$30m for Reinstatement of the Main North Line.



Freight train crossing bridge 127 NIMT, South Rangitikei Viaduct

# Financial statements

KIWIRAIL HOLDINGS LTD

## Statement of Comprehensive Income

For the financial year ended 30 June 2017

	Note	GROUP 2017	GROUP 2016
		\$m	\$m
Operating revenues	2	594.7	694.0
Operating expenses	3	(542.5)	(618.1)
<b>Operating surplus</b>		<b>52.2</b>	<b>75.9</b>
Capital grants	4	27.6	32.9
Depreciation and amortisation expenses	5	(77.1)	(67.5)
Foreign exchange and commodity (losses)	6	(3.6)	(5.0)
Net finance expenses	7	(7.6)	(14.3)
Impairment	9(c)	(218.3)	(216.3)
Impairment – MNL	9(c)	(77.5)	-
Movement in value of investment properties	14	6.1	(0.1)
Other income		0.5	-
Insurance proceeds	27	100.0	-
Share in profit of joint venture	16	0.4	0.4
<b>Net deficit before taxation</b>		<b>(197.3)</b>	<b>(194.0)</b>
Income tax (expense)/credit	8	-	-
<b>Net deficit after taxation</b>		<b>(197.3)</b>	<b>(194.0)</b>
<b>Other comprehensive income/(loss)</b>			
<i>Items that can be reclassified into net surplus or deficit:</i>			
Gains/(losses) from cash flow hedges		0.6	(0.4)
<i>Items that cannot be reclassified into net surplus or deficit:</i>			
Building revaluation	9(c)	(0.3)	-
<b>Total comprehensive loss</b>		<b>(197.0)</b>	<b>(194.4)</b>

The accompanying notes form part of these financial statements.

KIWIRAIL HOLDINGS LTD

**Statement of Financial Position**

As at 30 June 2017

	Note	GROUP 2017	GROUP 2016
		\$m	\$m
<b>Current assets</b>			
Cash and cash equivalents	10	83.4	96.5
Trade and other receivables	11	138.0	87.4
Inventories	12	65.0	63.1
Financial assets	13	0.3	0.2
Assets held for sale	16	1.9	-
		<b>288.6</b>	<b>247.2</b>
<b>Non-current assets</b>			
Property, plant and equipment	9(a)	748.1	676.3
Investment property	14	76.5	68.7
Intangible assets	9(b)	0.4	0.8
Financial assets	13	0.2	-
Trade and other receivables	11	0.4	-
Investment in joint venture	16	-	2.0
		<b>825.6</b>	<b>747.8</b>
<b>Total assets</b>		<b>1,114.2</b>	<b>995.0</b>
<b>Current liabilities</b>			
Trade and other liabilities	17	132.5	94.6
Employee entitlements	18	55.1	61.0
Financial liabilities	13	180.4	10.2
Income taxes payable	8	-	-
Provisions	19	5.0	6.6
		<b>373.0</b>	<b>172.4</b>
<b>Non-current liabilities</b>			
Employee entitlements	18	36.9	38.0
Financial liabilities	13	106.2	224.8
Provisions	19	6.0	5.9
		<b>149.1</b>	<b>268.7</b>
<b>Total liabilities</b>		<b>522.1</b>	<b>441.1</b>
<b>Equity</b>			
Share capital	24	833.8	613.6
Retained earnings		(264.0)	(81.7)
Asset revaluation reserve		22.3	22.6
Cash flow hedge reserve		-	(0.6)
		<b>592.1</b>	<b>553.9</b>
<b>Total liabilities and equity</b>		<b>1,114.2</b>	<b>995.0</b>


Trevor D Janes, Chairman  
24 August 2017

Dame Paula Rebstock, Deputy Chair  
24 August 2017

The accompanying notes form part of these financial statements.

KIWIRAIL HOLDINGS LTD

**Statement of Movements in Equity**

For the financial year ended 30 June 2017

GROUP	Share Capital	Retained Earnings	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Total
	\$m	\$m	\$m	\$m	\$m
<b>As at 30 June 2015</b>	<b>403.8</b>	<b>94.2</b>	<b>22.6</b>	<b>(0.2)</b>	<b>520.4</b>
Net deficit for the period	-	(194.0)	-	-	(194.0)
<b>Other comprehensive income/(loss)</b>					
Losses from cash flow hedges	-	-	-	(0.4)	(0.4)
<b>Total comprehensive (loss)</b>	<b>-</b>	<b>(194.0)</b>	<b>-</b>	<b>(0.4)</b>	<b>(194.4)</b>
<b>Transactions with owners</b>					
Capital Investment	209.8	-	-	-	209.8
Crown appropriation - land transactions (note 20)	-	18.1	-	-	18.1
<b>As at 30 June 2016</b>	<b>613.6</b>	<b>(81.7)</b>	<b>22.6</b>	<b>(0.6)</b>	<b>553.9</b>
Net deficit for the period	-	(197.3)	-	-	(197.3)
<b>Other comprehensive income/(loss)</b>					
Gains from cash flow hedges	-	-	-	0.6	0.6
Buildings revaluation reserve	-	-	(0.3)	-	(0.3)
<b>Total comprehensive income/(loss)</b>	<b>-</b>	<b>(197.3)</b>	<b>(0.3)</b>	<b>0.6</b>	<b>(197.0)</b>
<b>Transactions with owners</b>					
Capital Investment	220.2	-	-	-	220.2
Crown appropriation - land transactions (note 20)	-	15.0	-	-	15.0
<b>As at 30 June 2017</b>	<b>833.8</b>	<b>(264.0)</b>	<b>22.3</b>	<b>-</b>	<b>592.1</b>

The accompanying notes form part of these financial statements.

KIWIRAIL HOLDINGS LTD

**Statement of Cash Flows**

For the financial year ended 30 June 2017

	Note	GROUP 2017	GROUP 2016
		\$m	\$m
<b>Cash flows from operating activities</b>			
Receipts from customers		597.9	698.9
Interest received		2.8	2.9
Payments to suppliers and employees		(541.5)	(609.8)
Interest expense		(13.3)	(13.7)
<b>Net cash from operating activities</b>	22	<b>45.9</b>	<b>78.3</b>
<b>Cash flows from investing activities</b>			
Sale of property, plant and equipment		1.0	3.5
Capital grant receipts		27.6	32.9
Insurance proceeds		72.1	-
Purchase of property, plant and equipment and investment properties		(416.4)	(285.2)
Purchase of intangibles		(4.8)	(5.9)
<b>Net cash used in investing activities</b>		<b>(320.5)</b>	<b>(254.7)</b>
<b>Cash flows from financing activities</b>			
Crown capital investment		190.2	209.8
Increase in equity from NZRC land sales		15.7	18.1
Loans		62.2	24.6
Repayment of borrowings		(5.3)	(28.3)
Repayment of finance lease liability		(1.3)	(1.3)
<b>Net cash from financing activities</b>		<b>261.5</b>	<b>222.9</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(13.1)</b>	<b>46.5</b>
Cash and cash equivalents at the beginning of the year		96.5	50.0
<b>Cash and cash equivalents at the end of the year</b>	10	<b>83.4</b>	<b>96.5</b>

The accompanying notes form part of these financial statements.

KIWIRAIL HOLDINGS LTD

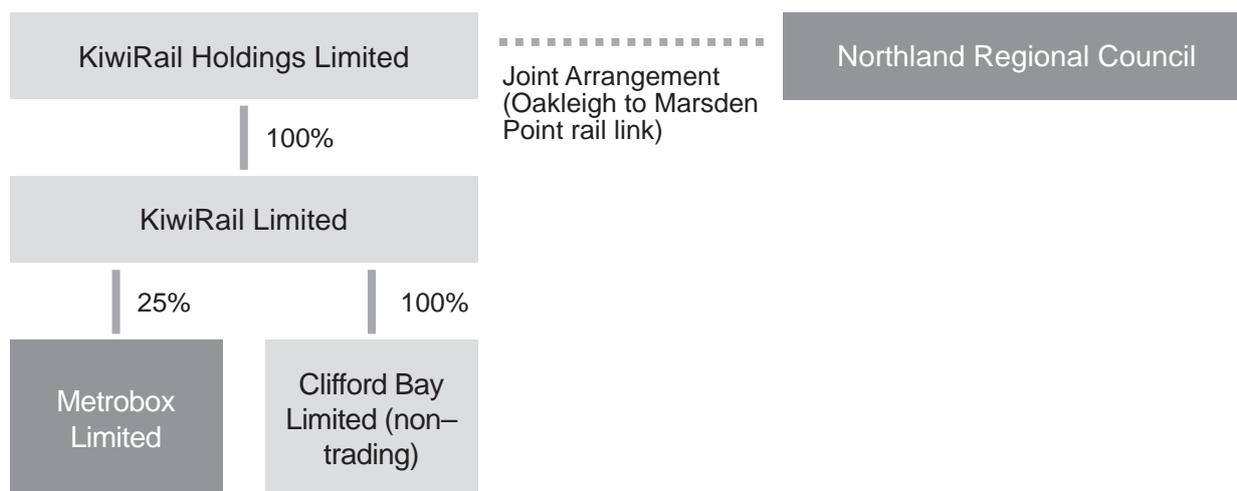
## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 1. GROUP INFORMATION

#### (a) 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 below diagram:



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 financial statements of the Group are for the year ended 30 June 2017 and were authorised for issue by the Board of Directors on 24 August 2017.

