BUILDING ON RECOVERY LOOKING AHEAD

KIWIRAIL INTEGRATED REPORT 2020

WELCOME – TĒNĀ KOUTOU

The 2020 financial year has been a year of challenge but also a year of promise for KiwiRail.

The challenge was the impact of the COVID-19 pandemic, hitting the bottom line as freight volumes fell and tourism services had to be suspended.

KiwiRail staff rose to the challenge. Staff working from home received the support and tech equipment they needed to carry out their tasks successfully. At the same time, our frontline team adopted appropriate additional safety precautions and stepped up to keep the freight trains and ferries running, ensuring that our customers' goods kept moving throughout the lockdown.

Despite the obstacles, KiwiRail recorded a $40 million operating surplus for the year, and kept staff in their jobs.

The promise is in the Government's continued commitment in FY20 to the future of rail, with further investment of $1.2 billion of Crown funding in the Budget. That investment includes $400 million towards replacing the aging Interislander fleet, along with a substantial programme of locomotive replacement.

That funding is allowing KiwiRail to continue to address legacy issues to ensure our network has the flexibility, resilience and reliability that allows rail to play the role it should in the transport sector in New Zealand.

Recognition of that role was underlined with the passing of the Land Transport (Rail) Legislation Act 2020, meaning funding for the rail network will come from the National Land Transport Fund in future, in a similar way to funding provided for New Zealand's roading network.

Rail has a long and proud history in New Zealand. Despite the challenges faced in 2020, it lived up to that history, and is ready to build on it as we move forward.

KiwiRail staff worked hard to improve the North Auckland Line, including lowering tracks in tunnels to allow hi-cube containers to be carried on the line.

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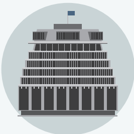
FY20 CAPITAL HIGHLIGHTS AT A GLANCE



FINANCIAL

Operating Surplus for the year of $40m

Successful implementation of initiatives to mitigate Covid impact on business activity in May and June as business focuses on recovery

Stronger commercial disciplines and outcomes through increased profit and loss visibility and management training

New planning and funding model through the Land Transport (Rail) Legislation Act 2020 became law on 30 June. This supports long term investment in the rail network through the National Land Transport Fund.

$40M

OPERATING SURPLUS FOR THE YEAR

LONG TERM INVESTMENT IN THE RAIL NETWORK

RELATIONSHIPS

Train and ferry service continuity during Covid lockdown to maintain our freight customers' supply chains

Interislander moved 9,000 passengers, 4,000 private vehicles, 1,300 trucks, 700 wagons of rail freight in week one of Covid lockdown

Rent relief and deferral plans put in place to assist tenants in response to Covid pressures

Implementing strategy to review commercial terms of trade with key freight customers

Repositioning and upgrading assets to cater to premium freight and tourism customers

On-time performance of all trains exceeds 90%

Consistent customer satisfaction achievement for Interislander at 90%

Strong union engagement and relationships through our High Performance High Engagement strategy

Safety message delivered through Rail Safety Week, with the video viewed more than 425,000 times

Continued delivery of level crossing and pedestrian improvements in partnership with Waka Kotahi, Auckland Transport and local entities

Engagement with iwi and hapu as partners to strategic capital programmes such as Northland rail and the Central North Island Hub

Ongoing collaboration through the Future of Rail Review and development of the new planning and funding model for rail with our partners Waka Kotahi, Ministry of Transport, Treasury, Greater Wellington Regional Council, Auckland Council and Auckland Transport

Appointed as non-voting members of the Auckland and Wellington Regional Transport Committees.

INTERISLANDER MOVED 9,000 PASSENGERS, 4,000 PRIVATE VEHICLES, 1,300 TRUCKS, 700 WAGONS OF RAIL FREIGHT IN WEEK ONE OF COVID LOCKDOWN

RAIL SAFETY WEEK VIDEO VIEWED MORE THAN 425,000 TIMES

ASSETS

$1.2bn in funding announced through Budget 2020 to replace aging assets including locomotives and invest further in network resiliency

The funding included $400m to support the iReX project, including purchase of two large rail-enabled ferries, with 50% increased capacity overall, 45% more daily rail capacity, and reduced carbon emissions

A further $1.1bn committed through the NZ Upgrade Programme for the Wiri to Quay Park Third Main, Papakura to Pukekohe Electrification, Drury stations and Wellington rail upgrades

453 new wagons have been delivered, enabling the retirement of older wagons in the fleet

$700m in capital projects spend

Mainline locomotives' requirements evaluated, and Expression of Interest tender documents released

Double tracking underway between Trentham and Upper Hutt to allow trains to travel in both directions at once

Significant start made on the North Auckland Line (NAL) upgrade

More than $250m allocated for rail from the Provincial Growth Fund in FY20 including $205m for Northland rail upgrades and purchase of Marsden Point land, $20m for Hillside workshops and $40m to secure land for the Palmerston North regional freight hub.

$1.2B

FUNDING ANNOUNCED THROUGH BUDGET 2020

MORE THAN

$250M

ALLOCATED FOR RAIL FROM PGF

PEOPLE

Reduction in Lost Time Injuries (LTI) by 50%, reduced uncontrolled movements to zero since August 2019

20,505 Safety, Health and Environmental (SHE) Work Conversations Completed - up 6,387 on prior year

Sourcing and distributing PPE during Covid, to ensure front line workforce could operate safely during lockdown

25% of the Executive team and 56% of the Board are female

Re-energised regional and national Women's Network / Mana Wahine, Te Kupenga Mahi (TKM), Young Professionals / Kapa Kotahi

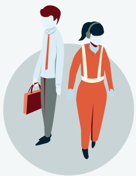
Diversity and Inclusion Policy drafted, and Flexible Working Guidelines implemented

Nine new starters in our graduate programme in 2020, up three from previous year, and intake of 13 into our first summer internship programme

More than 9% of frontline workforce in apprenticeships to secure future workforce

Engaging with iwi and hapu through strong networks.

9 NEW GRADUATES IN 2020



SKILLS AND KNOW-HOW

American Railway Engineering and Maintenance-of-Way Association "WW Hay Award for Excellence" for Main North Line (MNL) rebuild, Kaikoura earthquake

Commenced our Digitisation programme

More than 20,000 e-learning modules completed in the last 12 months

Upgraded 2,200 Windows 7 devices to Windows 10

Implementation of drone technology for bridge inspection

Development of "digital shield" technology to prevent equipment such as diggers hitting hazards including overhead wires

Derailments reduced by 57% (mainline) and 12% (terminal) year-on-year.

MORE THAN 20,000 E-LEARNING MODULES COMPLETED IN THE LAST 12 MONTHS

ENVIRONMENT

Rail freight fuel burn had a 4.9% improvement on base year FY16 (24 GWh)

Interislander sailing fuel performance had a 4.1% improvement on base year FY16 (15 GWh)

Addition of seven electric forklifts to replace diesel units at Hutt Workshop

Environmental GIS viewer set up with foundational data sets.

ADDITION OF 7 ELECTRIC FORKLIFTS TO REPLACE DIESEL UNITS AT HUTT WORKSHOP

4.9% IMPROVEMENT IN RAIL FREIGHT FUEL BURN SINCE FY16


Work reviving the North Auckland Line includes five bridge replacements.

STRONGER CONNECTIONS

BETTER NEW ZEALAND

COVID-19

We moved over 1.8 million tonnes of freight in level 3 and 4

One million
We carry around one million tourist passengers in a typical year

28 million
We help commuters make 28 million low-carbon journeys each year

18 million
We move more than 18 million tonnes of freight each year

Manage more than **17,800** hectares of land

Own more than **1,350** buildings

Manage **10,000+** leases, licences and grants

24

90%
On-time performance for all freight

3,900 employees

79% union membership

46 years old – average employee age (permanent & fixed term employees only)

3,700 km of track operated and maintained

6m sleepers, of which

50% are concrete

12%*
We carry around 12% of New Zealand's total freight task (tonnes-km)

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

Three ships

747,000 passengers

3,700 sailings per year

43,000
Freight train departures each year

247 locomotives

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

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

3,100 signals

1,500 public level crossings

106 tunnels

1,344 bridges

450 wagons delivered in FY20

Three
long-distance passenger experiences between Auckland and Greymouth

230,000
passengers in a typical year

Stops at **24** towns and cities in New Zealand

25%
We transport around 25% of New Zealand's exports

Over **$2.3 billion** spent by KiwiRail and a range of funding partners, in renewal and upgrade of rail network, rolling stock, ferries and property over the last five years

* The methodology for calculating truck activity has been revised in the 2017/18 NFDS, resulting in an increase in overall truck activity and a corresponding reduction in rail's share

** The Value of Rail in New Zealand – 2016

Locomotive engine replacement at Te Rapa.

MATERIALITY & OUR REPORTING APPROACH

This report's aim is to provide in-depth information about what we do in our business, our relationship with stakeholders and our role as a driver of sustainable and inclusive economic growth for the year ended 30 June 2020 (FY20).

The report's title, "Building on Recovery, Looking Ahead", reflects both New Zealand's and KiwiRail's gradual recovery from the Covid economic shock in early 2020. While the impact was profound, particularly for KiwiRail's tourism business, the company's focus remains on looking ahead and delivering, over the next few years, the significant projects for which shareholder funds have been allocated. These big infrastructure investments will support New Zealand jobs during the delivery phase, and ultimately make the company more competitive with a more resilient and reliable network, and new ferries and trains. Covid has brought additional uncertainty to domestic and overseas markets, but KiwiRail is in the fortunate position of being able to look ahead with confidence.

This is our fourth annual Integrated Report, which uses the fundamental concepts, guiding principles and content elements of the International Integrated Reporting Council's framework to report on our annual performance and demonstrate our commitment to embedding integrated thinking and reporting in KiwiRail.

This report is designed to provide an overview of our activities, to describe how each capital contributes to our strategy and to provide a transparent assessment of overall performance, prospects, and risks in relation to finance, people, assets, skills & know-how, relationships and the environment.

Within the report we demonstrate how we create value for New Zealand, our stakeholders, our customers, and our business in the short, medium and long term. The report also covers key material issues that have the biggest impact on our ability to create value for our customers, business and stakeholders.

Early in FY20 we worked with an independent consulting firm to complete a materiality review. Following internal workshops, a list of material themes was used as a framework to conduct interviews with external stakeholders. Stakeholders include representatives of customers, the Government, union members, iwi and the public.

We have been able to reflect on the outputs of this materiality review and consider the material issues in relation to this year's integrated report content. The following two pages list the top material issues according to how they were ranked by our external stakeholders, in which People and the Environment feature strongly.

Our materiality journey has not ended with this review. Our aim for the next financial year is to expand the number of stakeholder workshops and interviews to further develop our understanding of what truly matters.

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

STATEMENT OF RESPONSIBILITY

This Integrated Report has been prepared using the International Integrated Reporting Council's Integrated Reporting Framework. The Board has established processes to ensure the quality and integrity of this Integrated Report and has entrusted management with preparing and presenting it accordingly.

Audit New Zealand has provided a statement of assurance for the financial statements in this report.

- 0 RANKING 1-10
- MATERIAL ISSUE
- WHAT THE ISSUE COVERS
- DOMINANT CAPITAL
- VALUE CREATION TIMING*
- KIWIRAIL CONTROL LEVEL**
- COVERAGE IN REPORT

ZERO HARM

- Safety culture
- Worker safety
- Public safety
- Level crossings
- Dangerous Goods Shipments

People

Short to long term

High

Pages 31, 34-35, 40-44, 59

FUTURE PROOF INFRASTRUCTURE

- Infrastructure planning and investment
- Capital projects on time and within budget
- Required infrastructure to meet transportation needs of the future
- Impact of changing transportation landscape on KiwiRail and its partners, i.e. port aggregation / larger ships / inland ports
- Resilience / business continuity

Assets

Short to long term

Moderate

Pages 28, 32, 36-39, 61

CARBON AND ENERGY

- Carbon emissions
- Fuel and energy efficiency
- Energy sources
- Air pollution

Environment

Short to long term

Moderate

Pages 48-53, 57, 60

CUSTOMER RELATIONSHIPS

- Customer satisfaction
- Customer partnerships
- Service offering
- Service provision
- Service performance

Relationships

Short to long term

High

Pages 26, 31-33, 36-38

5

DIVERSITY AND INCLUSION
- Non-discrimination
- Pay equality, equal opportunities
- Collaborative, supportive, and respectful work environment
- Flexible work arrangements
- Maori leadership and development

People
Short to medium term
High
Pages 40-43

6

ENVIRONMENTAL PERFORMANCE
- Environmental management
- Environmental incidents
- Spills management
- Protection of biodiversity

Environment
Short to long term
High
Page 54

7

MATERIALS AND WASTE
- Waste management
- End of life solutions for assets

Environment
Short to long term
High
Page 53

8

COMMERCIAL VIABILITY
- Competitiveness against other modes of transport
- Growth in rail share of freight task
- Certainty of funding flows
- Return on invested capital

Financial
Short to medium term
Moderate
Pages 27-28, 30, 32, 60-61

9

EMPLOYEE ENGAGEMENT AND WELLBEING
- Health and Wellness
- Labour relations and labour standards
- Collaboration with unions
- High Performance High Engagement, HPHE

People
Short to long-term
High
Pages 31, 39-44

10

COMMUNITY RELATIONSHIPS
- Community engagement
- Community investment
- Anti-social behaviour and nuisance
- Noise and vibration
- Te Kupenga Mahi
- Public safety

Relationships
Short to medium-term
Moderate
Pages 31-35

* Value Creation Timing: Short-term is considered within the next 24 months, medium-term is 2-5 years and long-term is five years or more.

** KiwiRail Control Level: the extent to which KiwiRail can impact the material issues. 'High' considers KiwiRail to have a high level of control or influence over the issues. 'Moderate' considers KiwiRail to have some control or influence over the issues but there are also external factors impacting the issues to a reasonable degree.

HOW KIWIRAIL CREATES VALUE

BUSINESS ACTIVITIES

- MOVE FREIGHT
- SIMPLIFY SUPPLY CHAINS
- CONNECT CUSTOMERS BETWEEN PORTS AND REGIONS
- EXTEND STATE HIGHWAY 1 BETWEEN THE NORTH AND SOUTH ISLANDS
- ENABLE COMMUTER JOURNEYS
- MAINTAIN THE NETWORK INFRASTRUCTURE AND OPERATIONAL FLEET

INPUTS

FINANCIAL

Our financial capital comprises operational revenue, Government investment, grant funding, asset sales proceeds and debt funding.

ASSETS

Our freight, inter-island, tourism and network assets are among the hardest working parts of the business.

SKILLS & KNOW-HOW

We have specialist rail, marine and technological knowledge, built up over more than 150 years.

RELATIONSHIPS

We nurture our relationships with customers, suppliers, contractors, Shareholding Ministers, Government agencies, unions, employees, iwi, and the community.

PEOPLE

Our 3,900 people bring the expertise, pride and passion to KiwiRail.

ENVIRONMENT

We are the kaitiaki (guardian) of the rail corridor and the land, air and water in which we operate.

OUR PURPOSE

STRONGER CONNECTIONS. BETTER NEW ZEALAND.

OUR VALUES

- CARE & PROTECT
- ONE WINNING TEAM
- STRAIGHT & TRUE
- GREAT CUSTOMER EXPERIENCES

COLLABORATE WITH PUBLIC AND PRIVATE PARTNERS

OFFER WORLD-CLASS TOURISM SERVICES

KAITIAKI (GUARDIAN) OF THE NETWORK CORRIDOR

LEVERAGE THE VALUE OF THE PROPERTY

PROMOTE PUBLIC SAFETY

INVEST IN A SUSTAINABLE FUTURE

OUTCOMES

FINANCIAL

Sustainable, long-term funding means we can confidently plan for the future and provide a resilient network for a better New Zealand. This also provides a platform for KiwiRail's continued growth as a commercial business.

ASSETS

Deliver reliable and sustainable services through smart utilisation of our assets.

SKILLS & KNOW-HOW

Utilise expert knowledge and industry-specific technology to meet challenges both expected and unexpected.

RELATIONSHIPS

Connecting New Zealand and nurturing partnerships for freight customers, commuters and tourists.

PEOPLE

Innovative and productive culture where our people are engaged and return home safely each and every day.

ENVIRONMENT

We support our customers in reducing their supply chain footprint, as every tonne of freight carried by rail is a 70 per cent emissions saving over the equivalent freight carried by road.

SUSTAINABLE DEVELOPMENT GOALS

We recognise the impacts of our operations and embrace the role we can play in advancing the Sustainable Development Goals.
We will continue to support the delivery of these goals in line with our organisational strategy and business activities.

CHAIR'S REPORT

It has been my pleasure to lead KiwiRail through FY20 together with Group Chief Executive Greg Miller. During the year Covid had a dramatic impact on the environment in which we operate, and on the global and domestic economy.