#### (b) Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (“NZ GAAP”). They comply with New Zealand equivalents to International Financial Reporting Standards (“NZ IFRS”) as appropriate for for-profit entities and other applicable Financial Reporting Standards. They comply with the State-Owned Enterprises Act of 1986, the requirements of the Companies Act 1993 and the Financial Reporting Act 2013. 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.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Unless otherwise specified, 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). The functional and presentation currency is New Zealand dollars.

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### (c) Consolidated financial statements

The consolidated financial statements of the Parent and its subsidiaries include the financial statements of subsidiary companies using the acquisition method of consolidation. The acquisition method of consolidation involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

Subsidiary companies are those entities that are controlled directly or indirectly by the Parent.

### (d) Standards and interpretations issued but not yet in effect

NZ IFRS standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2017. Significant changes are outlined below:

- IFRS 16 Leases requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under NZ IAS 17. These changes are effective for periods on or after 1 January 2019. The Group is yet to assess the full impact of this standard.
- NZ IFRS 9 Financial Instruments is the standard issued as part of IASB's project to replace NZ IAS 39. The changes to IFRS 9 are effective for periods beginning on or after 1 January 2018 and are not expected to have material impact on the Group.

### (e) Comparatives

The presentation of some information has changed from the previous period with prior period balances re-classified to be comparable with current year figures.

### (f) Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

Management's significant judgements, estimates and assumptions are outlined in the relevant notes to the financial statements.

### (g) Long-term financial viability

KiwiRail continues to operate on a commercial basis. Shareholder support to date has been provided in line with KiwiRail's business plans, with \$450m of equity funding confirmed for the next two years.

KiwiRail's business planning assumes additional equity funding for a number of years and future equity funding will be confirmed. We have completed these financial statements on a going concern basis on the assumption that shareholder support will continue.

On 25th May 2017, the Minister of Transport announced that in the year ahead the Government, as shareholder, will be conducting a wider review of KiwiRail's operating structure and longer-term capital requirements. The review will be led by Treasury.

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 2. REVENUE

	GROUP 2017	GROUP 2016
	\$m	\$m
Freight	345.6	389.8
Interislander	130.2	127.6
Infrastructure	49.6	42.7
Property and Corporate	46.4	44.5
Scenic Journeys	22.8	29.7
Tranz Metro	0.1	59.7
<b>Total revenue</b>	<b>594.7</b>	<b>694.0</b>

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable by the Group to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue represents amounts receivable for goods and services provided in the normal course of business once significant risks and rewards of ownership have been transferred to the buyer.

### 3. OPERATING EXPENSES

	GROUP 2017	GROUP 2016
	\$m	\$m
Salaries and wages	303.0	339.9
Restructuring	1.5	8.7
Defined contribution plan employer contributions	10.8	11.6
Other employee expenses	2.7	0.4
<b>Total staff costs</b>	<b>318.0</b>	<b>360.6</b>
Amounts capitalised	(51.6)	(44.0)
<b>Net staff costs</b>	<b>266.4</b>	<b>316.6</b>
Materials and supplies	103.7	119.2
Fuel and traction electricity	62.1	66.7
Lease and rental costs	48.2	49.2
Incidents and insurance	8.1	13.5
Contractors expenses	8.4	9.0
Audit fees	0.3	0.4
Impairment of receivables	0.9	0.3
Directors' fees	0.4	0.3
Gain on disposal of property, plant and equipment	(0.4)	(1.0)
Other expenses	44.4	43.9
<b>Total operating expenses</b>	<b>542.5</b>	<b>618.1</b>

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 4. CAPITAL GRANTS

	GROUP 2017	GROUP 2016
	\$m	\$m
Capital grants (Ministry of Transport funded)	6.2	13.2
Other capital grants	21.4	19.7
<b>Total capital grant income</b>	<b>27.6</b>	<b>32.9</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.

### 5. DEPRECIATION AND AMORTISATION EXPENSES

	Note	GROUP 2017	GROUP 2016
		\$m	\$m
Depreciation expense	9(a)	76.6	66.6
Amortisation expense	9(b)	0.5	0.9
<b>Total depreciation and amortisation expenses</b>		<b>77.1</b>	<b>67.5</b>

### 6. FOREIGN EXCHANGE AND COMMODITY GAINS AND LOSSES

	GROUP 2017	GROUP 2016
	\$m	\$m
Net realised foreign exchange and commodity (losses)/gains	(3.6)	4.2
Net change in the fair value of derivatives not designated as cash flow hedges	-	(9.2)
<b>Total foreign exchange and commodity (losses)</b>	<b>(3.6)</b>	<b>(5.0)</b>

The table above excludes foreign exchange and commodity gains and losses on fuel related contracts of \$0.4m (2016: \$3.3m) which are reported within 'Fuel and Traction Electricity Expenses' in note 3.

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 6. FOREIGN EXCHANGE AND COMMODITY GAINS AND LOSSES (continued)

#### Foreign currency translation

Foreign currency transactions are translated to New Zealand currency at the exchange rates ruling at the transaction date.

Monetary assets and liabilities in foreign currencies at balance date are translated at exchange rates ruling at balance date. All exchange differences arising on the translation of monetary assets and liabilities in foreign currencies, whether realised or unrealised, are recognised in net surplus or deficit, except when deferred in equity as qualifying cash flow hedges.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical costs are translated using the exchange rate at the date of the transaction.

### 7. NET FINANCE EXPENSES

	GROUP 2017	GROUP 2016
	\$m	\$m
<b>Finance income</b>		
Interest income on bank deposits	2.3	2.9
	2.3	2.9
<b>Less Finance expenses</b>		
Interest expense on borrowings	(13.0)	(13.3)
Interest expense on finance lease	(0.4)	(0.5)
Net change in fair value of interest rate swaps	3.5	(3.4)
	(9.9)	(17.2)
<b>Net finance expenses</b>	<b>(7.6)</b>	<b>(14.3)</b>

#### Finance income and expenses

Interest income from call and term deposits and interest expense on borrowings are recognised in net surplus or deficit using the effective interest rate method. Interest income is recognised as it accrues.

### 8. TAXATION

#### Income tax

All members of the Group are subject to income tax. The accounting policies applied are as follows:

Income tax expense comprises both current and deferred tax. Income tax expense is charged or credited to net surplus or deficit, except when it relates to items charged or credited directly to equity, in which case the tax is charged to equity.

#### (a) Current tax

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at reporting date and any adjustments to tax in respect of previous years.

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 8. TAXATION (continued)

#### (b) Deferred tax

Deferred tax is provided for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the carrying amounts used for taxation purposes. No deferred tax asset is recognised in the financial statements as it is not probable that future taxable surpluses will be available against which the asset can be utilised.

#### (c) Tax benefit/ (expense)

	GROUP 2017	GROUP 2016
	\$m	\$m
<b>Components of tax expense</b>		
Current tax expense	-	-
Deferred tax expense	-	-
<b>Tax benefit/(expense)</b>	-	-
<b>Reconciliation between tax expense and accounting surplus</b>		
Deficit before tax	(197.3)	(194.0)
Tax at 28%	(55.2)	(54.0)
Tax effect of:		
Non-deductible expenditure	(25.5)	0.4
Other temporary differences	80.7	53.6
<b>Tax benefit/(expense)</b>	-	-

The Group has an unrecognised deferred tax asset of \$905.9m (2016: \$835.7m) arising from deductible temporary differences of \$2,298.5m (2016: \$2,264.5m) and unused tax losses of \$936.9m (2016: \$720.1m).

#### Imputation credits

The Group has formed an imputation Group. The Group has access to \$1.2m imputation credits (2016: \$1.2m imputation credits).