This scene-setting is important because as a state-owned enterprise, KiwiRail is required under the State-Owned Enterprises Act to be as profitable and efficient as an equivalent company that is not owned by the Crown. Many factors influence our profitability. The economic shock of Covid, particularly in the final quarter of FY20, had a detrimental impact on revenue, especially for our tourism business.

However, it would be wrong to see the entirety of the year through only the Covid lens – significant as it was. This was also a year in which we continued to appreciate the support of Shareholding Ministers, extending a significant period of investment in KiwiRail. On behalf of the Board, I would like to express our appreciation for this support which has energised KiwiRail and allowed us to look ahead with confidence and optimism.

Budget 2020 allocated $1.2 billion to KiwiRail and followed a $1.1 billion rail investment in Budget 2019. This year's funding included the single largest Government investment in KiwiRail's ferries to date - $400 million towards the procurement of two new Interislander ferries which will be in service in the mid-2020s. The Budget also provided $421 million over four years to continue the replacement programme of aging locomotives, including the purchase of 65 new locomotives, and $394 million (including a $148 million top up of the National Land Transport Fund) over two years to ensure New Zealand's rail network is reliable and resilient. This provides a much-needed opportunity to upgrade network infrastructure. This investment is necessary in order to maintain the standards of reliability and resilience that customers expect and that the company aspires to provide.

Outside the Budget, $180 million from the Waka Kotahi NZTA Transitional Rail Fund allows us to bring the Auckland Metro Network up to higher standard. This hard-working network currently carries about 600 commuter services and 40 freight trains every weekday. Both freight and commuter services are expected to grow in the coming years.

Provincial Growth Fund investment towards rail in Northland and the Hillside workshop in the South Island, and funding for track drainage work in various regions has also gratefully been received. The Government also announced a further $39 million to build new workshops at the rail maintenance facility at Waltham, in Christchurch.

We welcome Government funding not only for what it enables us to do, but for the commitment it demonstrates to securing rail in the long-term mix of transport options for New Zealand industry and businesses, as well as a transport mode for New Zealanders. It also means that KiwiRail, this year and in subsequent years, will have a role in New Zealand's economic recovery from the impact of Covid. The company is already a significant employer, but our many and diverse projects will extend

> *"Historically, the so-called 'golden age' of rail is long past, but for those who maintained the faith during the decades when private rather than public transport was in ascendancy, the future looks bright"*

employment opportunities to many parts of the country, also supporting contractors and domestic suppliers.

There was no more welcome demonstration of the long-term commitment to rail in FY20 than Parliament passing the new Land Transport (Rail) Legislation Act 2020. This legislation represents a change in approach that we at KiwiRail have long championed. Instead of road and rail transport funding being considered separately, the new legislation means the heavy rail network, will be funded from the National Land Transport Fund in a similar way to the road network.

Planning, operating and maintaining the rail network and providing the associated freight, tourism and property services will remain the core business and responsibility of KiwiRail. However, the security of long-term funding will be enhanced by the change. Instead of seeking funding on an annual basis – which is unhelpful for long-life infrastructure assets – the new mechanism will provide greater certainty for the company, local government and other rail participants to enable long-term planning and investment. It should also enable increased customer confidence to support increased volumes on rail, providing commercial and broader benefits.

"Given the challenges that Covid imposed on us and that our revenue was down 7 per cent for the year, our operating surplus of $40 million is a credible result"

Under the new Act, KiwiRail will be required to develop a Rail Network Investment Programme (RNIP) every three years. This will be informed by the Government's priorities as outlined in the NZ Rail Plan, the first draft of which was issued in December 2019. We welcome the NZ Rail Plan focus on restoring a resilient and reliable national rail network as an immediate priority.

Historically, the so-called "golden age" of rail is long past, but for those who maintained the faith during the decades when private rather than public transport was in ascendancy, the future looks bright.

The current focus on environmental sustainability, as well as concern with congestion on roads, is seeing rail come back into favour. Auckland rail commuters offer the best demonstration of that and illustrate the rewards of investing in the rail network. In mid-2003, when Britomart opened, there were about 2.5 million commuter trips by rail in Auckland per annum. That figure rose to 10.2 million trips in FY13, and to 22.5 million last year.

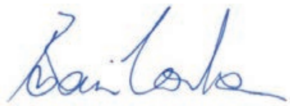
Environmental sustainability is playing a more important role in decisions right across the company. KiwiRail aims to be net zero carbon by 2050, as well as setting ourselves a target to reduce our carbon emissions by 30 per cent by 2030. Aside from new procurement to achieve these goals, our Energy Management Programme includes a combination of improved asset planning and deployment, new and improved operational procedures, and staff training and technology to help improve fuel efficiency across our fleet.

Given the challenges that Covid imposed on us and that our revenue was down 7 per cent for the year, our operating surplus of $40 million is a credible result.

I would like to put on record the Board's thanks to Group Chief Executive Greg Miller and his team for introducing strong commercial disciplines which helped cut operating expenses by 9 per cent during the year. This attention to discretionary spending, and the continuation of the High Performance, High Engagement strategy of working with our unions mean the company is in a better position than it otherwise might have been after the Covid experience.

Greg's international transport and supply chain experience, management skills and determination to succeed are an asset for the company as it delivers on the Government's investment in significant projects to boost New Zealand's rail network.

Finally, may I record my thanks to my Board colleagues, the senior management team and all KiwiRail's 3,900 staff for their delivery under pressure during Covid. It was an excellent response to an unprecedented situation and the KiwiRail flag flew high as we continued to provide essential freight and ferry services throughout the period.



Brian Corban CNZM, QSO
Chair

MILESTONES

AUGUST 2019

Rail Safety Week sees KiwiRail share footage of shocking near misses and remind pedestrians and drivers that every near miss has an impact

Track slab grouting completed in New Zealand's longest tunnel, the Kaimai Tunnel

SEPTEMBER

$94.8m investment in Northland rail announced

New customer siding completed at Toll's new distribution centre in Auckland

OCTOBER

First section of crossover installed at Ōtāhuhu station as part of CRL enabling works

Government announces $20m investment in Hillside workshops

The third annual KiwiRail Values Awards celebrate employees demonstrating behaviours aligned with safety, integrity, customers and teamwork

KiwiRail's Māori network, Te Kupenga Mahi, celebrates 30 years

NOVEMBER

Midland Line reopens after huge rebuild following Omoto slip

Interislander ferry Kaiarahi purchased and flies a New Zealand flag for the first time, and 'Wellington' replaces 'London' as her home port

KiwiRail (with PGF support of $40m for land purchase) announces plans for an intermodal freight hub near Palmerston North

DECEMBER

Wellington Metro double tracking project begins between Trentham and Upper Hutt

Community consultation begins for Picton ferry precinct

Government announces draft New Zealand Rail Plan, outlining a pathway for sustainable planning and funding for rail

JANUARY 2020

$1.1bn funding injection for Auckland and Wellington metro networks through NZ Upgrade Programme

Work begins on new Great Journeys of New Zealand service centre at Waltham

Government announces further funding for Northland rail to enable hi-cube container freight, and Marsden Point land purchase

FEBRUARY

Hutt Workshops marks its 90th birthday

KiwiRail demonstrates its support for diversity at Pride parades in Auckland and Wellington

PGF investment announced for a container terminal in Kawerau

MARCH

KiwiRail marks International Women's Day with events right across the business

KiwiRail enters into partnership with the Department of Conservation and others to help save endangered kea

KiwiRail responds to Covid pandemic and continues to operate as an essential service

A new intake of graduates begins their intensive induction at KiwiRail

MAY

Mangawara Bridge in Taupiri opens - a bridge that KiwiRail has worked on alongside numerous stakeholders for many years to improve safety in the area

Work begins on significant re-railing work in Auckland

JUNE

Substantial upgrade begins on Northland line, which will involve replacing five aging bridges and lowering tracks in 13 tunnels.

KiwiRail supports Hawke's Bay drought relief by moving stock feed to the region for free

Land Transport (Rail) Legislation Act 2020 receives royal assent

AWARDS

SEPTEMBER 2019

KiwiRail's work as part of the NCTIR alliance wins the American Railway Engineering and Maintenance of Way Association's annual WW Hay Award for Excellence

OCTOBER

Best Graduate Development Programme - NZAGE Industry Awards

Effies - "Short-term Success" Award (Coastal Pacific relaunch)

MARCH 2020

KiwiRail's 'near miss' campaign for Rail Safety Week wins 14 awards at the Axis Awards

GROUP CHIEF EXECUTIVE'S REPORT

Kia ora koutou,

In August last year, I asked our Executive Team to participate in a desktop crisis exercise focusing on an emerging influenza pandemic. If they were sceptical about the value of this, they didn't say so. Instead, working closely together, the team were put through their paces by having to react to the scenario's fast-changing challenges and priorities.

Even as we rehearsed this possibility, none of us would have guessed that just a few months later a global pandemic would have been declared, New Zealand's borders would have closed and KiwiRail would be one of the essential services steadfastly keeping the country supplied during an unprecedented national lockdown.

FY20 had many defining moments but it will always be remembered as the year that the Covid crisis began. I am immensely proud of how KiwiRail responded. "One Winning Team" is one of KiwiRail's core values and we demonstrated that every day at all four levels of Covid response, and at every level of the company, too. We stood up our Significant Incident Management Team in early March as the threat was growing and, along with the Crisis Management Team (comprising our Executive), they began daily meetings to co-ordinate our preparedness and response. Our training and preparation meant a calm, well deployed programme exists today, with a rapid and accurate chain of command to ensure all issues are heard and dealt with by the hour, nationally, every day right across the company. I wish to record here how grateful I am to our team, unions, Executive Team, Board members and customers who immediately set aside those things that sometimes divide and distract us and instead put New Zealand's interests first.

It was hugely advantageous that in September 2019 our ICT team had begun working with staff to upgrade 2,200 Windows 7 devices to Windows 10. This gave everyone easy access to the KiwiRail network from any location, and online collaboration tools to connect with each other and external parties, including freight customers. Within 48 hours of the lockdown being declared in March, every KiwiRail employee was equipped to work from home with IT devices – and even furniture loaned if they did not have suitable work set-ups at home. About 1,550 remote workers transitioned in a few days. Throughout the lockdown, ICT ran 17 weekly webinars to help staff learn more about various Office 365 tools.

Once Level 4 was declared, our non-essential worksites were made safe and closed, while necessary maintenance and critical functions continued, including Train Control whose staff were isolated to protect themselves and, therefore, the operation of our network. Our freight movements and Interislander were both classified as essential services and continued operating. We delivered 1.8 million tonnes of freight for our customers during Level 3 and 4 restrictions, adopting all prudent safety measures to keep our staff and the public safe. Safety is a relentless focus of our company every day and our vigilance only increased during Covid. Our mission critical Train Control stepped up across two cities and proved

> *"None of us would have guessed that just a few months later a global pandemic would have been declared, New Zealand's borders would have closed and KiwiRail would be one of the essential services steadfastly keeping the country supplied during an unprecedented national lockdown"*

remote working in train control was possible - a major milestone achieved, and we are grateful. From the outset, I was determined to retain as many jobs as possible and am proud of our success in doing so. We were grateful for the support of the Government's initial wage subsidy.

No company is more Kiwi than KiwiRail and none has deeper connections in the communities it serves. With a rail network of 3,700 kilometres to maintain from Southland to Northland, a vital role in heavy freight movements and the Interislander service being the backbone of the connection between the North and South Islands, KiwiRail's staff live throughout the country and can be required on site at short notice at any location.

"No company is more Kiwi than KiwiRail and none has deeper connections in the communities it serves"

Aside from Covid, the single biggest stand-out of the year was the demonstration of continued support from our shareholders with a $1.2 billion investment announced by the Government in Budget 2020, in addition to project support from the Provincial Growth Fund. Building on the $1.1 billion investment announced in Budget 2019, this funding is transformational for New Zealand's national rail company and we are grateful for it.

This level of support means a lot is happening and there is much to look forward to. We were pleased this year to start the process of looking for a shipyard to build two new rail-enabled Cook Strait ferries that will use new technology to help KiwiRail and New Zealand reduce their transport emissions. Our current three ships are aging and we're engaging our staff in aspects of the design of the new ships. We have also developed plans to revitalise the Hillside workshops in Dunedin and are grateful to now have $421 million to continue the replacement programme for some of our oldest locomotives. Covid halted our start on upgrading our Northland line but we were pleased to get the work under way in June with the first objective being to carry hi-cube containers through the tunnels between Auckland and Whangarei.

We still have a legacy of under-funding to address but with the assurance of new funding to deliver specific capital projects, KiwiRail is looking ahead to managing those well over the next few years, while supporting jobs and New Zealand's post-Covid recovery. Once complete, the new infrastructure and assets will add flexibility, resilience and reliability to our network, helping the company deliver on the sharpened competitive focus that I am overseeing. Our improved procurement processes, alongside investment in the network itself, will help make rail a more attractive option for freight movements and give more confidence to the commuters in Auckland and Wellington who increasingly rely on rail for their daily journeys. Already, the hard-working Auckland network facilitates 22 million commuter trips, on about 600 services every weekday. These numbers are expected to increase as the city grows and with the opening of the City Rail Link – projected for 2024/25.

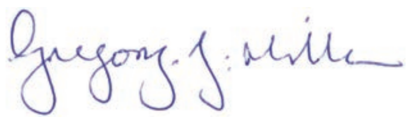
As with other businesses, the experience of many staff working from home during Covid showed that workloads and productivity could, in most cases, be successfully managed remotely. That gave the company confidence to start a trial of flexible work practices for office-based staff. This trial was in place as FY20 closed.

Naturally, the most significant ongoing impact of Covid on our business is financial. This can be seen not only through the fall in revenue during the immediate crisis - 980 trains per week dropping to 420, and the full suite of tourism services stopped - but with the ongoing impact of the borders remaining closed to international tourists. The absence of overseas visitors who comprise more than half our passengers on our long-distance passenger trains - TranzAlpine, Coastal Pacific and Northern Explorer – has been a blow but has not stopped us planning for enhanced services in the future. In an average year we carry about 230,000 passengers and we know there are opportunities in domestic tourism while we prepare to welcome overseas visitors when they return.

In February, we began a project of digital transformation, focusing on enabling better use of data in forecasting and decision-making, more automation, and optimising new ways of working. There are so many developments in technology that will be advantageous to KiwiRail and to New Zealand in the years ahead that future procurement will be both challenging and exciting as it changes the way we operate.

FY20 was my first full financial year in the Group Chief Executive role. It certainly had unexpected challenges but as I look to the opportunities ahead, and envisage rail being truly integrated in New Zealand's transport networks, there's nowhere I'd rather be.

Nga mihi nui.



Greg Miller
Group Chief Executive

PERFORMANCE OF OUR BUSINESS UNITS

Interislander ferries, including Aratere, continued to provide essential services during the Covid lockdown.

FREIGHT

The year to 30 June 2020 was dominated by the impacts of Covid, particularly in the last quarter which saw freight flows significantly disrupted as New Zealand moved between alert levels.

The largest impact was felt in the bulk and forestry sectors where production and processing operations were halted. Domestic freight flows initially fell by approximately 50 per cent during Level 4 lockdown. Other freight movements such as dairy and meat exports were protected to a degree and rail played a key role in keeping these sectors' exports moving.

Outside of Covid, the balance of the year was steady, and rail freight revenue ended the financial year 7per cent down on the previous year.

Unfavourable international commodity prices impacted significantly on export log volumes, particularly from the lower North Island forestry producers.

Export traffic remained largely in line with previous seasons, although drought conditions experienced over many parts of the country saw changes to traditional seasonal export flows.

From the third quarter, import movements differed from traditional seasonal patterns due to the global impact of Covid. Domestic freight flows rebounded quickly in the final quarter after the country moved out of Level 4 lockdown.

INTERISLANDER

Interislander is a crucial link in New Zealand's transport system, effectively providing a continuation of State Highway 1 and the Main Trunk Railway across Cook Strait.

As an essential service provider, Interislander successfully continued to provide a secure and dependable connection throughout the Covid lockdown periods. Considerable effort was put into ensuring the safety of our passengers and staff leading up to and throughout the lockdown. In the days leading up to New Zealand moving to Level 4, there was unprecedented demand from passengers to travel to their place of lockdown. Interislander helped nearly 8,000 travellers and 3,500 private vehicles across Cook Strait to get them home or where they needed to be.

In FY20 710,626 passengers and 243,767 cars were carried across Cook Strait. Interislander also carried close to 1.3 million lane metres of trucks, over 90,000 more than last year, and close to 540,000 lane metres of rail freight, including road bridging. More than 98 per cent of scheduled services

operated as planned and 90 per cent of these sailings were delivered within 15 mins of their scheduled arrival time. Interislander delivered a strong customer satisfaction score of 90 per cent, including implementing an enhanced booking and operation process through the Covid alert period.

Through FY20 there has been significant focus on improving team leadership, culture and safety. Of significant note is that the rate of Interislander Lost Time Injuries (LTIs) has reduced by 50 per cent over the last 12 months. This will continue to be a point of focus for the team.

We continue to plan for the future of our ferry fleet through Project iReX. The Inter-Island Resilient Connection (iReX) Project is progressing procurement of two new, rail-enabled ferries that will replace Aratere, Kaitaki, and Kaiarahi. The work also involves renewing the terminals and transport connections in Picton and Wellington. The target timeframe is for the first of the new ships to arrive in New Zealand mid-2020s.

CAPITAL PROJECTS

This financial year continued to see significant investment in major metropolitan rail projects and rail projects in the regions, particularly through the Government's New Zealand Upgrade Programme and Provincial Growth Fund.

Planning is well underway for projects to prepare the wider Auckland metro network for increased commuter services that will come when the City Rail Link (CRL) begins operation in 2024. KiwiRail has been awarded $933 million through New Zealand Upgrade Programme to extend overhead electric lines from Papakura to Pukekohe, develop new platforms and stations around Drury and build a third main line in the busiest part of the network between Wiri to Quay Park. The electrification and Drury station projects will support housing growth in the south of Auckland by providing people with a convenient public transport option into Auckland city. To ensure the wider Auckland metro network is ready for the growth that will come with CRL, KiwiRail is also planning a major maintenance programme across much of the network, with an investment from Waka Kotahi/ NZ Transport Agency.

In Wellington, $194 million of Transitional Rail funding from the National Land Transport Fund is enabling several network improvements including beginning construction this financial year of the long-anticipated second rail line between Trentham and Upper Hutt. This removes a bottle neck in the increasingly busy metro network and will streamline interactions between metro commuter services, the Wairarapa passenger service and freight trains on the Hutt Valley Line. Planned work to reduce congestion at the approach to Wellington Railway Station and renew the aging Wairarapa Line, including in the Remutaka Tunnel, had a further boost with a $211 million investment through the NZ Upgrade Programme.

This work will include new passing loops at Maymorn and Carterton and another platform at Featherston, which will allow freight and passenger trains to work more efficiently. A new signalling system for Wairarapa will improve resilience and safety.

KiwiRail has also supported inter-regional passenger rail with the refurbishment of 12 carriages – complete with a Huia design on their facade - at Hutt Workshop for the daily Hamilton-Auckland passenger service. This new service will play an important role connecting the two cities and the communities along the route and supporting urban development in North Waikato. The Government has also invested in upgrades to the Capital Connection (Palmerston North – Wellington) passenger carriages, to ensure the continuation of the service.

KiwiRail has seen much needed regional investment, with close to $20 million through the Provincial Growth Fund to begin revitalising Dunedin's Hillside workshops, and completion of the master plan and start of land purchase for the planned inter-modal Regional Freight Hub near Palmerston North.

In addition to funding through Budget 2019 and 2020, KiwiRail has received a further $39 million to build a new, high-performance maintenance facility at Christchurch's Waltham site as one of the Government's post-Covid "shovel ready" projects. This will bring together KiwiRail's maintenance operations spread across the city into one place, improving efficiency, productivity and safety.

New Zealand's spectacular scenery, including the Craigieburn Range, makes rail cruising an attractive option for tourists.

TOURISM

The Great Journeys of New Zealand is operated by KiwiRail and has a long and proud history of connecting people and places via three iconic train journeys - Northern Explorer, Coastal Pacific and TranzAlpine, and the Interislander Cook Strait ferries.

KiwiRail's tourism services bring thousands of visitors to the regions every year. Covid has taken a heavy toll on tourism and our operations suffered the impact when the three train journeys were halted on March 22 before the country entered a national lockdown. With borders closed to international visitors, it has been a challenging time for New Zealand's tourism sector.

Prior to this disruption, the Coastal Pacific had a successful season continuing to rebuild after the 2016 Kaikoura earthquake with a 46 per cent increase in passenger numbers.

In October 2019 a slip at Omoto, near Greymouth, halted TranzAlpine train services to and from the town for more than a month. While repairs were carried out, the TranzAlpine continued to run between Christchurch and Arthur's Pass, with passengers bused for the remainder of the journey to Greymouth. In July 2020 the Government announced $13 million for geotechnical work to stabilise the hillside.

KiwiRail is conscious of the importance of the TranzAlpine to the West Coast economy and our highly valued tourism partners. When the full service was able to resume, the first train of passengers arrived in Greymouth to a warm welcome.

New Zealand has a natural advantage in rail cruising with world-class scenery providing an amazing vista for our passengers. We continue to explore opportunities to develop the services to attract high value customers and bring further spending to the regions.

We are planning to offer different classes of service onboard the TranzAlpine which would mean serving the tourism market at differing levels, with an enhanced service for visitors who are seeking something special, while still ensuring more accessible fares are available. As part of this programme, work commenced in June to extend the platform at Greymouth Railway Station to accommodate longer trains and to improve station access. Funding for the platform came from a Provisional Growth Fund allocation of $80 million, which post-Covid was reduced to $24 million.

ROLLING STOCK

Investment in rolling stock and maintenance facilities has continued, positioning KiwiRail to meet our customers' requirements.

During FY20 we took delivery of 450 container flat top (CFT) wagons, taking our total number of recent generation wagons to around 1,800 (out of a total fleet of 4,800).

These wagons enabled us to retire 450 of our oldest wagons improving our ability to deliver reliable services for our customers.

From this point on we will be procuring CFT wagons to a new, upgraded specification that incorporates globally sourced key subsystems and components with superior total cost of ownership performance. This will enable us to replace the balance of the life-expired wagon fleet (around 2,000 wagons) with modern, high-performing and reliable assets that are cheaper to own and maintain over their lifetime.

TranzAlpine travellers break their journey at Arthur's Pass.

We also began the procurement process for a new fleet of mainline locomotives for the South Island, with the locomotives to be delivered from FY23. These locomotives will provide a generational shift in technology, incorporating AC traction, remote condition monitoring and enhanced driver amenities.

Continued organisational effort and focus to improve asset management and maintenance practices has seen a sustained improvement in reliability and availability performance of our locomotive fleet. This is despite increasing risk around the many assets which are reaching or exceeding their useful life. This will continue to be an area of focus for the business unit over the medium term.

PROPERTY

Our team of property experts manages more than 1,500 KiwiRail buildings, 10,000+ leases, licences and grants including 900 commercial leases, and is responsible for documenting occupation of all rail land including the 3,400 public and private level crossings across our network. The total portfolio is valued at $3.6 billion.

We continue to work to improve our leasing revenue through a commercial approach to managing the portfolio and this has resulted in revenue from property climbing from $25 million in FY13 to $49 million in FY20.

KiwiRail took a pragmatic approach to rent relief considering the business impacts from Covid that recognised the challenging situation. We followed a formal process aligned to our shareholders' aims that ensured we were consistent and fair.

KiwiRail Property is at the heart of New Zealand's strategic freight flows and we are developing intermodal freight hubs across the country to ensure goods get to market in the most efficient way. That includes preparatory work for a new Central North Island Freight Hub near Palmerston North. These initiatives will enable us to improve the efficiency of customers' supply chains, facilitate further conversion of freight volumes to rail, and generate income growth through long-term, sustainable, leasing arrangements.

As a landlord, a landowner and a protector of land for future generations, kaitiakitanga is important to us. We are securing and protecting active rail land while disposing of assets that are no longer needed to fund future rail investments. We aim to be a good neighbour and endeavour to work with others to ensure good outcomes in areas such as private level crossings, cycleways and vegetation control.

CASE STUDY

Rail provides an efficient link in the supply chain for John Turkington Forestry.

TURKINGTON

John Turkington is very clear about the value rail brings to his namesake business.

"Efficiency is the big win for us with rail – not just for getting export logs to port, but for our end to end transport operations."

Established in 1993, John Turkington Forestry Ltd (JTL) currently manages in excess of 10,000 hectares of forest across the lower half of the North Island and Southland and produces more than 800,000 tonnes of logs per annum which are sold to domestic mills and exported.

Around seven years ago the company made the decision to align closely with rail to deliver sustainable and cost-effective transport of logs to ports, for export. That decision saw logs moved by truck from forests managed by the company to rail-served log hubs established by KiwiRail across the lower North Island. The hubs have capacity for short term storage before logs are loaded onto trains and moved by rail to either CentrePort in Wellington or Port Napier for export.

"Using rail means we can plan all our logistics activity very efficiently – from harvest to delivery at export port"

John Turkington says the move has provided certainty and improved delivery timings for clients by mitigating the impact of roading constraints and driver shortages and providing flexible access to ports.

"We started out moving around seven wagons a day to port. Last year we moved one million tonnes and are now up to 70 wagons a day. We would move more if there were more wagons available.

"Using rail means we can plan all our logistics activity very efficiently – from harvest to delivery at export port.

"With many forests having very marginal road access we can put a concentrated effort on harvesting those blocks when weather conditions are good. Those logs are then moved by truck to the log hubs in Whanganui, Palmerston North, or Masterton, where there is the capacity to move large volumes efficiently to port.

"Without rail as part of our supply chain, we would need 30 – 40 additional trucks a day. Trucks can make several trips a day between our forests and the log hub - compared to just one trip a day from the forest to an export port."

FINANCIAL CAPITAL

KiwiRail is experiencing a historic period of change, with unparalleled investment in the network.

INPUTS:

Our financial capital comprises operational revenue, Government investment, grant funding, asset sales proceeds and debt funding.

OUTCOMES:

Sustainable, long-term funding means we can confidently plan for the future and provide a resilient network for a better New Zealand. This also provides a platform for KiwiRail's continued growth as a commercial business.

FY20 HIGHLIGHTS:

- Operating Surplus for the year of $40 million
- Successful implementation of initiatives to mitigate Covid impact on business activity in May and June as business focuses on recovery
- Stronger commercial disciplines and outcomes through increased profit and loss visibility and management training
- New planning and funding model through the Land Transport (Rail) Legislation Act 2020 became law on 30 June. This supports long term investment in the rail network through the National Land Transport Fund.

FY21 FOCUS:

- Execute Covid strategic response and recovery plans
- Long-term funding mechanism and sustainable operating model in place
- Improve operating costs as a percentage of revenue to less than 85%
- Increase rail share of New Zealand freight task
- Diversification of our revenue streams
- Focus on Profit & Loss management and accountability across the business and at an operational level.

The Covid pandemic had a significant impact on KiwiRail's bottom line for the past financial year, but rigorous operational changes and cost savings measures have mitigated this impact and FY20 ended with an operating surplus of $40 million.

Overall, revenue was down 7 per cent for the year but most of that fall occurred in the last quarter when the pandemic's impact was harshest on the business. In April alone, revenue was down by almost 50 per cent.

However, against that challenging picture, operating expenses were down 9 per cent in FY20 as the company introduced stronger commercial disciplines and responded to Covid by implementing rigorous controls on spending, including staff travel, labour costs and other discretionary expenditure.

FY20 is also notable for the additional $1.2 billion of Crown funding allocated in Budget 2020, including $400 million to progress the iReX project to replace the three aging Interislander ferries with two brand new and larger ships. When they arrive, they will be the first new purpose-built ferries in Interislander's fleet for 25 years. The Budget 2020 allocation also provided $421 million to continue the replacement programme for our locomotive fleet.

The Budget announcements in May 2019 and 2020 have substantially increased funding to enable KiwiRail to replace legacy assets. The level of committed investment and the new planning and funding model (which allows KiwiRail to access the National Land Transport Fund from FY22) provides KiwiRail with a solid platform for commercial growth.

NEW PLANNING AND FUNDING MODEL FOR RAIL

KiwiRail is experiencing a historic period of change, with unparalleled investment in restoring the national rail network, and the introduction of legislation to support new planning and funding arrangements. The Land Transport (Rail) Legislation Act 2020 and the NZ Rail Plan represent a fundamental change in the way rail is treated in New Zealand. Together, these documents lay out a pathway for sustainable planning and funding that will allow rail to play the role it should in the country's transport system.

KiwiRail has been an active participant in the Future of Rail Review which has recommended these changes. This review has recognised the critical role of rail within our transport system. It aims to ensure that rail is funded fairly and sustainably over the decades ahead and ensure the national rail network is brought up to a resilient and reliable standard.

For KiwiRail's customers this will mean schedule integrity and reliability which provides them with the confidence to make greater use of rail. Having a long-term strategy for planning and funding rail investment will also give KiwiRail the confidence needed to make effective business decisions. Overall, these changes are about setting the right conditions that will allow rail to grow, for the benefit of all New Zealanders.

The changes contained in the Future of Rail Review and the Land Transport (Rail) Legislation Act 2020 represent the beginning of a broader work programme to integrate rail within an inter-modal transport system. There is still significant work to be done through the implementation phase to operationalise this change. The new planning and funding model will be a major change for all organisations involved in planning and funding rail, and the proposed changes will take some time to implement and bed in. The implementation phase will therefore be critical to the success of the new model.

We acknowledge that there are growing demands for increasing investment in rail across the country to create new services and capacity for growth. However, significant funding over the next decade will be required just to move towards the goal of a resilient and reliable national rail network. It will be critical to ensure that investment in the existing core asset base – to renew old rolling stock, ferries and network infrastructure is prioritised. We welcome the Government's commitment in the NZ Rail Plan to prioritising this investment as a vital platform for future growth.

Apprentice Mechanical Engineer Ben Bishop works on aging wagons at Hillside, which are being given a new lease of life with a conversion to logging.

FINANCIAL STATEMENTS

The financial statements are included from page 78 onwards and detail the financial performance for the year and the financial position at 30 June 2020.

Areas which may be of particular interest are:

Statement of Cash Flows – shows what money has been received versus what money has been spent

Note 1 (f) – Impact of Covid – details the impact of the pandemic on the financial statements

Note 2 – Operating Revenues – provides the split of revenue between business units

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

Note 8 (c) – Impairment of Non-Financial Assets – explains why KiwiRail impairs $418 million of railway infrastructure assets

Note 25 – 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

CASE STUDY

Michelle Gonsalves is a member of the KiwiRail ICT team.

PROFIT AND LOSS OWNERSHIP

To provide greater awareness of business financial performance, KiwiRail rolled out enhanced profit and loss reporting to our front-line managers in FY20.

The initiative is aimed at helping front-line managers understand the contribution of their area, by revealing the relationship between revenue and operating costs which may previously have been less visible.

The change makes it easier for managers to take ownership of financial inputs and outputs at a deeper, more detailed level, enabling the company to make more sustainable business decisions.

In the commercial area, this has driven a focus on train utilisation and on improving yields at a customer/route level.

In operations, rolling stock asset services and network services, the focus is on increasing productivity and improving cost management.

In describing this initiative, Chief Operating Officer Todd Moyle says there are already identifiable cost savings and emerging opportunities to generate revenue.

An example is the reduction in train operating costs especially by reducing overtime and facilitating more efficient train running. A review of our master train plan which looked at the revenue and costs for each service saw a rationalisation without any commensurate loss of revenue. This has enabled managers to manage rosters more efficiently, saving on locomotive fuel and optimising fleet management.

On the revenue side, we were able to match the revenues and costs for supplying power for refrigerated containers stored at our terminals by providing information at a more granular level. We identified our charge-out rates were not covering the cost of providing the service. As a result, we adjusted our rates and turned a lossmaking operation into a profitable one.

“As an SOE KiwiRail needs to utilise commercial best practice, so we are making it easier for our front-line managers to demonstrably link their own decisions to our commercial objectives.”

RELATIONSHIPS CAPITAL

Controlling the flow of freight at Southdown is key to its success.

INPUTS:

We nurture our relationships with customers, suppliers, contractors, Shareholding Ministers, Government agencies, unions, employees, iwi, and the community.

OUTCOMES:

Connecting New Zealand and nurturing partnerships for freight customers, commuters and tourists.