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

## 9. NON-FINANCIAL ASSETS

## (a) Property, plant and equipment

2017	Land	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant & Equipment	Assets Under Construction	Total
Cost/Valuation	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at 1 July 2016</b>	<b>3.1</b>	<b>55.5</b>	<b>109.0</b>	<b>338.4</b>	<b>138.7</b>	<b>211.1</b>	<b>39.2</b>	<b>895.0</b>
Additions	-	5.4	106.7	29.3	93.6	21.6	181.2	437.8
Disposals	-	-	-	(2.3)	-	(2.8)	-	(5.1)
Revaluation	-	(6.9)	-	-	-	-	-	(6.9)
Impairment	-	(13.3)	(110.1)	(34.8)	-	-	(148.7)	(306.9)
<b>Balance at 30 June 2017</b>	<b>3.1</b>	<b>40.7</b>	<b>105.6</b>	<b>330.6</b>	<b>232.3</b>	<b>229.9</b>	<b>71.7</b>	<b>1,013.9</b>
<b>Accumulated depreciation</b>								
<b>Balance at 1 July 2016</b>	<b>-</b>	<b>6.1</b>	<b>-</b>	<b>74.7</b>	<b>43.5</b>	<b>94.4</b>	<b>-</b>	<b>218.7</b>
Depreciation expense	-	3.4	4.4	33.1	20.8	14.9	-	76.6
Disposals	-	-	-	(1.9)	-	(2.6)	-	(4.5)
Revaluation	-	(6.6)	-	-	-	-	-	(6.6)
Impairment	-	(2.7)	(3.9)	(11.8)	-	-	-	(18.4)
<b>Balance at 30 June 2017</b>	<b>-</b>	<b>0.2</b>	<b>0.5</b>	<b>94.1</b>	<b>64.3</b>	<b>106.7</b>	<b>-</b>	<b>265.8</b>
<b>Net book value</b>								
At 1 July 2016	3.1	49.4	109.0	263.7	95.2	116.7	39.2	676.3
<b>At 30 June 2017</b>	<b>3.1</b>	<b>40.5</b>	<b>105.1</b>	<b>236.5</b>	<b>168.0</b>	<b>123.2</b>	<b>71.7</b>	<b>748.1</b>

2016	Land	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant & Equipment	Assets Under Construction	Total
Cost/Valuation								
<b>Balance at 1 July 2015</b>	<b>3.1</b>	<b>48.7</b>	<b>111.7</b>	<b>316.6</b>	<b>114.1</b>	<b>199.1</b>	<b>52.0</b>	<b>845.3</b>
Additions	-	6.8	77.0	64.7	24.5	13.0	91.9	277.9
Disposals	-	-	-	(1.1)	-	(1.0)	-	(2.1)
Category transfers	-	-	0.6	-	0.1	-	0.3	1.0
Impairment	-	-	(80.3)	(41.8)	-	-	(105.0)	(227.1)
<b>Balance at 30 June 2016</b>	<b>3.1</b>	<b>55.5</b>	<b>109.0</b>	<b>338.4</b>	<b>138.7</b>	<b>211.1</b>	<b>39.2</b>	<b>895.0</b>
<b>Accumulated depreciation</b>								
<b>Balance at 1 July 2015</b>	<b>-</b>	<b>3.1</b>	<b>-</b>	<b>52.8</b>	<b>32.8</b>	<b>80.7</b>	<b>-</b>	<b>169.4</b>
Depreciation expense	-	3.0	4.4	34.0	10.7	14.5	-	66.6
Disposals	-	-	-	(0.9)	-	(0.8)	-	(1.7)
Category transfers	-	-	-	-	-	-	-	-
Impairment	-	-	(4.4)	(11.2)	-	-	-	(15.6)
<b>Balance at 30 June 2016</b>	<b>-</b>	<b>6.1</b>	<b>-</b>	<b>74.7</b>	<b>43.5</b>	<b>94.4</b>	<b>-</b>	<b>218.7</b>
<b>Net book value</b>								
At 1 July 2015	3.1	45.6	111.7	263.8	81.3	118.4	52.0	675.9
<b>At 30 June 2016</b>	<b>3.1</b>	<b>49.4</b>	<b>109.0</b>	<b>263.7</b>	<b>95.2</b>	<b>116.7</b>	<b>39.2</b>	<b>676.3</b>

## (i) Recognition and Measurement

Property, plant and equipment is shown at cost or valuation, less any accumulated depreciation and accumulated impairment losses. Items of property, plant and equipment under construction are classified as assets under construction. Cost includes expenditure that is directly attributable to the acquisition or construction of the asset.

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 9. NON-FINANCIAL ASSETS (continued)

#### (a) Property, plant and equipment (continued)

Where an asset is acquired for nil or nominal consideration the asset is recognised initially at fair value, where fair value can be reliably determined; and the fair value of the asset received less costs incurred to acquire the asset is also recognised as income in net surplus or deficit.

##### (ii) Revaluation

Buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. Refer to Note 25(b)(ii) for the methodology used in the determination of fair value. Any revaluation increase arising on the revaluation of buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in net surplus or deficit, in which case the increase is credited to net surplus or deficit to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land or buildings is charged as an expense to net surplus or deficit to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

If buildings were stated on the historical cost basis, the amounts would be as follows:

	GROUP 2017	GROUP 2016
	\$m	\$m
Cost	133.2	127.7
Accumulated depreciation	(41.0)	(35.9)
<b>Net carrying value</b>	<b>92.2</b>	<b>91.8</b>

##### (iii) Derecognition

Realised gains and losses arising from the derecognition of property, plant and equipment are recognised in net surplus or deficit in the period in which the transaction occurs. The gain or loss is calculated as the difference between the carrying amount of the asset and the net disposal proceeds received (if any). Any credit balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

##### (iv) Depreciation

Depreciation is charged on a straight line basis at rates that will allocate the cost or valuation of the asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter. In determining an asset's useful life, consideration is given to its expected usage, its expected wear and tear, technical or commercial obsolescence, and legal or similar limits on its use.

The average depreciable lives for major categories of property, plant and equipment are as follows:

Category	Useful life
<b>Railway Infrastructure</b>	
Tunnels and bridges	75 - 200 years
Track and ballast	40 – 50 years
Overhead traction	20 – 80 years
Signals and communications	15 – 50 years
Buildings	35 – 80 years
<b>Rolling Stock and Ships</b>	
Wagons and carriages	5 - 30 years
Locomotives	5 - 25 years
Ships	20 years
Containers	10 years
<b>Plant and Equipment</b>	
Plant and equipment	5 – 35 years
Motor vehicles	5 – 12 years
Furniture and fittings	5 – 12 years
Office equipment	3 – 5 years

Land is not depreciated.

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 9. NON-FINANCIAL ASSETS (continued)

#### (a) Property, plant and equipment (continued)

##### Estimation of useful lives of assets

The Group reviews the useful lives and residual values of its property, plant and equipment annually. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires the Group to consider a number of factors such as the physical condition of the asset, expected period of use and expected disposal proceeds from the future sale of the asset.

#### (v) Finance leases

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Included within plant and equipment are assets acquired by way of a finance lease with a net book value of \$14.0m (2016: \$15.0m).

Assets held under finance leases are stated at cost less accumulated depreciation and impairment. Finance charges are recognised as finance expenses in net surplus or deficit. Further details of the lease term are provided in note 21(a).

#### (vi) Property, plant and equipment pledged to secure borrowing

Details of property, plant and equipment pledged as security is provided in note 13(b)(i).

#### (b) Intangible assets

	Note	GROUP 2017	GROUP 2016
		\$m	\$m
<b>Opening balance</b>		<b>0.8</b>	<b>0.6</b>
Additions		4.8	5.9
Amortisation	5	(0.5)	(0.9)
Impairment	9(c)	(4.7)	(4.8)
<b>Balance at 30 June</b>		<b>0.4</b>	<b>0.8</b>

Intangible assets comprise software applications which have a finite useful life and are recorded at cost less accumulated amortisation and impairment losses. Intangible assets with a finite useful life are amortised on a straight-line basis over their estimated useful lives of 3 to 5 years.

#### (c) Impairment of non-financial assets

##### Reconciliation of Impairment Movements to Net Surplus or Deficit

		GROUP 2017	GROUP 2016
		\$m	\$m
Impairment of Cash Generating Units (below)		215.7	216.3
Impairment of earthquake damaged assets	27	77.5	-
Impairment of asset transferred to asset held for sale	16	2.6	-
<b>Impairment in net surplus or deficit</b>		<b>295.8</b>	<b>216.3</b>

#### (i) Impairment of Cash Generating Units (CGUs)

The Group has three CGUs and management consider that the assets within them form the individual CGU:

- Rail CGU – non-leased buildings, railway infrastructure, rolling stock, plant and equipment and intangible assets;
- Interislander – ships and related plant and equipment and intangible assets that relate to the Interislander business unit; and
- Leased Buildings – includes all leased buildings recognised as investment property.

The three CGUs are assessed for impairment at each reporting date.