FY20 HIGHLIGHTS:

- Train and ferry service continuity during Covid lockdown to maintain our freight customers' supply chains
- Interislander moved 9,000 passengers, 4,000 private vehicles, 1,300 trucks, 700 wagons of rail freight in week one of Covid lockdown
- Rent relief and deferral plans put in place to assist tenants in response to Covid pressures
- Implementing strategy to review commercial terms of trade with key freight customers
- Repositioning and upgrading assets to cater to premium freight and tourism customers
- On-time performance of all trains exceeds 90%
- Consistent customer satisfaction achievement for Interislander at 90%
- Strong union engagement and relationships through our High Performance High Engagement strategy
- Safety message delivered through Rail Safety Week, with the video viewed more than 425,000 times
- Continued delivery of level crossing and pedestrian improvements in partnership with Waka Kotahi, Auckland Transport and local entities
- Engagement with iwi and hapu as partners to strategic capital programmes such as Northland rail and the Central North Island Hub
- Ongoing collaboration through the Future of Rail Review, development of the new planning and funding model for rail and delivery of our strategic capital investment programme with Waka Kotahi, Ministry of Transport, Treasury, Greater Wellington Regional Council, Auckland Council and Auckland Transport
- Appointed as non-voting members of the Auckland and Wellington Regional Transport Committees

FY21 FOCUS:

- Invest in network, facilities and rolling stock to enable safe, reliable and efficient services
- Drive regional growth by delivering on Provincial Growth Funded (PGF) investment
- Commuter rail renewal and upgrade programme in Auckland and Wellington, and new Hamilton to Auckland service
- Foster a safety mindset and promote rail safety in the communities in which we operate
- Partner with iwi and other stakeholders on new initiatives in our property and supply chain portfolios
- Grow tourism and deliver enhanced tourism offering to further support regional economies
- Continue to partner with government agencies to deliver sustainable planning and funding model, and as part of NZ's transport sector leadership.

ENGAGING OUR CUSTOMERS

KiwiRail has continued to invest with its customers' needs in mind. Replacement programmes for wagons and South Island locomotives mean KiwiRail and our freight customers can plan with confidence to grow rail as their preferred method of moving freight.

We worked directly with customers to explore new opportunities to bring more freight to rail including feasibility studies and freight hub investigations. In the latter part of the year we also worked to identify any shovel ready initiatives that could be undertaken as a response to the Government's infrastructure investment fund.

New ferries and port terminals planned to be delivered mid-2020s are being designed to meet future demands of our road, rail and tourism markets.

KiwiRail has continued to deliver enhancements in our digital platforms that improve speed and efficiency of how customers book and manage their freight through to delivery.

During 2020 we placed a strong emphasis on strengthening our relationships with our Interislander commercial vehicle customers vehicle to develop better service offerings.

New ferries and port terminals planned to be delivered mid-2020s are being designed to meet future demands of our road, rail and tourism markets.

CONNECTING WITH COMMUNITIES

With 3,900 people in our KiwiRail team nationwide and a rail and ferry network that connects 50 towns and cities, no company is more Kiwi than KiwiRail. We're in neighbourhoods right across New Zealand – and we want to play our part in supporting them and being a good neighbour.

This has resulted in several local activities over the past year.

- KiwiRail's Wellington team got stuck in alongside the Petone Beach Clean-up Crew to clear areas along the railway line from Petone Station to the South Petone motorway on-ramp.
- Interislander is a long-term partner of Life Flight and sponsored the annual open day, which attracted 5,000 people this year and raised more than $40,000 for Life Flight.
- The Great Journeys of New Zealand supported the New Zealand Symphony Orchestra and helped bring world-class symphonic music to more than 30 communities across New Zealand, and to over 100,000 people.

DELIVERING REGIONAL GROWTH

KiwiRail has a unique role to play in growing regional economies through improving productivity and supply chain efficiency, creating jobs, delivering tourists to towns and cities and taking trucks off vulnerable roads – which improves road safety. Since the PGF was established, more than $450 million

Interislander is a long-term partner of Lifeflight and staff took part in the organisation's open day

KiwiRail engages with communities where it has projects underway, including with these students at Trentham School.

from the fund has been committed to rail projects in the regions.

During FY20 we worked on the following PGF funded projects:

- Rejuvenation of rail in Northland, including completing design and starting construction the North Auckland Line (NAL) project which includes repairs and maintenance south of Whangarei and will allow hi-cube shipping containers to be carried. We also started purchasing land along the rail designated route between Oakleigh and Marsden Point
- Designing and securing land for an intermodal freight hub in Palmerston North
- Refurbishing the Hillside heavy engineering workshop in Dunedin
- A programme of regional drainage and culvert condition surveys, cleaning and maintenance, vegetation control, and other improvements – providing opportunities to employ and train new regional rail workers
- Capacity upgrades for rail tourism opportunities in the South Island. This funding was reduced from $80 million to $24 million due to Ministers re-prioritising PGF funding during the Covid pandemic
- Renewal works on Castlecliff and Whanganui lines
- These projects supported a growing number of jobs in the regions and provided work for local suppliers. Over 600 people were working on KiwiRail's PGF funded projects across regions by June 2020.

KiwiRail has a unique role to play in growing regional economies through improving productivity and supply chain efficiency, creating jobs, delivering tourists to towns and cities and taking trucks off vulnerable roads.

BEAUTIFICATION

KiwiRail works with local councils and community partners to reduce litter and prevent and remove graffiti in and around the rail corridor. Over the past 12 months we were involved in several beautification initiatives:

- We partnered with Kākano Youth Arts Collective, who added two new murals to KiwiRail's ten-foot equipment containers at Mount Eden and Henderson train stations in Auckland
- We sponsored South Taranaki District Council's makeover to the rail bridge at the southern entrance to Hāwera. The rail bridge was transformed with an eye-catching mural by Whanganui artist Dan Mills in February
- We sponsored a mural by Canterbury based artist Ira Mitchell-Kirk on one of our street-facing buildings in Waltham.

Rail Safety Week was launched at Wellington Railway Station by Transport Minister Phil Twyford.

SAFETY AROUND THE RAILWAY TRACKS

With $500,000 funding support from the Government, we undertook a range of rail safety initiatives. We run a safety ambassador programme to help activate our staff to spread safety messages in their local communities. Our nationwide network of ambassadors visited school, community and professional groups, and attended events like Ports of Auckland's annual SeePort festival.

KiwiRail continues to work with school communities around rail bridge safety and released a special video over summer featuring students from Te Puke High School and KiwiRail staff from the Mount Manganui depot. To date, the video has been viewed online close to 16,000 times.

We continue to sponsor and work closely with TrackSAFE New Zealand, a charitable trust that raises awareness of rail safety and educates the public on how to keep themselves safe around tracks and trains.

In August 2019, we launched a national campaign for Rail Safety Week drawing attention to the impact of near misses between pedestrians, vehicles and trains. The campaign video featured a Waikato-based locomotive engineer and has had more than 425,000 views. The campaign was launched at Parliament and received national media coverage, including a story on Seven Sharp about the effects of near misses on train drivers.

Across our national network, we also continue to invest in fencing and new signage to reduce trespassing at known hotspots, including Te Puke, Tauranga, and Levin.

We continue to sponsor and work closely with TrackSAFE New Zealand, a charitable trust that raises awareness of rail safety and educates the public on how to keep themselves safe around tracks and trains.

SOCIAL MEDIA CHANNELS

In the past year we have connected with hundreds of thousands of people in New Zealand and overseas using social media. In June we reached a milestone with 20,000 followers across our three social media accounts: Facebook, Twitter and Instagram.

Our audience responds enthusiastically to our updates on transformational projects, significant announcements, such as the NAL upgrade, and images and videos of daily activities across our network and operations.

The ability to share safety messages directly to a growing audience is highly valuable and means we can achieve a greater impact with these important messages.

Social media offers a direct and immediate way for the general public to interact with the organisation. It also fosters a sense of community and the stories we share online demonstrate the shared value of rail to New Zealand and New Zealanders.

- **16,645** followers
- **16,000** likes
- We gained **2,619** new followers since FY19
- On average we gained more than **200** new followers per month
- **60%** followers male | **40%** followers female
- We have followers in **45 countries**

Locomotive Engineer Jeremy Jefferies shared his near-miss experiences as part of Rail Safety Week.

RAIL SAFETY WEEK 2019

"Every near miss has an impact."

That was the tagline for 2019's Rail Safety Week campaign reflecting that each near miss affects many people: the pedestrian or driver and their whanau, our Locomotive Engineers and other rail employees, rail users and witnesses.

Rail Safety Week (12 – 18 August), aimed to reduce the incidence of "near miss" collisions between pedestrians/vehicles and trains around the country. A key part of the week was installing "near miss memorials" at crossings throughout the rail network. These were thought-provoking half crosses that represented the hundreds of New Zealanders who had narrowly avoided a serious or fatal collision on the railway tracks in the previous year.

Group Chief Executive Greg Miller says that by failing to observe simple rail safety practices, people are risking their lives, and it has a lasting impact.

"People are missing death or serious injury by seconds – it's often just luck that they are not killed.

> *"It's probably the closest feeling I've had to total helplessness"*

"Near misses can be one of the hardest parts of the Locomotive Engineers' jobs. Tragically some of our drivers have been involved in collisions that have resulted in deaths and they don't want to repeat the experience."

Locomotive Engineer Jeremy Jefferies, who shared his story in the campaign video, described near misses as "real heart-in-your-mouth scenarios."

"It's probably the closest feeling I've had to total helplessness," Te Rapa-based Jeremy said. "It sticks with you; it doesn't go away."

The official launch of the campaign was marked with an event at Parliament hosted by Transport Minister Phil Twyford. The campaign video has received over 425,000 million views.

KiwiRail is the lead agency for Rail Safety Week, with strong support from TrackSAFE NZ. We partner with Transdev, Auckland Transport, Waka Kotahi NZ Transport Agency, NZ Police and local councils to deliver the campaign.

ASSETS CAPITAL

New wagons are unloaded at Tauranga as part of KiwiRail's programme to replace aging rolling stock.

INPUTS:

Our freight, inter-island, tourism and network assets are among the hardest working parts of the business.

OUTCOMES:

Deliver reliable and sustainable services through smart utilisation of our assets.

FY20 HIGHLIGHTS:

- $1.2bn in funding announced through Budget 2020 to replace aging assets including locomotives and invest further in network resiliency
- The funding included $400m to support the iReX project, including purchase of two large rail-enabled ferries, with 50% increased capacity overall, 45% more daily rail capacity, and reduced carbon emissions
- A further $1.1bn committed through the NZ Upgrade Programme for the Wiri to Quay Park Third Main, Papakura to Pukekohe Electrification, Drury stations and Wellington rail upgrades
- 453 new wagons have been delivered, enabling the retirement of older wagons in the fleet
- $700m in capital projects spend
- Mainline locomotives' requirements evaluated, and Expression of Interest tender documents released
- Double tracking underway between Trentham and Upper Hutt to allow trains to travel in both directions at once
- Significant start made on the North Auckland Line (NAL) upgrade
- More than $250m allocated for rail from the Provincial Growth Fund in FY20 including $205m for Northland rail upgrades and purchase of Marsden Point land, $20 million for Hillside workshops and $40 million to secure land for the Palmerston North regional freight hub.

FY21 FOCUS:

- Continue to progress the purchase of two large rail-enabled ferries, advancing procurement process and working with port companies on terminal requirements
- Project work including; Wellington Metro upgrades - double tracking of Trentham to Upper Hutt and Wairarapa line upgrades, the launch of the Hamilton-to-Auckland service, and the North Auckland Line upgrade programme
- Invest in network, facilities and rolling stock to enable safe, reliable and efficient services
- Commuter rail renewal and upgrade programmes in Auckland focusing on repairing and replacing worn rail, and upgrades to the Wellington network.

The $1.2 billion funding boost announced by the Government in Budget 2020 will allow us to improve the resilience of the rail network, invest in much-needed locomotives, and improve the productivity of our workshops so that rail services can be more reliable and operate more competitively in the market. The new planning and funding model through the National Land Transport Fund will enable longer term investment in our rail network.

NETWORK INFRASTRUCTURE

To achieve a resilient, reliable rail network, we regularly inspect our track, upgrade our assets and carry out preventative maintenance and repairs throughout the network.

In FY20 we spent $700 million on network capital expenditure. This was across our key networks, targeted towards improving the resilience and reliability of our lines to meet increasing freight volumes.

To achieve a resilient, reliable rail network, we regularly inspect our track, upgrade our assets and carry out preventative maintenance and repairs throughout the network.

With the injection of $205 million of Provincial Growth Fund investment, KiwiRail has started the major works on the North Auckland Line, replacing bridges, improving tunnels and upgrading the rail line to Whangarei. So far, over 9,000 sleepers have been laid, and 2.8 kilometres of new rail. By the time the line is reopened, approximately 8 kilometres of track will have been replaced, and more than 20,000 sleepers and 15,000 cubic metres of ballast laid.

Work has progressed on the Wellington Metro Upgrade Programme including installing the foundations for 80 new masts over the overhead powerlines in the busiest part of the network, double tracking between Trentham and Upper Hutt and track renewals across the network.

FERRY REPLACEMENT

Work has been continuing on the once-in-a-generation project to replace our existing three ferries with two new large, rail-enabled ferries. The two new sister ships will be bigger, cleaner and more efficient than the current three ferries, with modern propulsion technologies to improve manoeuvrability, reduce wave energies and reduce our emissions profile.

Artist impression of one of the new Interislander vessels.

The new ferries will be nearly 40 metres longer and at least five metres wider than the current vessels to meet the expected growth in freight and passenger numbers over the next 30 years.

The two ferries will be able to carry twice as many passengers as the current three-ship fleet, 300 per cent more rail wagons and almost double the number of trucks and other vehicles

In February, KiwiRail completed the Request for Information (RFI) process for the new ships, which involved completing due diligence visits to interested shipyards and completing a final evaluation to establish a shortlist to proceed to the Request for Proposal (RFP) stage. In May 2020, we took the next step with a RFP to find a preferred shipyard. The $400 million contribution in Budget 2020 enabled KiwiRail to go out to international tender to build the new ships, which are intended to arrive for service mid-2020s.

At the same time, the project is considering terminal options. Significant consultation has been undertaken with the Picton community as part of the redevelopment of the terminal there. The Picton Ferry Terminal redevelopment is a major project for the South Island, which is expected to create direct employment of 200 plus full-time equivalent staff in the terminals construction plus at least 100 full-time equivalent (FTE) roles in indirect employment throughout the supply chain.

The two ferries will be able to carry twice as many passengers as the current three-ship fleet, 300 per cent more rail wagons and almost double the number of trucks and other vehicles.

Another major aim of the project is to build resilience into the operation to ensure services can continue to operate in the event of disaster such as an earthquake. We continue to work with our partners on the preferred location for a Wellington terminal.

ROLLING STOCK UPGRADE

This year saw continuing progress in our strategy to deliver future rolling stock, facilities and asset management practices.

Funding of $421 million allocated in the Budget will enable us to work towards replacing rolling stock that is at the end of its serviceable life and to upgrade maintenance facilities. This will include progressively replacing our South Island mainline locomotives, lighter duty mainline locomotives and shunt locomotives across the country.

KiwiRail has built a new mechanical facility at Te Rapa for the Te Huia commuter service between Auckland and Hamilton.

CASE STUDY

Staff are involved in some design aspects of the new Interislander ferries.

IREX ENGAGES STAFF AND UNIONS ABOUT NEW SHIPS AND TERMINALS

The iReX team has put in place a range of ways to engage unions, Interislander crew and terminal staff on the ferry replacement project.

“This will let us gain valuable front-line input as we design the ships and terminals and helps us identify ways to improve safety and efficiency in the operations,” says iReX Programme Director Stephen O’Keefe.

A highlight of the engagement is work that has been done on Deck 10 of the new ships. Deck 10 will house crew accommodation and common areas such as the mess, day rooms and quiet room. The first round of engagement sought input on the layout of the deck, preferences for common areas and cabins. The second focused on the fitout for the common areas alongside the décor and configurations for the cabins. That feedback from the crew is shaping the design and layout of Deck 10.

> *“While the Covid lockdown delayed some of the planned engagement activities, we feel we are back on track"*

The iReX team is also holding monthly meetings with representatives from our four unions to keep them up to date on developments, and a ships and terminals representative framework has been established to provide two-way communication between staff and the iReX project team. Recent engagement under that framework included focus groups with front line operational staff on the Picton Terminal preliminary designs.

The Interislander Leadership Team has also included iReX updates in the roadshows held on the ships and at the terminals, and in monthly newsletters and video updates.

“While the Covid lockdown delayed some of the planned engagement activities, we feel we are back on track. Future engagement plans include consulting with staff on the target operating model and the new Interislander customer experience,” says Stephen.

PEOPLE CAPITAL

Board Deputy Chair Sue McCormack, left, and Board Chair Brian Corban talk with Mechanical Engineer Rosie Bass-Holland at Hutt Workshops.

INPUTS:

Our 3,900 people bring the expertise, pride and passion to KiwiRail.

OUTCOMES:

Innovative and productive culture where our people are engaged and return home safely each and every day.