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 9. NON-FINANCIAL ASSETS (continued)

#### (c) Impairment of non-financial assets (continued)

The value in use for each CGU is the present value of expected future cash flows. The recoverable amount of a CGU is the higher of its value in use and its fair value less costs to sell. If the carrying amount exceeds the recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment is treated as a revaluation decrease (see note 9(a)(ii) above). For assets not carried at a revalued amount, the total impairment is recognised in net surplus or deficit.

As at 30 June 2017 the Interislander and Leased Buildings CGUs recoverable amount exceeds the carrying amount and no impairment is recognised. As at 30 June 2017 the recoverable amount of the Rail CGU does not exceed the carrying amount and impairment has been recognised. We have determined the recoverable amount of the Rail CGU to be fair value less costs to sell. The impairment is allocated across each asset class within the CGU, including intangible assets.

- In determining the fair value less cost to sell of the railway infrastructure assets and rolling stock within the Rail CGU, the Group adopted a market approach assuming an orderly liquidation of the assets to arrive at a net realisable or scrap value.
- The higher of the scrap value or the net realisable value is adopted to determine the individual asset's fair value less cost to sell.
- Market values such as steel prices and scrap metal rates are taken into account in determining the asset's fair value.
- For assets where scrap value is lower than the cost of removal the assigned fair value less cost to sell was set to nil.
- Where assets have a readily determinable market value they have been impaired to this value. Where a market value is not able to be determined the assets have been impaired to their share of the calculated value in use for the CGU.
- Market values have been provided by an independent valuer for buildings based on the most recent valuation.
- Market values for all railway infrastructure and rolling stock were calculated with reference to external index data as at 30 June 2017.

The following impairments and revaluation movements have been recorded in relation to the Rail CGU:

GROUP 2017	2017 Carrying amount before revaluation and impairment	Impairment recognised in net surplus or deficit	Movement recognised in Asset Revaluation Reserve	Carrying amount after impairment
	\$m	\$m	\$m	\$m
<b>Rail CGU</b>				
Buildings	51.4	(10.6)	(0.3)	40.5
Railway infrastructure	211.3	(106.2)	-	105.1
Rolling stock	259.5	(23.0)	-	236.5
Plant and equipment	116.7	-	-	116.7
Assets under construction	217.8	(148.7)	-	69.1
Total property, plant and equipment	856.7	(288.5)	(0.3)	567.9
Intangible assets	4.7	(4.7)	-	-
<b>Total Rail CGU</b>	<b>861.4</b>	<b>(293.2)</b>	<b>(0.3)</b>	<b>567.9</b>

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

## 9. NON-FINANCIAL ASSETS (continued)

## (c) Impairment of non-financial assets (continued)

GROUP 2016	2016 Carrying amount before revaluation and impairment	Impairment recognised in net surplus or deficit	Movement recognised in Asset Revaluation Reserve	Carrying amount after impairment
	\$m	\$m	\$m	\$m
<b>Rail CGU</b>				
Buildings	49.0	-	-	49.0
Railway infrastructure	184.9	(75.9)	-	109.0
Rolling stock	294.3	(30.6)	-	263.7
Plant and equipment	110.4	-	-	110.4
Assets under construction	141.9	(105.0)	-	36.9
Total property, plant and equipment	780.5	(211.5)	-	569.0
Intangible assets	4.8	(4.8)	-	-
<b>Total Rail CGU</b>	<b>785.3</b>	<b>(216.3)</b>	<b>-</b>	<b>569.0</b>

## 10. CASH AND CASH EQUIVALENTS

	GROUP 2017	GROUP 2016
	\$m	\$m
Current accounts and call deposits	83.4	96.5
	<b>83.4</b>	<b>96.5</b>

Cash and cash equivalents comprises cash on hand, call deposits and other investments with an initial term of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## 11. TRADE AND OTHER RECEIVABLES

	GROUP 2017	GROUP 2016
	\$m	\$m
Trade receivables	52.4	57.2
GST receivable	4.6	-
Accrued and other receivables:		
Prepayments	9.2	14.4
Related party receivables	36.3	3.5
Other	37.7	13.2
Gross receivables	140.2	88.3
Less provision for impairment	(1.8)	(0.9)
	<b>138.4</b>	<b>87.4</b>
Current assets	138.0	87.4
Non-current assets	0.4	-
	<b>138.4</b>	<b>87.4</b>

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 11. TRADE AND OTHER RECEIVABLES (continued)

Receivables (excluding prepayments) are financial assets classified as loans and receivables. Short-term receivables are recorded at their face value, less any provision for impairment.

#### Impairment

Receivables are assessed for indicators of impairment at each balance date. Receivables are impaired where there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the receivables is reduced through the use of a doubtful debt provision. When a trade receivable is uncollectible, it is written off against the doubtful debt provision. Subsequent recoveries of amounts previously written off are credited to net surplus or deficit. Changes in the carrying amount of the doubtful debt provision are recognised in net surplus or deficit.

All overdue receivables have been assessed for impairment at balance date and appropriate provisions applied, as detailed below:

	2017			2016		
	Gross	Impairment	Net	Gross	Impairment	Net
	\$m	\$m	\$m	\$m	\$m	\$m
Not past due	35.0	-	35.0	41.1	-	41.1
Past due 1 – 30 days	8.7	-	8.7	7.3	-	7.3
Past due 31 – 60 days	2.4	-	2.4	1.7	-	1.7
Past due 61 – 90 days	1.5	(0.1)	1.4	1.6	-	1.6
Past due > 91 days	4.8	(1.7)	3.1	5.5	(0.9)	4.6
<b>Total</b>	<b>52.4</b>	<b>(1.8)</b>	<b>50.6</b>	<b>57.2</b>	<b>(0.9)</b>	<b>56.3</b>

The average credit period on sales of goods and services is 30 days (2016: 28.4 days).

### 12. INVENTORIES

	GROUP 2017	GROUP 2016
	\$m	\$m
Operational Activities		
Fuel	1.6	1.3
Inventory held to maintain rail network	35.0	36.6
Inventory held to maintain rolling stock and ships	37.8	34.9
Inventory held for resale	0.2	0.6
Contracting Activities – work in progress	1.5	0.4
Gross inventory	76.1	73.8
Less provision for stock obsolescence	(11.1)	(10.7)
<b>Net inventory</b>	<b>65.0</b>	<b>63.1</b>

Inventory is recorded at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventory to its present condition and location. Cost is calculated using the weighted average method.

Write-downs or reversals of write-downs of inventories are recognised in operating expenses in net surplus or deficit, in the period the loss or reversal occurs. During the year, the Group has recognised write-downs in inventory of \$0.1m (2016: write-down of \$0.6m).

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 13. FINANCIAL ASSETS AND LIABILITIES

	Current	Group 2017 Non-current	Total	Current	Group 2016 Non-current	Total
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Financial assets</b>						
Commodity forward contracts	0.1	0.1	0.2	-	-	-
Foreign currency forward contracts	0.2	0.1	0.3	0.2	-	0.2
<b>Total financial assets</b>	<b>0.3</b>	<b>0.2</b>	<b>0.5</b>	<b>0.2</b>	<b>-</b>	<b>0.2</b>
<b>Financial liabilities</b>						
Commodity forward contracts	0.1	0.1	0.2	0.9	0.1	1.0
Loans	176.0	85.5	261.5	5.2	199.3	204.5
Finance leases	1.5	7.5	9.0	1.3	9.0	10.3
Foreign currency forward contracts	2.8	1.9	4.7	2.8	1.8	4.6
Interest rate swaps	-	11.2	11.2	-	14.6	14.6
<b>Total financial liabilities</b>	<b>180.4</b>	<b>106.2</b>	<b>286.6</b>	<b>10.2</b>	<b>224.8</b>	<b>235.0</b>

#### (a) Financial assets

The Group's financial assets designated at fair value are those derivative financial instruments within predetermined policies and limits in order to manage exposure to fluctuations in foreign exchange, commodity and interest rate risks. The relevant accounting policy for these types of financial assets is set out under 'Derivative financial instruments' in note 25(b)(i). Financial assets are classified as non-current when the maturity of the hedged item exceeds 12 months.

#### (b) Financial liabilities

Financial liabilities are designated at amortised cost or at fair value through net surplus or deficit unless these are designated as hedged items and therefore hedge accounted for. Financial liabilities are classified as non-current when the maturity exceeds 12 months.

##### (i) Amortised cost

Amortised cost is the amount at which the financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount.

##### Interest-bearing liabilities

Interest-bearing liabilities comprise of loans and finance leases. They are initially measured at fair value, plus directly attributable transaction costs. Interest-bearing liabilities are subsequently measured at amortised cost using the effective interest method.

##### Unsecured loans

The notional principal amounts of the outstanding loans for the Group were \$174.2m (2016: \$174.2m).

##### Secured loans

Loans from Bank of New Zealand are secured against MV Aratere and hoists. A loan from Westpac Banking Corporation is secured against MV Kaitaki. There are no restrictions on title. The amount outstanding for all secured loans as at the reporting date is \$87.3m (2016: \$30.3m).