FY20 HIGHLIGHTS:

- Reduction in Lost Time Injuries (LTI) by 50%, reduced uncontrolled movements to zero since August 2019
- 20,505 Safety, Health and Environmental (SHE) Work Conversations Completed - up 6,387 on prior year
- Sourcing and distributing PPE during Covid, to ensure front line workforce could operate safely during lockdown
- 25% of the Executive team and 56% of the Board are female
- Re-energised regional and national Women's Network / Mana Wahine, Te Kupenga Mahi (TKM), Young Professionals / Kapa Kotahi
- Diversity and Inclusion Policy drafted, and Flexible Working Guidelines implemented
- Nine new starters in our graduate programme in 2020, up three from previous year, and intake of 13 into our first summer internship programme
- More than 9% of frontline workforce in apprenticeships to secure future workforce
- Engaging with iwi and hapu through strong networks.

FY21 FOCUS:

- Attract, develop and retain talent given KiwiRail's aging workforce and critical goals
- Transition to a more diverse and inclusive culture and workforce
- Grow our talent and youth pipeline training programmes
- Build an accredited rail qualification framework and grow our apprenticeship programme
- Build on our existing safety systems and culture to deliver a step change in Zero Harm performance
- Drive targeted initiatives to support well-being, including mental health and fatigue management
- Work with unions on common strategic priorities, engaging workers to support productivity and efficiency (HPHE).

KiwiRail is committed to providing its staff with the skills they need, including fire-fighting training for Interislander cabin attendants.

We are one of New Zealand's largest employers, with staff in more than 50 towns and cities across the country. KiwiRail is committed to apprenticeships, internships, cadetships and graduates to support New Zealand's post-Covid recovery and to secure the rail workforce for the future. We have made significant improvements in our company culture over the past few years, and this year we celebrated several key diversity milestones.

DIVERSITY FOCUS

We are committed to being inclusive and diverse, and several initiatives are underway to achieve that. We continue to work on lifting the profile and number of women in the workforce.

We also continue to support a range of cultural initiatives, with Te Kupenga Mahi gaining further momentum over the past 12 months. At its annual hui in October, Te Kupenga Mahi celebrated 30 years of supporting Māori within the transport industry. The number of kapa haka and waiata groups continues to grow at KiwiRail, and our Toi Toi leadership programme is developing leaders who are making a difference in their workplaces, with their whanau and in their local communities.

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Following the establishment of a rainbow network last year, KiwiRail was represented at Pride parades in Auckland and Wellington for the first time. This was an important demonstration of our support for our people and our support for diversity.

All our diversity initiatives are designed to create a workplace where everyone can feel safe and achieve success, regardless of gender, age, ethnicity, religion or sexual orientation.

Everything we do is underpinned by our core values. During the year, we reinvigorated our values with fresh branding and a celebration of employees who have demonstrated our values in their day-to-day work.

ZERO HARM

Critical to our business is our core value of 'Care and Protect'. Pleasingly, we have seen an improvement in safety performance as a result of engagement through SHE (safety, health and environment) work conversations, which increased 31 per cent to 20,505. The number of high-risk events fell 23 per cent to 360, and the number of recordable injuries fell 10 per cent to 264.

We remain firmly focused on our goal of zero harm. Achieving this starts with a belief that every incident is preventable. We are delivering a series of workshops to challenge attitudes on safety, and to encourage a proactive approach to personal safety across all levels of our business. Developing a safety-focused culture, reinvigorating our local Health and Safety Action Teams and an ongoing focus on near-miss and hazard reporting will help us deliver a safer workplace for our people, contractors, customers and the public.

DEVELOPMENT OF OUR PEOPLE

The ongoing development of our people as a means of attraction and engagement, increased productivity and safety is at the core of our people strategy. We encourage and support a learning organisation by empowering employees in their personal and professional development. We have an expectation that all employees will be involved in some form of learning whether it be on the job, being coached or mentored, sharing knowledge through communities of practice or by attending formative programmes. Learning at KiwiRail is heavily focused around technical operational skills, zero harm, industry-recognised qualifications, and leadership.

SUPPORTING OUR PEOPLE THROUGH A PANDEMIC

The fourth quarter of this financial year was dominated by our response to Covid. As the country grappled with unprecedented disruption, our focus was to protect the health and wellbeing of our staff and continue to operate essential train and ferry services to keep New Zealand running during the lockdown period.

We have an expectation that all employees will be involved in some form of learning.

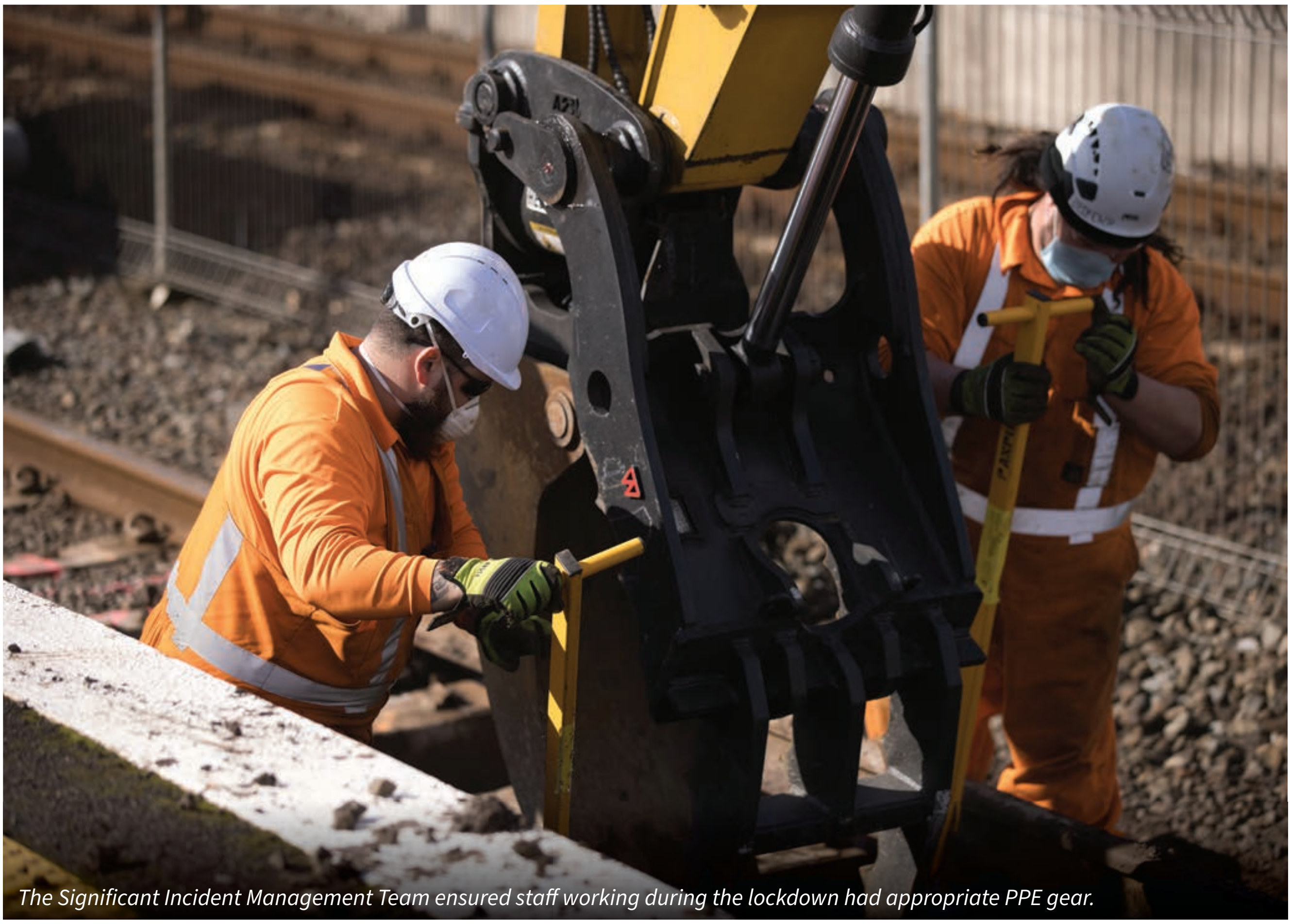
As an 'essential service', most of our people continued to work, either in operational roles or in the jobs that supported the key roles to function. We learned to embrace new ways of working. Some of our people worked from home and we quickly developed protocols so that strict social distancing and protective hygiene measures were in place for our staff in the field to continue working safely.

We also set up a register to track the status and wellbeing of our people across the business, established a 24/7 support line for staff, and promoted our Employee Assistance Programme to support our people's mental health.

We kept in close contact with customers as well as our union partners to adjust our services and plan for a recovery in freight activity.

In November 2019 KiwiRail's executive held a pandemic response exercise, using international experts, to design an approach to ensure we continue to run New Zealand's rail network during a

Embracing diversity is a key focus for KiwiRail.



The Significant Incident Management Team ensured staff working during the lockdown had appropriate PPE gear.

large-scale event. The lessons from that exercise were extremely fruitful as we moved from a theoretical to a real-world response.

KiwiRail's response to Covid was internally driven by two key bodies – the Crisis Management Team and the Significant Incident Management Team.

We activated our Significant Incident Management Team in early March. This team, made up of representatives from all our business units across the organisation, met daily via video conferencing. The team's job was to manage the response at an operational level, with the ability to feed information, and requests for guidance and decisions, up to the Crisis Management Team in a controlled and coordinated manner.

The Crisis Management Team, comprising KiwiRail's executive management, which began meeting soon after, addressed any issues that were escalated to it, such as the policies around working from home. It also managed the liaison with the Government and its agencies, including the Ministry of Transport's Resilience Team.

We quickly developed protocols so that strict social distancing and protective hygiene measures were in place for our staff in the field to continue working safely.

A key job for the Significant Incident Management Team was matching the KiwiRail response to the Government alert levels. As the country moved into the Level 4 lockdown this meant focussing on remote working arrangements, providing the necessary documentation to allow essential KiwiRail workers to travel, procuring adequate PPE and cleaning supplies for essential workers, and making sure that the Interislander ferries kept moving Kiwis who were trying to get home.

Once the country was in Level 4, the focus moved to planning for the shift to Level 3 to ensure that it was done safely and efficiently. That meant looking at how people could keep working safely from home, and ensuring they had what they needed, including enabling IT connectivity and well-being support.

We also ensured we had measures in place to ensure a safe return to the workplace – including cleaning and PPE protocols, and safety inductions as staff who had spent a long time away, returned to the workplace. Each business unit had to complete a de-escalation plan. That work continued as New Zealand moved through the levels to Level 1.

As we rebuild and enter a period of growth, our people will be instrumental in building our network, driving innovation and delivering valuable services for our customers. A safe, diverse and engaged workforce will play a key role in growing KiwiRail and delivering stronger connections for a better New Zealand.

CASE STUDY

Critical work on the network continued throughout the Covid lockdowns.

KEEPING NEW ZEALAND MOVING

Along with keeping our staff safe, KiwiRail had a vital role to play in keeping the country connected, moving freight and people whose travel was essential.

As part of making sure we were able to do that we took steps to reduce the chances of essential staff contracting Covid.

This meant isolating staff who work in the National Train Control Centre in Wellington from the rest of the staff using the Wellington Railway Station and ensuring back up facilities were available. In addition to the existing National Train Control Centre, an Auckland Disaster Recovery Train Control Centre was set up, covering all lines from Hamilton through to Swanson, north of Auckland to provide resilience in the event of a suspected Covid case and the need for self-isolation of team members.

The Interislander faced similar issues as demand ramped up with the pressure on to get people home before the Level 4 lockdown. People anxious to travel between the islands before the strict travel restrictions took effect flocked to Picton and Wellington looking for a place on the ferries.

The situation was eased by the Government's decision to extend the travel deadline by two days, but there were still a lot of anxious would-be passengers and a lot of pressure on our frontline teams, particularly in Picton.

There were still a lot of anxious would-be passengers and a lot of pressure on our frontline teams, particularly in Picton.

On top of that, passenger capacity on the ferries had been cut to ensure that those travelling were able to maintain physical distancing. In addition, Aratere was carrying only freight in order to help minimise the crew's risk of exposure to Covid, and to ensure resilience in shifting freight across Cook Strait. In the week before the 27 March deadline, our Interislander team transported around 9,000 passengers, 4,000 private vehicles, 1,300 trucks, plus 700 wagons of rail freight. The ships continued to move freight throughout the entire lockdown period.

To ensure that could happen, operating practices were changed to keep contact to a minimum between the crew and those using the ships, with drivers and the few essential passengers carried kept separate from the crew. Aratere sailed with its crew only, with drivers remaining shore-based, and no passengers. This kept the chances of infection to a minimum.

SKILLS AND KNOW-HOW CAPITAL

Upgrading the Wellington network with as little disruption to commuter traffic as possible was a key focus in FY20.

INPUTS:

We have specialist rail, marine and technological knowledge, built up over more than 150 years.

OUTCOMES:

Utilise expert knowledge and industry-specific technology to meet challenges both expected and unexpected.

FY20 HIGHLIGHTS:

- American Railway Engineering and Maintenance-of-Way Association "WW Hay Award for Excellence" for Main North Line (MNL) rebuild, Kaikoura earthquake
- Commenced our Digitisation programme
- More than 20,000 e-learning modules completed in the last 12 months
- Upgraded 2,200 Windows 7 devices to Windows 10
- Implementation of drone technology for bridge inspection
- Development of "digital shield" technology to prevent equipment such as diggers hitting hazards including overhead wires
- Derailments reduced by 57% (mainline) and 12% (terminal) year-on-year.

FY21 FOCUS:

- Introduce and implement the innovation framework to encourage and support ideas generation and implementation across the organisation
- Introduce Virtual Reality environments for training within Centres of Excellence
- Increase digital platforms and capability for better data connectivity and information sharing with employees, customers and assets
- Drive stronger financial accountability and commercial acumen to deliver a more profitable business
- Cultivate apprentices, workforce planning, opportunities for innovation through the capital programme.

One of KiwiRail's key strengths is the expertise of our people.

Often working in unique and challenging environments, our teams are renowned for developing innovative solutions to the challenges we face.

This is clearly seen both in the scale of the jobs we complete, the new technologies we are embracing and in the way we tackle network disruptions caused by slips, flooding and storms.

USING TECHNOLOGY TO IMPROVE SAFETY

During the Christmas block of line, we worked alongside Downer to install an underpass at Trentham in Wellington. A key element of the project was using machine control to improve safety.

Machine control uses GPS-enabled excavators and plant that know where they are and where the cutting edge of their buckets are. We loaded a design model into the machine that lets the operator know exactly where to dig. This removed the need for traditional survey techniques and meant we didn't need people to get into a deep excavation pit to work right alongside the large excavators. On this project we moved 2,500m^3 of dirt (the equivalent of an Olympic-sized swimming pool) in one day, and the only person who got into the hole was sitting in the cab of the excavator.

One of KiwiRail's key strengths is the expertise of our people. Often working in unique and challenging environments, our teams are renowned for developing innovative solutions to the challenges we face.

In a world-first development, we also used technology to ensure the excavator (or its bucket) could not come within 2m of overhead lines or track. If the excavator got too close, the onboard computer would send a signal to shut down the hydraulic system. By deploying the machine avoidance system, we empower our teams to work in the most efficient way, minimise disruption to services and ensure our people stay safe.

MAINTAINING OUR ASSETS AND CUSTOMER DELIVERY

Maintaining our assets needs both skill and time – especially when dealing with the likes of New Zealand's longest tunnel and juggling the maintenance around a busy freight schedule.

The 8.86 kilometre Kaimai Tunnel is a vital and busy link on the East Coast Main Truck line between the Bay of Plenty, Waikato and Auckland which serves several key customers, including the Port of Tauranga.

Over the past 50 years the supporting material has progressively washed out from under the slab's concrete foundation, and the weight of trains was causing the

KiwiRail workers use technology such as GPS-augmented reality handsets to improve safety and efficiency.

Through our Next Gen Learning project we are introducing Virtual Reality into our Locomotive Engineer training programme.

tunnel's slab to fail. While there was no immediate safety issue, if left unchecked the deterioration would cause significant disruption in future.

This year we completed a 12-month project which saw us fill the void under the slab with grout in order to provide support to the slab – and the track and trains. Work was completed across 53 shifts, timed around the very busy freight movements that pass through this key transport route.

All up, we drilled 9,320 holes through the 700-millimetre concrete and injected 110,000 kilograms of grout across more than 4.6 kilometre of slab.

CRISIS ACCELERATES TECHNOLOGY ROLL-OUT

The Covid pandemic has demanded new ways of working from many of our teams. Our frontline teams adapted to new operating procedures involving increased Personal Protective Equipment (PPE), improved hygiene practices and physical distancing. Meanwhile, our ICT team mobilised to deploy more than 300 mobile devices and accelerate our move to Windows 10. We set up our call centres to operate from staff members' homes and ran our vital Train Control function from alternate locations. Our people were quick to embrace Microsoft Teams as a way of connecting and collaborating remotely, with benefits being seen in resilience, productivity and culture.

DIGITAL TRANSFORMATION

We are continuing to invest in our Digital Transformation Programme to realise the benefits of existing and new technology such as automation, artificial intelligence, big data, cloud, and systems integration and ensure our people are capable in using these technologies.

Some of the initiatives within our Digital Transformation Programme include:

- Enhancing e-commerce channels and providing digital experiences that best serve our customers
- Digitalising our customer interactions to improve our customers' experiences, putting them at the centre of everything we do
- Real-time journey visibility and tracking
- Integrated dashboards and in-time data for key insights into our business
- Improving workforce mobility through digital tools
- Smart assets with sensors, tracking devices and real time communications both internally and for our customers
- Integrated planning and workforce management which can enable optimisation and key efficiencies in the business for planning and scheduling to best meet demand

DIGITAL LEARNING

KiwiRail is focused on modernising how we learn and as part of that process we are digitalising our learning processes. We are using digital e-learning to build capability, enabling us to train more for less, and encouraging learning anywhere, any time.

We have introduced innovative methods to allow access to learning to develop our workforce. More than 20,000 e-learning modules have been delivered and completed online in the past 12 months including inductions, electrification awareness and yard-based functions. A blended approach, incorporating e-learning and webinars with traditional formats, has already been identified as the way to proceed and will be significant in the future.

We are also developing a series of practical virtual reality modules that will reduce our reliance on operational resources and assets for training. The person learning will be able to train in a fully immersive virtual world, increasing engagement, efficiency and safety.

CASE STUDY

New electric forklights are helping KiwiRail reach carbon reduction targets.

ELECTRIC FORKLIFTS PROVE THEIR WORTH

Staff at Hutt Workshops have recently taken possession of seven new electric forklifts. Leased from Hyster NZ, these forklifts replaced equivalent diesel units and signal the start of a transformation to cleaner technology across our forklift fleet.

KiwiRail's carbon reduction targets and other environmental considerations were an important factor in trying Hyster's 100 per cent electric alternative. However, the new forklifts had to perform at least as well as the ones they replaced. So far, they have more than delivered.

Alan Ujke, Warehouse Manager, says the team were somewhat sceptical at first. "We had tested an electric forklift some years ago and found it very hard riding on our site and most of the team did not like using it over the diesel option. Hyster NZ assured us that the new technology of electric forklifts is far better these days and promised that we would not be disappointed".

Senior store person Rangi Tukukino says the electric forklifts are quiet, have zero emissions, do a good job, and have a turning circle that is far better than our diesel forklifts.

"They are easy to operate inside and outside. They provide a great soft ride over our undulating ground here on the Hutt site.

"A big plus for the team is no diesel smoke, which left our workshop environment covered in black soot. No noisy forklifts working in our warehouses… great machines and these have to be better for our wellbeing."

> *"A big plus for the team is no diesel smoke, which left our workshop environment covered in black soot"*

Switching to electric forklifts is a great example of thinking about the whole of life costs and recognising the value of more sustainable options in the long term.

KiwiRail has set carbon emission reduction targets for the short to long term, including reducing emissions by 30 per cent by 2030 (compared to an FY12 baseline).

These new forklifts help reduce KiwiRail's carbon footprint, but they also significantly improve the warehouse air quality and make good business sense.

On average, each diesel forklift replaced with an electric one will avoid around 9 tonnes of carbon emissions per year while in operations at Hutt Workshops – that's around 64 tonnes of carbon emissions for all seven, equivalent to removing around 14 typical cars from the road each year. On top of the core low-emissions benefits, these units have a range of industry-leading features that will deliver great value to KiwiRail.

There are approximately 60 larger hoists and 65 small forklifts in our fleet and the strategy is to progressively replace the small forklifts across our sites between now and 2025.

ENVIRONMENT CAPITAL

Interislander fuel performance has improved as a result of better fuel monitoring.

INPUTS:

We are the kaitiaki (guardian) of the rail corridor and the land, air and water in which we operate.

OUTCOMES:

We support our customers in reducing their supply chain footprint, as every tonne of freight carried by rail is a 70% emissions saving over the equivalent freight carried by road.

FY20 HIGHLIGHTS:

- Rail freight fuel burn had a 4.9% improvement on base year FY16 (24 GWh)
- Interislander sailing fuel performance had a 4.1% improvement on base year FY16 (15 GWh)
- Addition of seven electric forklifts to replace diesel units at Hutt Workshop
- Environmental GIS viewer set up with foundational data sets.

FY21 FOCUS:

- Remain on track to achieve a 30% reduction in carbon emissions by 2030 through extending our pipeline of initiatives
- Improve rail freight fuel burn through continued optimisation of the Driver Advisory System (DAS) and other fuel reduction initiatives
- Improve Interislander sailing fuel performance through more efficient fuel monitoring and reporting
- Effectively implement Sustainability Management Plan in the Auckland Metro Programme
- Complete and implement recommendations from circular economy waste review
- Implement environmental project plans within Business Units (Contaminated Land, Trade Waste, Fish Passage and Hazardous Waste)
- Ensure environmental outcomes in design, construction and operational works are considered and implemented through the capital investment programme.

KiwiRail plays a critical role in New Zealand's transport system and in the health of the economy, our communities, and the environment. We operate throughout the country including cities, suburbs, rural areas, isolated landscapes, national parks and the Cook Strait. We have a duty and desire to minimise the environmental impacts of our operations across these spaces and beyond.

CARBON AND ENERGY

The Climate Change Response (Zero Carbon) Amendment Act, passed in 2019, calls for a climate-neutral New Zealand by 2050, and is in-line with the goals of the Paris Agreement. One element of reaching a carbon neutral economy is to reduce greenhouse gas (GHG) emissions. In New Zealand, the transport sector is the second biggest contributor to GHG emissions and in 2017, it accounted for 19.7 per cent of all emissions. While emissions from rail account for only a small portion of this total, it is imperative for KiwiRail to continue its focus on improving the energy intensity of its operations and to support New Zealand meeting its climate change targets. Supporting opportunities to move more freight by rail will assist this objective.

Rail has a natural advantage as an energy efficient and low emissions mode of transport, with every tonne of freight moved by rail producing at least 70 per cent fewer carbon emissions compared with heavy road freight over the same distance. This is an increase from the previous 66 per cent saving published by the Ministry of Transport and is the result of an improved rail freight emissions intensity, while emissions from trucks have remained relatively the same.

We measure our carbon emissions (CO_2-e) on an intensity basis for our rail freight operations, and on an absolute basis for the organisation. In FY20, our carbon footprint for scope 1 and 2 emissions[1] was 230,046 t CO_2-e. Our carbon performance since our FY16 baseline is shown in the table below.

CARBON PERFORMANCE

	FY16 2015-16	FY17 2016-17	FY18 2017-18	FY19 2018-19	FY20 2019-20
Rail Freight Carbon Intensity (grams CO_2-e emissions per net tonne kilometre)	28.83	28.82*	27.32*	27.51*	28.13
Carbon footprint - scope 1 and 2 (tonnes of CO_2-e emissions)	272,345*	235,498*	227,116*	240,094*	230,046

*These figures differ to those reported in FY19. This is due to an adjustment in how our fuel consumption figures are now calculated.

Every tonne of freight moved by rail produces at least 70 per cent fewer carbon emissions than if it was moved by road.

1. Scope 1 includes direct emissions from KiwiRail activities under our control i.e. fuel usage by our fleets. Scope 2 includes indirect emissions from electricity purchased and used by KiwiRail.

KiwiRail has reduced its rail freight fuel burn by 4.9 per cent since FY16.

Our carbon footprint reduced significantly in FY17 primarily because of decreased freight movements as a result of the 2016 Kaikoura earthquake. In FY19, our carbon footprint increased, largely due to the Main North Line re-opening, allowing more freight to be transported. In FY20, our footprint decreased largely due to the impacts of Covid and the reduced freight that was carried during the higher national alert levels.

Achieving a low-emissions future is important for KiwiRail. Through our Sustainability Programme, we have primarily focussed on activities that help to drive energy efficiency and carbon reduction across our operations. The Programme includes carbon emissions reduction targets over the short and long term. These are to reduce our carbon emissions by 30 per cent by 2030 (against a FY12 baseline) and to be net zero carbon by 2050.

A key aspect of our Sustainability Programme is our close collaboration with the Energy Efficiency and Conservation Authority (EECA). Through our partnership with EECA, we also set a short-term target to reduce energy usage by 73.5 gigawatt hours (GWh) per annum by June 2020 which represents a 7 per cent reduction of our absolute emissions (against a FY16 baseline).

As at June 2020, we had reached 54 per cent of this target (39 GWh) which is less than we had hoped. This was in part due to some of the reduction initiatives not being able to proceed as initially planned due to safety considerations. In FY21, we will establish another three-year partnership agreement with EECA, and with their support continue to progress initiatives towards our 2030 target.

Fuel usage by our trains and ferries makes up most of our carbon footprint and has been the area of greatest focus within the programme. The investment in the replacement programme for these assets will help us progress towards our 2030 target. The remaining part of our footprint comprises emissions from across our other operations and facilities.

Direct emissions - 240,094 t CO_2e

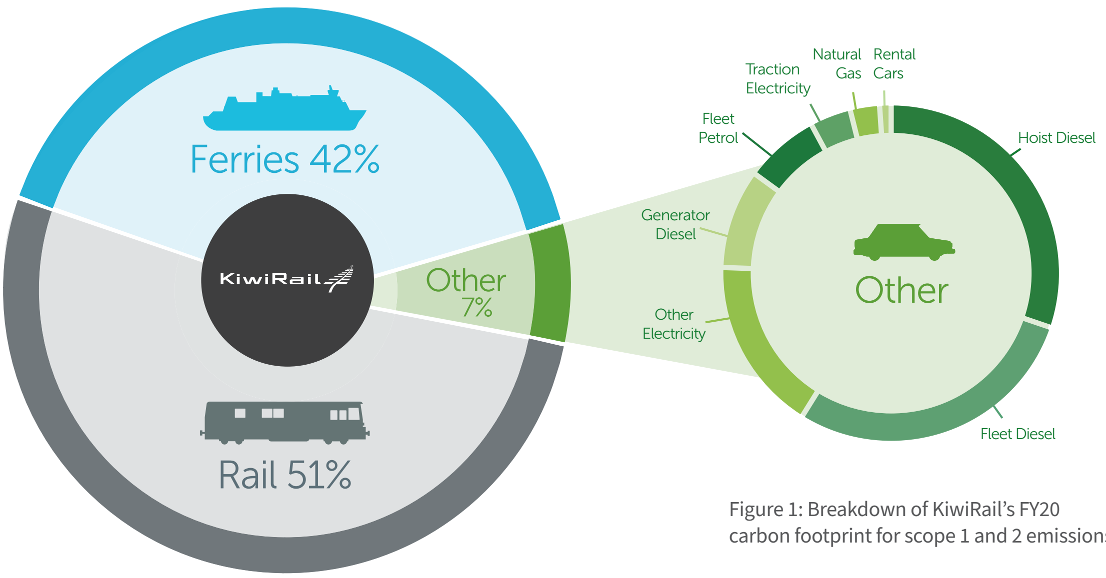


Figure 1: Breakdown of KiwiRail's FY20 carbon footprint for scope 1 and 2 emissions

Donna Young checks a refrigerated container at Southdown. Three new towers mean we have been able to reduce our reliance on diesel generators on site

RAIL

We have reduced our rail freight fuel burn by 4.9 per cent compared with base year FY16. This reduction has been led largely by the introduction of our Driver Advisory System (DAS) to our mainline locomotives in 2015 and has contributed to a 13.5 per cent reduction in fuel use (32.9 million litres) to date. As well as the reduction in carbon emissions, improved fuel performance also leads to a reduction in air pollutants too.

We will continue our focus on DAS to deliver more fuel savings in FY21 by working with our people and the DAS system builders to optimise the system further.

Our Rolling Stock Procurement team has almost completed the procurement of new electric shunt vehicles (ESVs). The ESVs will replace some of the life-expired diesel vehicles in the depots and will help to reduce our fuel consumption from our shunt fleet. The new units are expected to arrive in mid 2021.

FERRIES

We have reduced our fuel burn per sailing by 4.1 per cent compared with base year FY16. Part of the reduction came from an interceptor plate that was installed on Kaitaki in August and was a technology demonstration project co-funded by EECA. The interceptor plate reduces resistance and therefore improves fuel performance. While the actual savings cannot easily be calculated, it has been estimated fuel savings of up to 5 per cent can be expected.

With the addition of the three new towers powered by mains electricity, we have been able to reduce our reliance on diesel generators on site.

Given that the two new ferries will enter service from 2025, the scope to modify the existing ships is becoming limited as the pay-back period is reduced. The new ferries will provide a large step change opportunity to decarbonise our operations and to reduce air pollution as their design takes advantage of lower emissions propulsion technologies.

REMAINING EMISSIONS

While emissions from our facilities and assets other than mainline locomotives and ferries make up a smaller portion of our carbon footprint, we are nevertheless committed to driving energy efficiency measures and identifying fuel-switching opportunities across this part of our footprint.

In December, we changed the way that we power some of the refrigerated containers (reefers) at our Southdown Container Terminal site in Auckland. Due to annual growth in reefer volumes since 2013, the existing mains power plugs had to be supplemented by diesel generator supply. With the addition of the three new towers powered by mains electricity, we have been able to reduce our reliance on diesel generators on site. As well as improved environmental outcomes, the towers are safer and more efficient to operate.

This year also saw the introduction of seven fit-for-purpose electric forklifts at our Hutt Workshop. The units were well received by the team there, especially as they reduce noise and particulate matter, providing a better environment to work in.

In FY20, we introduced measuring carbon emissions from our construction projects (scope 3[2]), specifically emissions generated by the KiwiRail Auckland Metro

2. Scope 3 emissions include all other indirect emissions from activities by KiwiRail, occurring from sources that we do not own or control.

Programme. KiwiRail is responsible for delivering the programme and is committed to its delivery in a way that can also realise broader outcomes that go beyond the functional requirements of each of the projects comprising the programme. To support the delivery of these wider cultural, social, economic and environmental outcomes, we have developed a Sustainability Management Plan (SMP).

The SMP sets out key objectives including emissions reduction, waste minimisation, and sustainable procurement, as well as a pathway for how those objectives can be achieved through the project design and construction phases. Over the next 12 months, we will work collaboratively with our delivery partners to support the implementation of the SMP and achievement of the programme objectives and targets.

STEEL WHEELS

We aim to build on our natural advantage as a low emissions transport option for our customers and continue with initiatives to further reduce energy usage across our operations. KiwiRail helps its freight customers quantify the emissions benefits of choosing rail over road through a monthly 'Steel Wheels' report. The report illustrates the carbon reduction achieved using rail and includes information on fuel savings

We aim to build on our natural advantage as a low emissions transport option for our customers and continue with initiatives to further reduce energy usage across our operations.

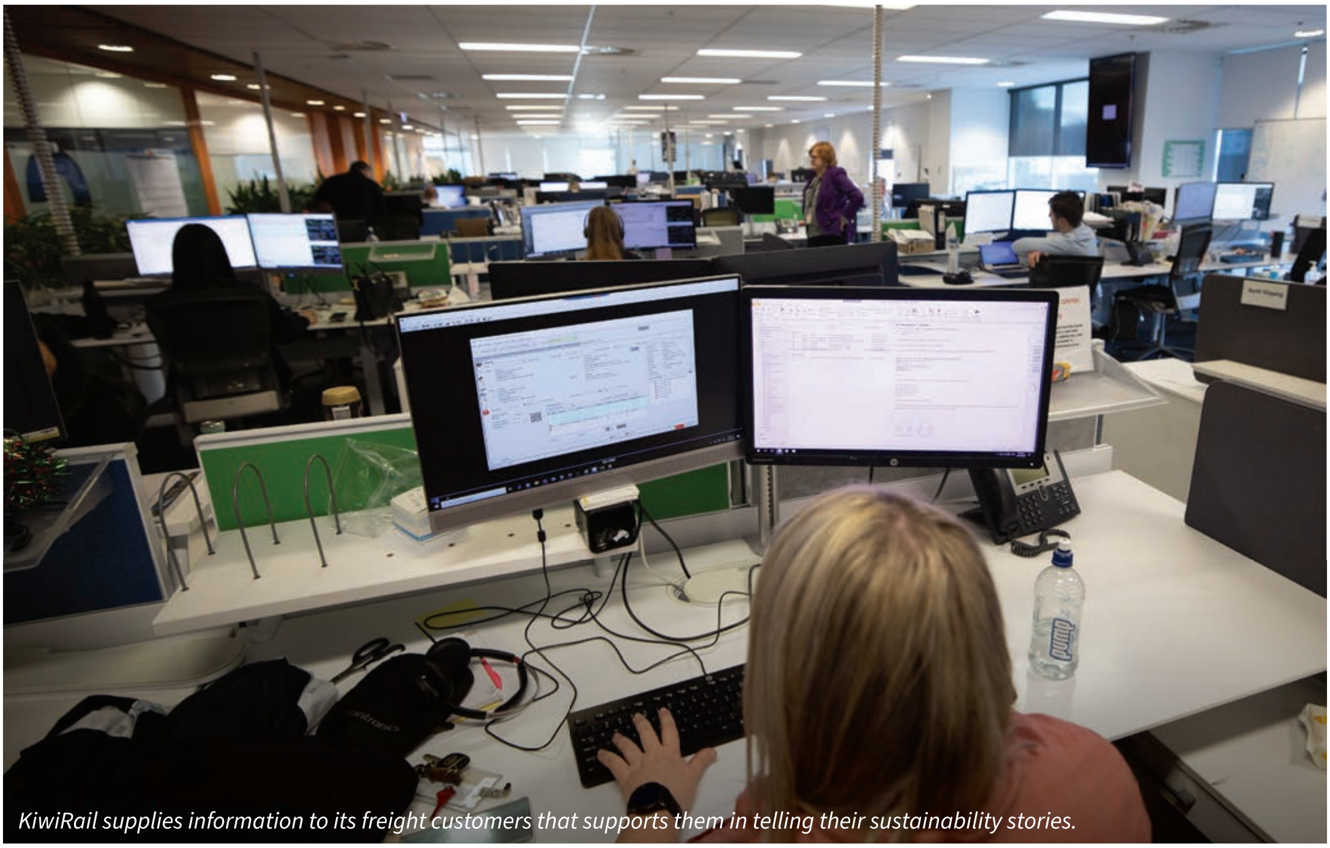
and the reduced heavy vehicle impact their movements on rail have made. This information supports customers in telling their own sustainability story on how they are taking action to address climate change by choosing rail.