The average term to maturity and weighted average interest rates for external unsecured and secured loans and finance leases are shown in the table below:

	Unit	GROUP 2017	GROUP 2016
Notional principal	\$ m	270.5	214.8
Average interest rate	%	4.12	4.60
Average term to maturity	years	1.55	2.23

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 13. FINANCIAL ASSETS AND LIABILITIES (continued)

#### Committed standby facility

The Group has a committed standby facility with Bank of New Zealand for \$15.0m as at 30 June 2017 (2016: \$15.0m) with an expiry date of 1 July 2018. As at 30 June 2017, the facility is undrawn.

#### Letter of credit facilities

The Group had no letter of credit facilities at 30 June 2017 (2016: nil).

#### Standby letter of credit

The Group had no standby letters of credit at 30 June 2017. The Group had one outstanding standby letter of credit at 30 June 2016 issued as credit support for fuel hedges. The outstanding balance was USD \$0.5m.

### 14. INVESTMENT PROPERTY

	GROUP 2017	GROUP 2016
	\$m	\$m
<b>Opening balance</b>	<b>68.7</b>	<b>67.6</b>
Additions	1.7	1.2
Fair value gains/(losses) on valuation	6.1	(0.1)
<b>Balance at 30 June</b>	<b>76.5</b>	<b>68.7</b>

Investment properties are measured initially at cost, including transaction costs. Investment properties include land and buildings held to earn rental income or capital gains through the future resale of the property.

Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses from changes in the fair values of investment properties are recognised in net surplus or deficit in the year in which they arise. Valuation of leased buildings is undertaken with sufficient regularity to ensure carrying value does not materially differ from fair value. See note 25(b)(ii) for the methodology used in the determination of fair value.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in net surplus or deficit in the year of retirement or disposal.

Included within investment property is land (excluding the rail corridor) acquired as part of the joint arrangement with Northland Regional Council. The total carrying amount of investment properties relating to this joint arrangement is \$2.8m (2016: \$2.6m). See note 15 for further information on this joint arrangement.

The total rental income generated from investment properties for the year ended 30 June 2017 was \$5.9m (2016: \$4.7m). The direct operating expenses (including maintenance) arising from the use of investment properties during the year was \$1.0m (2016: \$1.2m)

### 15. JOINT ARRANGEMENTS WITH NORTHLAND REGIONAL COUNCIL

In January 2009 the New Zealand Railways Corporation (NZRC) entered into an agreement with Northland Regional Council, which was vested from NZRC to KHL on 31 December 2012, to create a joint arrangement in order to advance the proposed Oakleigh to Marsden Point rail link. This arrangement is considered as a joint operation under NZ IFRS 11 Joint Arrangements. As a party to a joint operation, the Group has recognised the related assets and liabilities in relation to its interest in the proposed Oakleigh to Marsden Point rail link.

The Council entered into voluntary negotiations with landowners who owned land along the existing corridor and to date have acquired nine properties with a total acquisition cost of \$11.5m (the Group's share is \$5.8m).

At 30 June 2017 the Group has a liability of \$5.5m (2016: \$5.2m) to the Council for its share of the cost of land purchased by the Council as well as other Council expenditure relating to the joint operation. This is included in Trade and Other liabilities in note 17.

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## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 16. INVESTMENT IN JOINT VENTURE

The Group is a party to a joint venture arrangement with the Port of Tauranga and Specialised Container Services (Auckland) Limited. The Group has a 25% interest in MetroBox Limited, a joint venture involved in container repair and storage operating from a facility at Southdown, Auckland.

The Group's share of profit for the year was \$0.4m (2016: \$0.4m).

The Group has classified its investment in Metrobox Limited as held for sale at 30 June 2017. The Group classifies a non-current asset as held for sale in accordance with NZ IFRS 5 if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An asset held for sale is measured at the lower of its carrying amount and its fair value less cost to sell of \$1.9m. An impairment charge of \$2.6m has been recognised in the Statement of Comprehensive Income.

### 17. TRADE AND OTHER LIABILITIES

	Note	GROUP 2017	GROUP 2016
		\$m	\$m
Trade payables		50.4	36.0
GST payable	17(a)	-	0.9
Unearned revenue		12.6	11.5
Accrued interest		1.2	1.5
Payable to joint operator	15	5.5	5.2
Other payables and accruals		62.8	39.5
<b>Total payables</b>		<b>132.5</b>	<b>94.6</b>
Current liabilities		132.5	94.6
Non-current liabilities		-	-
		<b>132.5</b>	<b>94.6</b>

Payables are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. Payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

Trade payables are settled on normal commercial terms and the carrying value approximates fair value. No interest is incurred on trade payables unless the amounts fall overdue. Interest is charged at the discretion of the vendor.

#### (a) Goods and services tax (GST)

All items in the financial statements are presented exclusive of GST, except for receivables and payables, which are presented on a GST inclusive basis. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

The net amount of GST payable to Inland Revenue (IR) is included as part of trade and other liabilities. The amount of GST receivable from IR is included as part of trade and other receivables (note 11).

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 18. EMPLOYEE ENTITLEMENTS

	GROUP 2017	GROUP 2016
	\$m	\$m
<b>Current portion</b>		
Short-term employee benefits	10.9	11.5
Annual leave entitlement accruals	39.1	44.6
Retirement and long service leave liability	5.1	4.9
<b>Total current portion</b>	<b>55.1</b>	<b>61.0</b>
<b>Non-Current portion</b>		
Retirement and long service leave	36.9	38.0
<b>Total non-current portion</b>	<b>36.9</b>	<b>38.0</b>
<b>Total employee entitlements</b>	<b>92.0</b>	<b>99.0</b>

Provisions are made for benefits accruing to employees in respect of annual leave, retiring leave (including involuntary retirement as medically unfit) and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Employee entitlements are accounted for based on NZ IAS 19 Employee Benefits.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured on an actuarial basis by independent actuaries Melville Jessup Weaver (MJW) at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

The present value of the retirement and long service leave obligations depend on a number of factors. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. The assumptions used by the actuaries in arriving at the retirement and long service leave liabilities were a salary increase rate from 2.17% to 2.5% per annum (2016: from 2.04% to 2.5% per annum) and a term specific risk-free discount rate of between 1.97% and 4.75% per annum (2016: between 2.14% and 4.75% per annum). The discount rate is derived from the yields on Government bonds as at the respective reporting dates, which have terms to maturity that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns.

#### *Contributions to superannuation plans*

Certain employees are members of defined contribution schemes and the Group contributes to those schemes. The contributions are recognised as labour and related costs in net surplus or deficit when they are due.

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 19. PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount can be reliably estimated.

GROUP 2017	ACC AEP	Leased vessel costs	Reorganisation costs	Other provisions	Total
	\$m	\$m	\$m	\$m	\$m
<b>Balance at 1 July 2016</b>	3.6	5.9	1.7	1.3	12.5
Provisions made during the year	0.4	5.5	-	0.5	6.4
Provisions utilised or released during the year	(0.3)	(5.4)	(1.5)	(0.7)	(7.9)
<b>Balance at 30 June 2017</b>	<b>3.7</b>	<b>6.0</b>	<b>0.2</b>	<b>1.1</b>	<b>11.0</b>
Current	3.7	-	0.2	1.1	5.0
Non-current	-	6.0	-	-	6.0
	<b>3.7</b>	<b>6.0</b>	<b>0.2</b>	<b>1.1</b>	<b>11.0</b>

#### ACC Accredited Employer Programme

KHL and its subsidiary KiwiRail Limited (KRL) belong to the ACC Accredited Employer Programme (ACC AEP) whereby each company accepts the management and financial responsibility for employee work-related accidents.

The liability for the ACC AEP is measured annually by MJW, an external independent actuarial valuer, using actuarial techniques at the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date. Any changes in assumptions will not have a material impact on the financial statements.

#### Leased vessel cost

The Group has charter agreements in place for the MV Kaiarahi. Redelivery costs are accrued in accordance with NZ IAS 37.

### 20. 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 the 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 the Crown's equity to the Group.

The total net proceeds from land sold/land swaps during the year was \$15.0m. There was no land acquired during the year. The net proceeds were treated as transactions with owners in the Statement of Movements in Equity.

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 21. LEASES AND COMMITMENTS

#### (a) Finance lease

The Group has a lease agreement with Westpac Banking Corporation. Refer to note 9(a)(v) for details. The lease terms range between four to ten years and there are no terms of renewal, escalation clauses or purchase options contained within the agreement. The approved limit of this facility is \$13.1m (2016: \$13.1m).

At 30 June 2017 the Group had the following liability under this lease agreement:

	GROUP 2017	GROUP 2016
Total minimum lease payments due	\$m	\$m
Not later than one year	1.8	1.8
Later than one year but not later than five years	5.0	6.0
Later than five years	3.9	5.0
Total minimum lease payments	10.7	12.8
Future lease finance charges	(1.7)	(2.5)
Present value of minimum lease payments	<b>9.0</b>	<b>10.3</b>
<b>Represented by:</b>		
Current	1.5	1.3
Non-current	7.5	9.0
<b>Total finance leases</b>	<b>9.0</b>	<b>10.3</b>

#### (b) Operating lease commitments as lessee

NZRC has, along with the Crown, granted a long-term lease to 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 total minimum future sublease payments expected to be received under non-cancellable subleases at balance date is \$nil.

Expenses incurred that qualify for recognition as an asset under an operating lease is recognised as property, plant and equipment. Capitalised assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an operating expense in net surplus or deficit on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

The Group leases vessels and plant and equipment in the normal course of its business. Included in these lease commitments is the Group's charter for the MV Kaiarahi. The lease for the MV Kaiarahi is non-cancellable for five years expiring on 17 July 2020.

Motor vehicle leases generally have a non-cancellable term of three years.

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 21. LEASES AND COMMITMENTS (continued)

#### (b) Operating lease commitments as lessee (continued)

The future aggregate minimum lease payments payable under non-cancellable operating leases are as follows:

	GROUP 2017	GROUP 2016
	\$m	\$m
Total minimum lease payments due:		
Not later than one year	19.9	28.4
Later than one year but not later than five years	44.5	64.1
Later than five years	7.3	10.7
	<b>71.7</b>	<b>103.2</b>

#### (c) Operating lease commitments as lessor

The Group has certain non-cancellable property leases. The property lease portfolio is made up of a large number of leases with varying terms.

The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

	GROUP 2017	GROUP 2016
	\$m	\$m
Total minimum lease payments receivable:		
Not later than one year	30.9	26.2
Later than one year but not later than five years	83.3	75.3
Later than five years	89.2	82.5
	<b>203.4</b>	<b>184.0</b>

For the year ended 30 June 2017, \$36.9m was recognised as revenue in net surplus or deficit (2016: \$33.9m).

#### (d) 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 2017	GROUP 2016
	\$m	\$m
Capital expenditure commitments:		
Not later than one year	87.6	44.8
Later than one year but not later than five years	22.7	5.8
	<b>110.3</b>	<b>50.6</b>

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

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

	GROUP 2017	GROUP 2016
	\$m	\$m
Net deficit after taxation	(197.3)	(194.0)
<b>Add / (deduct) items classified as investing or financing activities</b>		
(Gain)/Loss on sale of assets	(0.4)	1.0
Fair value movement in derivatives	(3.7)	12.8
Capital grant receipts	(27.6)	(32.9)
Insurance proceeds	(72.1)	-
Share in profit of joint venture	(0.4)	(0.4)
	(301.5)	(213.5)
<b>Add non-cash items</b>		
Depreciation and amortisation expense	77.1	67.5
Movements in provisions	(2.5)	6.1
Impairment of non-financial assets	295.8	216.3
Movement in fair value of investment properties	(6.1)	0.1
	62.8	76.5
<b>Add / (deduct) movements in working capital</b>		
Decrease/(increase) in trade receivables	4.8	(4.4)
(Increase)/decrease in other receivables	(31.2)	4.3
(Increase)/decrease in inventories	(1.9)	(6.6)
Increase/(decrease) in trade payables	14.4	10.7
(Decrease)/increase in other payables	(3.0)	(2.2)
<b>Net cash flows from operating activities</b>	<b>45.9</b>	<b>78.3</b>

### 23. RELATED PARTY TRANSACTIONS

The Group enters into transactions with related parties all of which are carried out on normal commercial terms. Transactions that occur within a normal supplier or client / recipient relationship, on terms and conditions no more or less favourable than those which it is reasonable to expect the Parent or its subsidiaries and associates would have adopted if dealing with that entity at arm's length in the same circumstance, are not disclosed.

#### *Significant transactions with Government-related entities*

The Group has been provided with equity from the Crown and capital grant funding from Government entities. Equity funding of \$190.2m (2016: \$209.8m) has been received together with capital grant funding of \$6.2m (2016:\$13.2m). An additional \$30m of equity funding is receivable at 30 June 2017.

The Group paid \$34.7m to New Zealand Transport Agency for the Main North Line reinstatement.

The Group receives operating revenue for providing rail freight services to Solid Energy New Zealand, New Zealand Transport Agency and Genesis Energy.

The Group also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown.

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 23. RELATED PARTY TRANSACTIONS (continued)

As these transactions are material in nature they have been disclosed in thousands rather than expressed in millions.

	GROUP 2017	GROUP 2016
<b>REVENUE</b>	<b>\$000</b>	<b>\$000</b>
Solid Energy	27,742	25,752
New Zealand Transport Agency	8,451	4,341
Genesis Energy	989	982
	<b>37,182</b>	<b>31,075</b>
	<b>GROUP 2017</b>	<b>GROUP 2016</b>
<b>EXPENSES</b>	<b>\$000</b>	<b>\$000</b>
Meridian Energy	12,462	12,952
Transpower	3,415	2,996
Air New Zealand	2,375	1,853
Kordia	1,563	2,086
New Zealand Transport Agency	707	900
New Zealand Post	368	892
Other	382	921
	<b>21,272</b>	<b>22,600</b>

#### *Collectively but not individually significant transactions with Government-related entities*

The Group is required to pay various taxes and levies (such as GST, FBT, PAYE, ACC levies and Customs duties) to the Crown and entities related to the Crown. The payment of these taxes and levies is based on the standard terms and conditions that apply to all tax and levy payers.

#### *Transactions with key management personnel*

Key management personnel is defined as Directors, the Chief Executive and all executive level direct reports of the Chief Executive. Key management personnel of the Group may be Directors or officers of other companies or organisations with whom the Group may transact. Such transactions are all carried out independently on normal commercial terms.

The compensation of the key management personnel of the Group was as follows:

	GROUP 2017	GROUP 2016
	<b>\$000</b>	<b>\$000</b>
<b>Key management personnel compensation</b>		
Short-term employee benefits	5,212	4,932
Termination benefits	-	223
<b>Total key management personnel compensation</b>	<b>5,212</b>	<b>5,155</b>

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 23. RELATED PARTY TRANSACTIONS (continued)

The following Directors earned fees during the period:

	2017	2016
<b>KHL Directors</b>	<b>\$000</b>	<b>\$000</b>
Trevor Janes	61	-
John Spencer	27	80
Paula Rebstock	53	50
John Leuchars	42	40
Kevin Thompson	23	40
Guy Royal	42	40
Mike Pohio	42	7
Paul Harper	42	7
John Dennehy	7	-
Bob Major	7	-
Susan McCormack	5	-
Rebecca Thomas	-	37
Bob Field	-	32
	<b>351</b>	<b>333</b>

Trevor Janes was appointed as Chairperson effective 1 November 2016. John Dennehy, Bob Major and Susan McCormack were appointed as Directors in May 2017. John Spencer's term as a Chairperson ended in October 2016. Rebecca Thomas and Kevin Thompson's term as Directors ended in January 2017.

### 24. SHARE CAPITAL

At 30 June 2017, the Group had issued 833,800,000 ordinary shares with no par value (2016: 613,600,200), each fully paid. The following rights attach to the ordinary shares issued by the Group:

- the right to one vote on a poll at a meeting of the Group on any resolution, including any resolution to appoint or remove a Director or auditor, alter the Group's constitution, approve a major transaction, approve an amalgamation, and put the Group into liquidation;
- the right to an equal share of dividends approved by the Board; and
- the right to an equal share in the distribution of the surplus assets of the Group.

Reconciliation of number of shares	GROUP 2017	GROUP 2016
	(m)	(m)
Opening balance	613.6	403.8
Shares issued	220.2	209.8
<b>Balance at 30 June</b>	<b>833.8</b>	<b>613.6</b>

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## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 25. FAIR VALUE

#### (a) Classification of Financial Instruments

The classification of each category of financial instruments is set out below:

	GROUP 2017	GROUP 2016
<b>FINANCIAL ASSETS</b>	<b>\$m</b>	<b>\$m</b>
<b>Loans and receivables</b>		
Cash and cash equivalents	83.4	96.5
Trade and other receivables (excluding prepayments)	124.6	73.0
	<b>208.0</b>	<b>169.5</b>
<b>Fair value through net surplus or deficit (Derivatives non-hedge accounted for)</b>		
Derivative financial assets	<b>0.5</b>	<b>0.2</b>
<b>FINANCIAL LIABILITIES</b>		
<b>Amortised cost</b>		
Trade and other liabilities	119.9	82.2
Interest-bearing liabilities	270.5	214.8
	<b>390.4</b>	<b>297.0</b>
<b>Fair value through net surplus or deficit (Derivatives non-hedge accounted for)</b>		
Derivative financial liabilities	<b>16.1</b>	<b>19.6</b>
<b>Fair value through other comprehensive income (Derivatives hedge accounted for)</b>		
Derivative financial liabilities	<b>-</b>	<b>0.6</b>

The carrying amounts of the financial assets and financial liabilities approximate their fair value.