Steel Wheels shows that in FY20, KiwiRail transported 18 million tonnes of freight which equates to taking more than 1 million truck trips off the road, avoiding over 236,000 tonnes of CO_2-e emissions.

MATERIALS AND WASTE

We operate a wide range of facilities and services and generate a variety of industrial and passenger waste from our operations. In 2019, with support from the Waste Management Fund administered by the Ministry for the Environment, KiwiRail commenced a 12-month waste review project. The project includes undertaking a waste review of two sites across each of our main operations, with an emphasis on identifying circular economy options to help divert waste from landfills.

We have reviewed 11 sites across the country and have developed a waste reduction action plan for each. Following the waste reviews, we met with the site champions to workshop waste and recycling solutions specific to their sites. Lessons from the waste review will be applied across all KiwiRail sites as we aim to standardise our approach to waste and recycling as much as possible. Our Great Journeys of New Zealand tourism service remains committed to the Tourism Sustainability Commitment developed



KiwiRail supplies information to its freight customers that supports them in telling their sustainability stories.

by the Tourism Industry Aotearoa (TIA), with one of the goals being to reduce our waste footprint. Our waste review included our Scenic rail services. One of the main recommendations identified by the review was to reduce single use disposables where possible. The scenic operations team are assessing reusable options as part of their upgraded service delivery proposals.

ENVIRONMENTAL PERFORMANCE

KiwiRail recognises its large land portfolio, diverse range of services/operations, and its role as the national rail network provider for New Zealand creates both broad environmental obligations and opportunities in supporting the wider environmental setting. KiwiRail is committed to guardianship of the land, water and air in which we operate. This responsibility acknowledges the Maori concept of Kaitiakitanga, and we are mindful that our stewardship of rail land and the corridor is for future generations.

KiwiRail is starting to develop Environmental Action Plans flowing from the Environmental Policy and Sustainability Strategy. These will inform environmental and social outcome focuses for design, operations and maintenance projects. This will enable long term legacy outcomes in project delivery.

The Safety, Health & Environment (SHE) Management System outlined in the Zero Harm Section is where our environmental guidance and regulatory obligations and accountabilities will be set out.

Stakeholder involvement in the environmental planning and works streams has increasingly broadened as KiwiRail seeks to lead a more cohesive environmental approach. These include other transportation providers, and contractor groups, ensuring Te Ao Maori informs our environmental outlook and that community environmental improvements are supported.

Our stewardship of rail land and the corridor is for future generations.

UNITED NATIONS' SUSTAINABLE DEVELOPMENT GOALS

KiwiRail recognises the role that the transport sector plays in advancing the United Nations' Sustainable Development Goals (SDGs), which provide an integrated framework for addressing the world's most urgent social, environmental and economic challenges.

The SDGs identified by KiwiRail as priorities for the business are SDG 8 Decent Work & Economic Growth, SDG 9 Industry, Innovation & Infrastructure, and SDG 13 Climate Action, although our activities help progress some of the other SDGs too. As a key enabler of social, environmental and economic growth in New Zealand, we will continue to support these SDGs in line with our organisational strategy and business objectives.

We have built a Sustainability Strategy that aligns with our SDGs and covers the three core pillars of Environment, Society and Economy. Within the strategy, we have set out the key activities over the short to medium term to help us progress the goals and their associated targets. We already have several programmes underway to meet our aims.

Sustainable Development Goal and target	KiwiRail's Response	KiwiRail's Work Programme
8 – Decent Work and Economic Growth **Target 8.9** By 2030, devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products.	Our tourism services help drive regional growth, delivering tourists to some of our less visited regions each year. KiwiRail is also a signatory to the New Zealand Tourism Sustainability Commitment.	**The Great Journeys of New Zealand** Before the Covid pandemic, KiwiRail typically carried more than one million tourist passengers each year on its Great Journeys of New Zealand rail and Interislander ferry services. The halt in services enabled us to assess how to restart to meet the needs of the market, which includes our guests and the communities we serve. Changes underway include introducing two service classes from Spring 2020 for our TranzAlpine Scenic service. The development of the two service classes supports the communities we serve by delivering tourists to their region that have a higher propensity to spend, with a flow on effect of job creation. **Interislander** KiwiRail has begun the procurement process for two new diesel-electric hybrid ships to replace the current fleet which is nearing the end of its useful life. The new ships will optimise the capacity of the Interislander, increasing the resilience of the service and enabling KiwiRail to better support passenger growth.

Sustainable Development Goal and target	KiwiRail's Response	KiwiRail's Work Programme
9 – Industry, Innovation and Infrastructure **Target 9.1** Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human wellbeing, with a focus on affordable and equitable access for all.	KiwiRail is committed to a reliable, resilient and integrated transport system for New Zealand and the contribution this makes towards a sustainable future. KiwiRail enables the significant growth in commuters on rail in Wellington and Auckland and is working closely with Government on new connections for freight and people in the regions.	**Hamilton to Auckland passenger service** KiwiRail's daily commuter service, Te Huia, between Hamilton and Auckland is expected to carry its first passengers in 2021. The service, operating twice daily initially, will increase access to rail for communities along the route and will provide them with a reliable form of transport to travel between the two cities. **Auckland Metro Programme** KiwiRail is working with Auckland Transport and Waka Kotahi NZ Transport Agency to modernise the Auckland metro rail network between Pukekohe and Swanson. This will improve inter-regional freight services and the customer experience for commuters. The programme comprises a suite of projects that will ease congestion in the busiest parts of the network and mean fewer delays because of track faults and speed restrictions, along with improving resilience. Construction will be phased over several years beginning late 2020. Much of it is expected to be completed by 2024. **Northland** The Government has invested $205 million from its Provincial Growth Fund (PGF) to revitalise Northland rail. The investment will be used to upgrade and renew the asset from Swanson to Whangarei over a two-year period, and re-open the line between Kauri and Otiria. This will deliver improved reliability and resilience, shorter journey times and allow high capacity intermodal containers to be carried on the Northland line. This will allow freight that can currently only be shifted in and out of Northland by road, to instead go by rail. That additional transport option could help cut transport emissions and reduce the number of trucks on the roads.

Sustainable Development Goal and target	KiwiRail's Response	KiwiRail's Work Programme
13 – Climate Action **Target 13.2** Integrate climate change measures into national policies, strategies and planning.	KiwiRail's strategic focus is on emissions reduction across the transport sector. Our Sustainability Programme provides tangible evidence of our commitment to climate action.	**Modal shift** One of the main areas where KiwiRail can support a reduction in greenhouse gas emissions (GHGs) is through an increase in modal shift of freight from road to rail, since every tonne of freight moved by rail produces at least 70 per cent fewer carbon emissions compared with heavy road freight over the same distance. KiwiRail helps its freight customers quantify the emissions benefits of choosing rail over road through a monthly 'Steel Wheels' report that includes information on carbon emissions and fuel savings, and the reduced heavy vehicle impact their movements on rail has made. This information supports customers in telling their own sustainability story on how they are taking action to address climate change by choosing rail. **Decarbonisation** While rail is a less carbon intensive form of transport compared with road, our services still use diesel. KiwiRail continues to implement initiatives to help reduce the carbon intensity of its operations including through its partnership with EECA. DAS optimisation, improved asset planning, new and improved operational procedures, staff training and technology will also help bring about further fuel savings in the short to medium term. **Glidepath to Electrification** KiwiRail also continues to explore new low carbon fuel options, as well as extending the electrification of Auckland's rail network from Papakura to Pukekohe as part of the Auckland Metro Programme.

STRATEGIC OUTLOOK

A focus on safety is critical to the success of our business.

NEW ZEALAND'S OUTLOOK

As a commercially focused SOE serving the freight, commuter and tourism markets, the outlook for KiwiRail is directly linked with that of New Zealand and global economies. In line with the rest of the world, New Zealand's economy has been significantly impacted by the Covid pandemic, a 'once in a century' public health event that has drastically altered the economic outlook in New Zealand and overseas.

While New Zealand enters financial year 2021 in a better position than many other countries in terms of the success of our pandemic response, further waves of community transmission may create setbacks for the economy which showed early signs of recovering relatively quickly from the first wave. The uncertainty created by additional waves of transmission make it almost impossible to predict the medium and short-run impacts of the pandemic.

While our domestic economy is showing signs of recovery to normal levels, sustained international border closure continues to have an adverse impact on tourism and other related sectors across New Zealand, and directly impacts KiwiRail's own tourism services. The restrictions on travel during the higher alert levels directly impacted the number of passengers able to move between islands on the Interislander ferries and between regions on our Scenic services. As restrictions relax, services are resuming to near normal levels, and we are experiencing stronger demand from New Zealanders. With New Zealanders facing indefinite international travel restrictions, it can be assumed that at least some of the estimated $8 billion they would normally have spent on international travel is instead being channelled towards domestic tourism experiences. We are already seeing increased demand from the domestic market looking for alternative local holidays.

We have tailored our service offering to cater for the upsurge in domestic demand and taken the opportunity to develop and trial new product offerings in readiness for when international tourism resumes, either as a result of gradual border reopenings, or as a result of a vaccine being widely available.

The domestic freight market was also hit hard initially as only essential products were able to be transported during the heightened alert levels. The forestry and bulk sectors were completely shut down during Alert Level 4 as they were classified as non-essential services, but these sectors quickly rebounded as New Zealand lowered its alert level status, and we are now operating close to pre-Covid levels.

The import sector has been disrupted as the flow of goods has become imbalanced as shipping lines skip some international ports due to labour restrictions and port closures. This has had a knock-on effect throughout the supply chain as the flow of containers, both full and empty, has been thrown out of equilibrium. We anticipate this will continue for a while to come.

From an export perspective, dairy and meat exports have remained relatively unimpacted although production processing was slowed due to social distancing requirements within processing plants. Demand for these export products remains strong.

The prediction for the domestic market is a general slowdown as Gross Domestic Product (GDP) slows, with the flow of goods assumed to mirror the pace of the overall economy. There is uncertainty over how the second half of FY21 will play out, in particular with the wage subsidy ending and the predicted slow-down of the domestic economy.

In the medium term, rail volumes of key export products, namely dairy, coal and forestry are linked to the market demand which is driven off commodity pricing and international market conditions. The ongoing challenge is for KiwiRail to ensure sufficient contractual protections are in place to mitigate the often sudden changes in market conditions.

KiwiRail is following a four-stage response to the pandemic to aid our recovery. Property and Freight have bounced back to near pre-Covid levels. KiwiRail's Tourism products have pivoted to target the domestic market with Scenic services gradually restarting, albeit at lower capacity, as the alert levels have made travel in New Zealand safe. The Interislander passenger market has seen an upsurge in domestic customer movements more than filling the void created by the absence of international tourist flows. The outlook for KiwiRail is positive and the business is well placed and resilient while remaining cautious. Lower traffic levels have provided the opportunity to fast track key infrastructure improvements to better position the business for the future.

FOCUS ON SAFETY / ZERO HARM

Ensuring people can access the rail network safely and that our workers are safe and healthy is critical to the on-going success of our business. We are committed to reducing our critical risks and improving our environmental accountability to implement and sustain a Zero Harm environment ensuring everyone goes home safe and healthy every day, while we also contribute to preserving New Zealand's natural environment.

As a result of our Covid response, we have achieved greater collaboration across KiwiRail and with the related response forums of other organisations and government agencies such as the Ministry of Transport's National Crisis Management Centre. We had the opportunity to think differently about operational responses to Covid risks and respond innovatively through communication tools such as the Covid Hub, Vault Solo App and online videos. We aim to be the leading safety and health organisation in New Zealand, with a safety culture that has at its heart a belief that every incident is preventable. This has resulted in a 24 per cent increase in Safety, Health and Environment (SHE) Work Conversations, 31 per cent reduction in Safe Working Irregularities, 57 per cent reduction in Mainline Derailments and 24 per cent reduction in Terminal Derailments in FY20 compared to FY19.

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

KiwiRail will continue to work closely with our external regulators and agencies; WorkSafe, Ministry of Transport (MoT), Waka Kotahi NZ Transport Agency, Maritime New Zealand, Civil Aviation Authority and the Transport Accident Investigation Commission (TAIC) to ensure the highest levels of health and safety are achieved. We will also maintain our focus on working collaboratively with our customers and partners to achieve shared safety, health, and environment outcomes that help support our role as an integral part of the solution to New Zealand's future transport needs. KiwiRail is focused on the following safety initiatives:

Safety Rules Transformation

Our commitment continues to SHE system accessibility, usability and training. We have a structured project to proactively reform the way we create, communicate and verify that our rules are being applied. This project will apply a new approach, incorporating human factors directly connected to known rule failures and rail incidents, worker psychology in rule and work design, training and worker competency, and execution in the field. This approach will transform KiwiRail rules, making them simpler, more user-friendly, and more effective in operating our business safely.

Safety Leadership

A safety leadership programme is underway as we focus on shared beliefs, practices and mindsets that will shape positive safety behaviour at KiwiRail. The key element is fostering a culture of prevention within the organisation. The focus areas of the new approach are:

- Personalise Safety
- "Get It" vs Know it
- Keep Safety in Focus

KiwiRail is looking to widen the options it provides on its passenger trains, including introducing new service classes.

NET ZERO CARBON

The Climate Change Response (Zero Carbon) Amendment Act calls for a climate-neutral New Zealand by 2050. It lays out the pathway for New Zealand to reduce net emissions of all greenhouse gases (except biogenic methane) to zero by 2050. Rail has an important role to play in helping New Zealand reach its emission reduction targets, since it produces 70 per cent fewer emissions than heavy road freight transport per tonne of freight carried.

We have developed our own carbon strategy to identify carbon reduction opportunities across the business which includes carbon emissions reduction targets over the short and long term. These are to reduce our carbon emissions by 30 per cent by 2030 (against our FY12 baseline) and to be net zero carbon by 2050. In addition, we are establishing our second partnership agreement with the Energy Efficiency and Conservation Authority (EECA) to continue our focus on energy efficiency and emissions reduction across the business.

The Climate Change Commission was established under the Climate Change Response (Zero Carbon) Amendment Act to provide independent, evidence-based advice to government. KiwiRail has been actively involved with the Commission's transport sector Technical Reference Group (TRG) since October 2019. The purpose of the TRG is to support and test the development of modelling scenarios and assumptions behind the Government's five-yearly emission budgets which will be recommended by the Commission and set by the Government by the end of 2021. These budgets will operate as stepping-stones to help keep New Zealand on track to meeting our national long-term emissions reduction targets under the Act.

The budgets will also constrain the supply of carbon credits in the economy, ensuring future increases in the price of carbon which are likely to impact the price of fuel. These flow-on effects will impact operators across the whole transport industry. While rising fuel prices may cause a general increase in transport costs, we expect the lower fuel usage per net tonne-kilometre of rail transport will encourage a modal shift towards rail due to lower costs relative to road transport.