#### (b) Fair Value Hierarchy

Fair values are allocated to a fair value hierarchy based on the following:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

The Group does not have any Level 1 and/or Level 3 financial instruments (2016: nil).

For financial assets not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants.

##### i. Derivative financial instruments

The fair value of the financial assets and financial liabilities as well as the methods used to estimate the fair value is summarised below:

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## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 25. FAIR VALUE (continued)

#### (b) Fair Value Hierarchy (continued)

Financial instruments (Net Liability)/Net Asset	Level 2	
	GROUP 2017	GROUP 2016
	\$m	\$m
Commodity forward contracts	-	(1.0)
Foreign currency forward contracts	(4.4)	(4.4)
Interest rate swaps	(11.2)	(14.6)
	<b>(15.6)</b>	<b>(20.0)</b>

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into (the trade date). Any transaction costs are expensed immediately. The derivative financial instruments are subsequently re-measured to fair value. Derivative financial instruments are designated at fair value through net surplus or deficit and, if they are in a hedge relationship, at fair value through other comprehensive income. The Group uses discounted cash flow techniques. In estimating the fair value of an asset or liability, the Group uses market-observable data to the extent it is available. Where observable inputs are not available, the Group engages banking counterparties to support the establishment of appropriate valuation inputs. A Credit Value Adjustment is made to the underlying interest rate swap curve to adjust for counterparty credit risk.

#### ii. Non-financial assets

The fair value of the non-financial assets which are required to be reflected at fair value during the year was:

Non-financial assets	Level 2	
	GROUP 2017	GROUP 2016
	\$m	\$m
Investment property	76.5	68.7
Buildings	40.5	49.4
	<b>117.0</b>	<b>118.1</b>

NZ IFRS 13 requires that the fair value measurement of non-financial assets take into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible. It is determined from the perspective of market participants, even if the Group intends a different use.

The valuation techniques used in determining the fair value of non-financial assets are as follows:

- Investment property**  
 Valuation of investment property is carried out with sufficient regularity to ensure the carrying value does not materially differ from fair value. The most recent valuation was carried out as at 30 June 2017 by an independent valuer who holds a recognised and relevant professional qualification.

Each property is treated as an individual CGU. Investment properties are valued accounting for market derived assumptions using comparable rental and sales evidence. When the fair value is determined, the independent valuer has utilised valuers located nationwide that are familiar with the local property market in which the property is situated. They have factored local inputs into the valuation such as rentals, capitalisation rates and land values. The market valuation methodology used for investment properties was the capitalisation of net income and direct comparison approaches. The capitalisation rates used in the valuation generally range from 6% to 12%.

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 25. FAIR VALUE (continued)

#### (b) Fair Value Hierarchy (continued)

- *Buildings*

Buildings are properties held to carry-out the Group's entity-specific operations. They are revalued with sufficient regularity to ensure the carrying value does not materially differ from fair value. The most recent valuation of buildings that form part of the rail CGU was carried out as at 30 June 2017 by an independent valuer who has recognised and relevant qualifications.

In carrying out the valuation, the valuers take into account the likely sale price of the property but also assumed that the highest and best use is the properties' current use. Valuations are undertaken in accordance with the standards issued by the New Zealand Property Institute, NZ IAS 16 *Property, Plant and Equipment* and NZ IFRS 13 with the following bases of valuation adopted:

- *Specialised buildings* which are those assets identified as having no readily available market and exist strictly to carry out KiwiRail's unique operations are valued using optimised depreciated replacement cost.
- *Non-specialised buildings* which could be sold with relative ease are valued at market value.

#### *Sensitivity analysis*

The following represents the financial impact of changes in fair value of non-financial assets

Non-financial assets	Increase in fair value by 5%		Decrease in fair value by 5%	
	2017	2016	2017	2016
Buildings	\$0.5m	\$0.4m	\$0.6m	\$1.0m
Investment properties	\$3.7m	\$3.3m	\$3.7m	\$3.3m

### 26. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group's principal financial instruments comprise cash and cash equivalents, receivables, interest-bearing liabilities, trade and other liabilities and derivatives.

The Group manages its exposure to key financial risks, including market risk, credit risk and liquidity risk in accordance with the Group's financial risk management policies. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

#### (a) Market Risk

Market risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises three types of risk; currency risk, interest rate risk and other price risk.

##### *i. Foreign Exchange Risk or Currency Risk*

Foreign exchange risk is the risk of cash flow volatility arising from the movement in foreign exchange rates to which the Group may be exposed. The Group is exposed to foreign exchange risk from normal operating activities and capital purchases.

The Group's Treasury Policy requires it to manage foreign currency risks arising from future transactions and liabilities by using Board approved foreign exchange hedging instruments.

The New Zealand Dollar notional principal amounts of outstanding forward foreign exchange contracts were \$152.7m (2016: \$62.3m).

The Group has hedged 100% (2016: 100%) of committed foreign currency capital purchases.

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 26. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

#### (a) Market Risk (continued)

Cash flows in respect of foreign currency cash flow hedges are expected to occur:

	GROUP 2017	GROUP 2016
<b>Currency hedged: EURO</b>	<b>\$m</b>	<b>\$m</b>
Not later than 1 year	-	5.9
Later than 1 year not later than 2 years	-	-
	<b>-</b>	<b>5.9</b>

#### Foreign currency sensitivity on financial instruments

The following table demonstrates the sensitivity of the Group's equity and profit to a 10% strengthening or weakening in the value of the New Zealand Dollar.

In NZ \$m	GROUP 2017		GROUP 2016	
	Equity	Profit	Equity	Profit
<b>Foreign currency sensitivity analysis</b>				
Impact of a 10% strengthening of the NZD	(13.2)	(13.2)	(5.1)	(4.6)
Impact of a 10% weakening of the NZD	16.1	16.1	6.3	5.6

#### ii. Interest Rate Risk

Interest rate risk is the risk that cost of funds increase due to adverse movements in the interest rates that KiwiRail pays on its borrowings.

The Group borrows a mixture of fixed and floating rate debt in New Zealand Dollars. The Group hedges its re-pricing profile using interest rate swaps in accordance with its Treasury Policy in order to minimise and provide certainty over funding costs.

The notional principal amounts of the outstanding interest rate swaps for the Group were \$198.0m (2016: \$146.0m), with average term to maturity of 3.98 years (2016: 3.56 years) and weighted average fixed interest rate of 5.24% (2016: 5.97%). As at 30 June 2017, after taking into account the effect of the interest rate swaps, approximately 54.0% of the Group's borrowings are at a fixed rate of interest (2016: 68.0%).

#### Interest sensitivity analysis

A change in the interest rates would also have an impact on interest payments and receipts on the Group's floating rate debt and investment instruments (including the floating rate leg of any interest rate derivatives). The sensitivity to a 100 basis point (bp) movement in interest rates (based on financial assets and liabilities held at the reporting date) is as follows:

In NZ \$m	GROUP 2017 Profit	GROUP 2016 Profit
Impact of a 100 bp interest rate increase	1.1	1.7
Impact of a 100 bp interest rate decrease	(1.3)	(1.8)

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 26. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

#### (a) Market Risk (continued)

##### iii. Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices.

##### *Fuel Price risk*

The Group seeks to recover increased costs caused by increased fuel prices from its customers in the form of a fuel surcharge or fuel adjustment factor. Since the Group purchases its fuel at floating market rates, the Group is exposed to fuel price risk to the extent that it is unable to fully recover fuel price increases from its customers in the form of fuel surcharges. Accordingly, the Group's Treasury Policy allows Board approved hedging instruments to be entered into to manage this exposure.

The Group is party to a number of commodity forward contracts for Singapore intermediate fuel oil and gas oil. The total notional principal amount of outstanding commodity forward contracts is \$16.9m (2016: \$6.1m).

#### (b) Credit Risk

Credit risk is the potential loss from a transaction in the event of default by a counterparty during the term of the transaction or on settlement of the transaction. Financial instruments which potentially subject the Group to credit risk consist primarily of cash and cash equivalents, trade and other receivables and commodity and foreign currency forward contracts.

Whilst the Group may be subjected to losses up to the contract value of the instruments in the event of default by its counterparties, it does not expect such losses to occur. On-going credit evaluation is performed on the financial condition of accounts receivable and customers' compliance with credit terms.

The Group's Treasury Policy does not require collateral support for financial instruments subject to credit risk, although personal guarantees may be obtained in support of the financial performance of certain customers.

##### *Concentration of credit risk*

The Group does not have any significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics due to the large number of customers included in the Group's customer base. The credit risk on cash and cash equivalents and foreign exchange dealings is limited as the Group spreads its business amongst a number of Standard & Poors AA-rated counterparties.

##### *Credit quality of assets not impaired or not yet due*

The Group does not rate its individual debtors as it has a large number of customers. The incident of default on financial assets not impaired or not yet due is minimal. The Group has no other significant exposure to credit risk from financial assets not impaired or not yet due, nor has there been any renegotiation of terms on any of these assets.

##### *Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure.

#### (c) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet financial commitments as they fall due. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities. The Group accesses funds via Crown appropriations for specified capital projects.

KIWIRAIL HOLDINGS LTD

**Notes to the Financial Statements**

For the financial year ended 30 June 2017

**26. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)****(c) Liquidity Risk (continued)****Exposure to liquidity risk**

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate on the instrument at the balance date. The amounts disclosed are the contractual undiscounted cash flows.

GROUP 2017	Carrying amount	Contractual cash flows	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Financial Liabilities</b>						
Trade and other payables	119.9	119.9	119.9	-	-	-
Net settled derivative liabilities	16.1	16.1	2.9	6.9	3.7	2.6
Finance Leases	9.0	10.7	1.8	1.5	3.5	3.9
Borrowings	261.5	278.1	182.7	13.9	81.5	-
<b>Total</b>	<b>406.5</b>	<b>424.8</b>	<b>307.3</b>	<b>22.3</b>	<b>88.7</b>	<b>6.5</b>

GROUP 2016	Carrying amount	Contractual cash flows	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Financial Liabilities</b>						
Trade and other payables	82.2	82.2	82.2	-	-	-
Net settled derivative liabilities	20.0	20.0	3.6	0.6	12.5	3.3
Finance Leases	10.3	12.7	1.8	1.8	4.1	5.0
Borrowings	204.5	222.2	14.9	173.5	33.8	-
<b>Total</b>	<b>317.0</b>	<b>337.1</b>	<b>102.5</b>	<b>175.9</b>	<b>50.4</b>	<b>8.3</b>

**(d) Derivative Financial Instruments and Hedging Activities**

The Group uses derivative financial instruments within predetermined policies and limits in order to manage its exposure to fluctuations in foreign exchange, commodity and interest rate risks. The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

The risk management objectives and strategy for undertaking various hedge transactions is covered by the Group Treasury Policy. The Group documents, at the inception of the transaction, the hedging relationship between hedging financial instruments and the hedged items. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives used in the hedging transaction are highly effective in offsetting changes in fair values or cash flows of hedged items.

*Cash flow hedges*

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised in other comprehensive income and the cash flow hedge reserve within other comprehensive income to the extent that the hedges are deemed effective. To the extent that the hedges are ineffective for accounting, changes in fair value are recognised in net surplus or deficit in foreign exchange and commodity net gains and losses.

KIWIRAIL HOLDINGS LTD

## Notes to the Financial Statements

For the financial year ended 30 June 2017

### 26. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

#### (d) Derivative Financial Instruments and Hedging Activities (continued)

In any of the following circumstances, the Group shall discontinue hedge accounting:

- If a derivative financial instrument expires or is sold, terminated or exercised
- It no longer meets the criteria for hedge accounting
- The forecast transaction is no longer expected to occur
- The designation of the hedge relationship is revoked or changed

In cases where hedge accounting is discontinued, the cumulative, unrealised gain or loss recognised in the cash flow hedge reserve in other comprehensive income with respect to the derivative instrument is recognised immediately in net surplus or deficit.

Where the hedge relationship continues throughout its designated term, the amount in the cash flow hedge reserve is transferred to the carrying value of the asset when it is recognised.

#### (e) Capital Risk Management

The Group manages its capital structure to ensure it is able to continue as a going concern whilst maximising its investment into rail infrastructure and rolling stock assets. The State-Owned Enterprises Act 1986 requires the Board to manage the Group as a profitable and efficient organisation that is comparable to businesses that are not owned by the Crown.

The capital structure of the Group consists of borrowings, cash and cash equivalents and equity. Equity comprises a capital contribution from the Crown, retained earnings and reserves.

The Board reviews the capital structure of the Group as part of the Group's planning cycle and regular on-going reviews. As part of this review, the Board considers the level of capital invested in the business and the amounts retained to ensure it effectively achieves its objectives and purpose.

### 27. IMPACT OF KAIKOURA EARTHQUAKE

A 7.8 magnitude earthquake hit the Kaikoura 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) and impacted revenue due to the closure of this line for the remainder of FY17.

#### *Impact on assets*

As described in note 9(c) the Group's infrastructure assets are valued at their recoverable amount which is based on scrap value or, in cases where the cost of removing an asset exceeds the scrap value, nil value. This results in an impairment charge of \$4.2m for those assets on the MNL. KiwiRail has been working on the rebuild since November 2016 and an additional impairment charge of \$73.3m has been recognised for the capital cost of reinstatement incurred as at 30 June 2017.

#### *Insurance*

The Group has insurance coverage in place under an operational infrastructure and consequential loss policy ("the Policy"). Cover is provided for loss and damage up to a sum insured of \$350m. While a final claim has not been submitted as at 30 June 2017, the Group has notified the underwriters of its intention to make claims under the Policy. The Group has received insurance progress payments of \$100.0m of which \$28.3m is receivable as at 30 June 2017. This has been reflected in the Statement of Comprehensive Income. These payments are not specific to a particular loss or damage, but will be allocated against the claim in due course. As at 30 June 2017 it is not practicable to estimate the full extent of the insurance recovery and therefore has not been recognised in the financial statements.

#### *Crown support*

The Crown has agreed in principle to fund the uninsured cost of the rebuild. As at 30 June 2017 \$30m had been approved for drawdown and is reflected in the financial statements.

### 28. 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 Northland Regional Council will purchase any land that may be required. The Group has an agreement with the Northland Regional Council that it will have a half share in the acquisition and holding costs of land purchases with the Council.

#### *Holidays Act*

A number of organisations within New Zealand have identified issues with the calculation of leave entitlement under the Holidays Act 2003 ("the Act"). KiwiRail is currently investigating the issues and considering the end to end payroll processes that support the Act's requirements. The investigation is in its initial phase and any potential liability is therefore currently unquantifiable.

### 29. EVENTS SUBSEQUENT TO BALANCE DATE

There were no material events subsequent to balance date.

## Independent Auditor's Report

### To the readers of KiwiRail Holdings Limited's Group financial statements for the year ended 30 June 2017

The Auditor-General is the auditor of the KiwiRail Holdings Limited Group (the Group). The Auditor-General has appointed me, Clint Ramoo, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Group on his behalf.

#### Opinion

We have audited the financial statements of the Group on pages 60 to 92, that comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of movements in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Group

- present fairly, in all material respects:
  - its financial position as at 30 June 2017; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with the New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 24 August 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to disclosures in the financial statements on the long-term financial viability of the Group. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

#### Basis for opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

#### Long term financial viability

Without modifying our opinion, we draw your attention to the disclosure in note 1(g) on page 65 relating to the group's reliance on shareholder support for it to remain commercially viable and a planned shareholder led review of the Group's operating structure and longer-term capital requirements.

We consider the disclosures to be adequate.

#### Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are

fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible on behalf of the group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Director's responsibilities arise from the State-Owned Enterprises Act 1986.

### **Responsibilities of the auditor for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements, or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and the performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

### **Other Information**

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 59, but does not include the financial statements, and our auditor's report thereon.

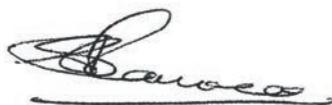
Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Independence**

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standards 1 (revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with or interests in the Group.



Clint Ramoo

Audit New Zealand

On behalf of the Auditor-General

Wellington, New Zealand

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# Directory

## Bankers

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## Auditors

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## Registered office

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## Further information

For assistance, publications or  
information concerning KiwiRail  
please visit our website at  
[www.kiwirail.co.nz](http://www.kiwirail.co.nz) or contact:

KiwiRail Communications  
PO Box 593, Wellington, 6140  
Telephone: 0800 801 070  
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Front cover photos from top:

Worksite at Mangamaunu, north of Kaikoura, Jesica Baptista, Project Manager and Terry Trotter, Kaimai Tunnel Project Site Manager outside the Kaimai Tunnel, Scott Cooper, Locomotive Engineer, Christchurch, Rasika Wijekoon and Skyla Phillips, Cabin Attendants, Kaitaki ferry, Interislander and the first freight train to travel on the Picton-Christchurch rail line since the Kaikoura earthquake.