GROWING RAIL

KiwiRail's purpose is to connect people, networks, journeys, experiences and ways of working that move our customers, the transport system, KiwiRail and New Zealand forward. Rail is a critical enabler for our domestic economy providing broad ranging benefits through the value rail brings up and down our country, economically, socially and environmentally.

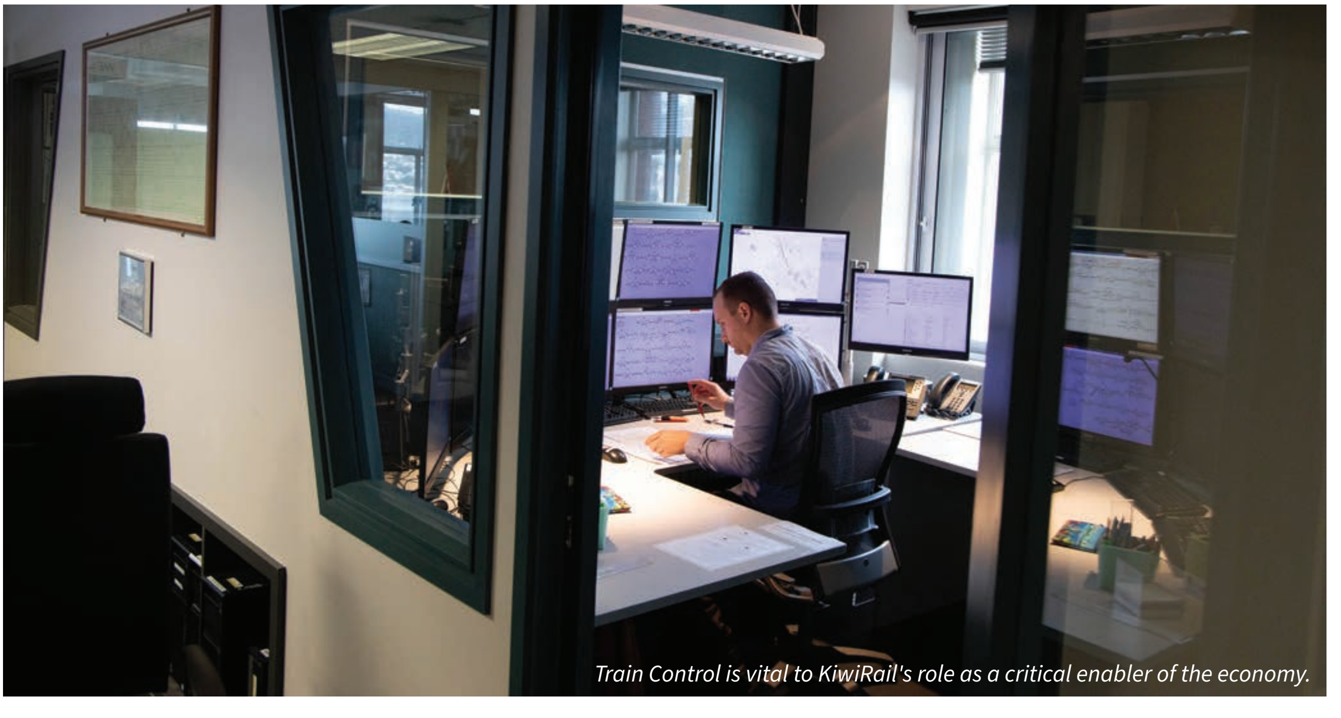
We are continuing work on our strategy to double the value rail delivers to New Zealand through growing freight market share by developing into adjacent markets and incrementally and deliberately improving the yield and profitability of the business, investment in regional growth, enabling commuter services, and increasing our tourism rail and interisland ferry journeys.

Our ongoing investment programme in place for new rolling stock should see even greater levels of service and reliability, improving customer offerings in the short to medium term. Much of this investment addresses the legacy of under-investment that had led to parts of the rail network facing "managed decline".

Transitioning our Interislander ferry fleet to two newer, larger, rail-enabled ferries is a priority for us to provide a strategic response to growing passenger and freight demand across the Cook Strait. We are making strong progress in this area with finalising designs and securing procurement of these new vessels.

Alongside succession planning and talent management, we are working hard to plan, develop and recruit to deliver the skills and talent required for the growth ahead.

To this end we have committed to continuing to champion our cadet, apprentice and graduate programmes, developing rail talent, growing jobs in the regions and ensuring we have the skills needed for the future. KiwiRail has welcomed over 20 graduates since 2019, and in the summer of 2019, ran our inaugural 12-week Internship Programme



Train Control is vital to KiwiRail's role as a critical enabler of the economy.

KiwiRail provides the networks that enable 28 million commuter journeys a year.

to support practical and professional work experience in line with the interns' degrees.

Alongside securing skills and talent to support KiwiRail's growth, the focus on job creation and skill development will assist in aiding New Zealand's recovery by bolstering the civil engineering and construction and hospitality sectors.

INVESTMENT IN RAIL

Amendments introduced through the Land Transport (Rail) Legislation Act 2020 have come into effect, enabling a new planning and funding framework for the heavy rail network. This represents a fundamental change in how below-rail assets are funded, with the new framework bringing planning and funding of the rail network into the National Land Transport Fund through the Land Transport Management Act 2003 (the LTMA). Essentially, it allows rail infrastructure funding to be considered through a similar framework to roads.

There has also been significant additional investment from the Government to support a resilient and reliable national rail network, and to enhance rail assets in the regions (through the Provincial Growth Fund). This investment in rail will play an essential role in NZ's economic recovery post-Covid by creating work for the rail, civil engineering and construction sector and suppliers. Investment in track renewal, mechanical facility upgrades and ferry terminal projects are expected to create opportunities across NZ.

Our focus is on implementing the new planning and funding model and delivering on this programme of investment.

Investment in rail will play an essential role in NZ's economic recovery post-Covid by creating work for the rail, civil engineering and construction sector and suppliers.

DIGITAL CONNECTIVITY AND SERVICES

Innovation is fundamental to helping us achieve our strategic goals, and to supporting our growth and future. We are fostering an innovation culture, mindset and behaviours across the organisation. As part of our commitment to this culture change, we have introduced a framework that encourages and supports idea generation across the business to create value through improving our customer and employee experiences, guiding those ideas from inception to implementation. We will also build innovation into our strategic capital programme, as we deliver significant rail investment for future generations.

Digitisation continues to have a large impact on the transport industry. Digital transformation is key to enabling us to achieve our strategic goals. It aims to improve our customer and employee experiences through customer-centric products and services, efficient operations and processes, putting people and safety first, delivering innovative solutions, and continuing to be environmentally responsible.

INCREASED COMMUTER DEMAND

Population growth in the so-called "Golden Triangle"- Auckland, Hamilton, Tauranga - will continue to drive most of the increase in demand for metropolitan rail. We are working closely with Auckland Transport on the new City Rail Link, which will double the capacity of the entire Auckland rail network by 2024, and our network teams are delivering projects to ensure new timetables and capacity needs can be met.

KIWIRAIL BOARD OF DIRECTORS

Brian Corban

Sue McCormack

Noel Coom

Hazel Armstrong

Fiona Mules

Rachel Pinn

Mike Williams

Maxine Moana-Tuwhangai

Bruce Wattie

Brian Corban
Chair
Brian Corban was appointed to the KiwiRail Board as Deputy Chair in July 2018, and as Chair in July 2019. Brian is an Auckland-based company director and lawyer (now retired from legal practice). His experience includes Chair of Genesis for 10 years, Chair of Radio New Zealand Ltd, and the Foundation Chair of Television New Zealand Ltd. He has previously served as Deputy Chair of NZ Railways Corporation/KiwiRail in 2008. He is also Chair of the Melanesian Trust Board, and a director of a number of private companies and a trustee of various community trusts. He is a former Chair of Auckland City Mission and former member of the Waitangi Tribunal.

Sue McCormack
Deputy Chair
Sue practised as a corporate commercial lawyer for 35 years before retiring from partnership in 2019. She is Chancellor of the University of Canterbury, a member of the Canterbury Earthquakes Insurance Tribunal, and has previously been a director of the Lyttelton Port Company Limited, the New Zealand Symphony Orchestra and the Public Trust.

Noel Coom
Director
Noel has more than 45 years diverse experience in the international shipping and rail sectors having held senior management positions in New Zealand, the United States, and in Australia. Noel was formerly NZ Chair of the International Container Lines Committee (ICLC).

Hazel Armstrong
Director
Hazel is a lawyer specialising in ACC, health and safety, employment law and professional ethics. She sits on the NZ Law Society ACC Committee.
She has undertaken inquiries on behalf of government and organisations and in 2014 was part of a three-person inquiry into safety in the forestry sector. She has worked with KiwiRail and the Rail and Maritime Transport Union on safety related issues including the Otira and Kaimai tunnels, locomotive engineer health and supporting KiwiRail health and safety action teams.
She is a director of Community Law and has previously been a director of the Civil Aviation Authority.

Fiona Mules
Director
Fiona commenced her career as an investment banker. After more than a decade in the private sector, she was brought in by the New Zealand Treasury to help establish a Public-Private-Partnership programme in New Zealand. Fiona was responsible for building and leading a centre of PPP expertise and leading the structuring, negotiation and execution of the catalyst PPP transactions. Since leaving the Treasury, Fiona has pursued a governance career. She is a director of Lyttelton Port Company, a director of the Reserve Bank and continues to remain involved in large scale infrastructure financing and procurement in a consulting role.

Rachel Pinn
Director
Rachel is the director of her own transport consultancy business. She brings significant local and central government experience in strategic transport planning, passenger transport and procurement. Rachel has board experience in both central government and the not-for-profit sector.
Rachel is the Chairperson of the Tauranga Budget Advisory Service and a member of the Bay of Plenty Department of Conservation Board and Tauranga City Council's Heart of the City technical advisory group. Rachel is a full member of the New Zealand Planning Institute and has a master's degree in transport studies.

Mike Williams
Director
Mike is CEO of the New Zealand Howard League, a long-established penal reform charity dedicated to prisoner education, reducing reoffending, and assisting with positive reintegration into communities. A former New Zealand Labour Party President, Mike was previously a director of Genesis Energy, NZ Transport Agency, GNS Science, Auckland Regional Transport Authority, Auckland Transport and Ontrack.

He established two companies - Insight Research (now UMR), a market research company and Insight Data, which specialised in data management software and marketing.

Maxine Moana-Tuwhangai
Director
Maxine was appointed to the KiwiRail Board in March 2020. She is a Fellow of Chartered Accountants Australia and New Zealand, and a Member of the New Zealand Order of Merit. She is a Trustee of Te Aho o Te Kura Pounamu, The Duke of Edinburgh's International Award Aotearoa New Zealand, and a director of Raukura Hauora o Tainui. She is a past Chairman of Te Kauhanganui o Waikato and past member of the New Zealand Maritime Authority.

Bruce Wattie
Director
Bruce was appointed to the KiwiRail Board in March 2020. He was a partner with PwC for 25 years and continues to provide a diverse range of commercial and financial advice to both the private and public sectors. Bruce is a director of the New Zealand Institute of Economic Research. Bruce's technical specialisations include large-scale infrastructure procurement processes, infrastructure financing, capital structuring, economic regulation, business and share valuations, and cost of capital. Bruce is a Chartered Accountant and holds a Bachelor of Commerce and Administration in Economics and Accounting and completed the International Business Programme at Harvard Business School.

THE KIWIRAIL EXECUTIVE TEAM

Greg Miller

Todd Moyle

David Gordon

Usman Pervaiz

Rod Lay

Helen Rogers

Andrew Norton

Alastair Cumming

Garry Collings

Jonathon Earl

Joanne Black

Stephanie Campbell

Greg Miller
Group Chief Executive Officer
Greg was appointed Chair of the KiwiRail Board and Chair of The New Zealand Railways Corporation Board in November 2018, after a 32-year career in supply chain logistics. In May 2019, he became Group CEO. Previously Managing Director and Chief Executive of Toll New Zealand, he led large global supply chain strategies and established businesses across Asia, USA, Australia and the Pacific. He has significant experience in business transformation acquisition and divestment, was previously a director and managing director of Tranz Rail subsidiary Tranzlink International and was a senior executive of the Mainfreight Group. Greg fostered the Maori transport network Te Kupenga Mahi and held roles as the Kahui Ariki representative of the Maori King and Chair of the Waikato Tainui Tribal Parliament. He holds several directorships and is a Fellow of the Chartered Institute of Transport and Logistics. Greg is of Nga Puhi/Ngai Te Rangi/Rongowhakaata descent.

Todd Moyle
Chief Operating Officer/Deputy Chief Executive Officer
Todd oversees all operational parts of the business. Prior to taking on his current roles, he led KiwiRail's network of track, bridges and tunnels, along with the company's engineering function. A qualified and experienced engineer, Todd joined KiwiRail in 2007 and has more than 15 years in the construction and operation of rail networks in New Zealand and the UK. He has worked with London Underground, and in New Zealand's pulp and paper sector.

David Gordon
Group Chief Operating Officer – Capital Projects and Asset Development
David oversees KiwiRail's strategic capital projects. David joined KiwiRail in 2007 when he began working on the Wellington Regional Rail Programme as Project Director. More recently, David held the roles of GGM Asset Management and Investment, and GM Network Performance. Before joining KiwiRail, he worked as a consultant in transport infrastructure, was Planning and Development head for Wellington International Airport and a Senior Manager at Ernst and Young.

Usman Pervaiz
Group General Manager Innovation and Strategic Growth
Usman oversees Strategy, Tourism, Property and Sustainability for KiwiRail. Usman has been in senior commercial delivery, innovation, partnerships and corporate strategy roles since 2008. He is a professional engineer with more than 18 years of experience, and has qualifications in civil engineering, environmental engineering, sustainable development and a MBA. Usman has business experience in Asia, Australia and New Zealand and has previously worked with EnergyAustralia, Downer, Jacobs and Parsons Brinckerhoff.

Rod Lay
Group Chief Financial Officer
Rod is responsible for all KiwiRail's accounting and finance operations. Rod is an experienced financial executive and leader in both professional accounting and industry environments. He has spent almost 20 years in senior financial leadership roles working in the network transport and logistics industry, having worked at both Tranz Rail and Toll New Zealand. Rod is a chartered accountant with CAANZ and joined the KiwiRail executive team in August 2019.

Helen Rogers
Group General Manager Government Relations - Policy & Funding
Helen leads KiwiRail's collaboration with government agencies on transport policy, funding and investment. She joined KiwiRail in 2014, and has over 20 years' experience leading finance, funding and strategy teams. As a Chartered Accountant, Helen has worked across a range of local and central government agencies. Prior to KiwiRail, Helen was a consultant leading finance transformation programmes in the public sector after several years as Financial Controller for Wellington City Council.

Andrew Norton
Group General Manager Human Resources
Andrew Norton is an experienced leader at the highest levels of public and commercial organisations. Andrew has previously held senior and executive roles with Public Service Association NZ, Auckland District Health Board and, was Executive General Manager Human Resources for Downer in Australia. Andrew has an in-depth understanding of industrial relations, strong engagement skills and experience in developing executive leadership in large organisations.

Alastair Cumming
Group General Manager for Zero Harm
Alastair is currently the Group General Manager for Zero Harm and has been with KiwiRail more than 30 years. He has extensive experience across all parts of the organisation both at an operational and delivery level. Alastair has added to his rail knowledge with a Post-Graduate Diploma in Rail Safety and is completing a Masters in Transport Safety Management.

Garry Collings
Group Chief Information Officer
Garry is passionate about delivering better business outcomes and improved customer experience through technology. He is a strong advocate of ICT working collaboratively with business teams to streamline internal operations through systems and platforms. He and his team select and implement the most appropriate technology for KiwiRail's needs. Garry brings to KiwiRail 24 years of CIO and general management operational experience at Mondiale, Toll New Zealand, Tranz Rail and Mainfreight.

Jonathon Earl
Group General Counsel
Jonathon has led KiwiRail's legal team since 2015, overseeing legal and regulatory matters across the KiwiRail group, and providing company secretarial support to the KiwiRail Board. He has more than 17 years' experience practising law in private practice and in-house roles. He has previously worked as a corporate lawyer in major law firms in New Zealand and London. After returning to New Zealand, he has worked in-house in the transport, infrastructure and construction sectors.

Joanne Black
Group General Manager Communications
Joanne leads KiwiRail's communications team which deals with internal and external communications, government relations and community stakeholder engagement. She re-joined KiwiRail in 2020, having previously held the role of communications manager in 2015/16. Joanne has an extensive background in journalism and was for many years a reporter in the Parliamentary press gallery before working as a Beehive press secretary from 2012-2015.

Stephanie Campbell
Group General Manager Property
In FY20, Stephanie was responsible for the leadership and management of KiwiRail Property. She has been involved in property, investment, development and construction in New Zealand for more than 20 years. Stephanie has a BArch (Hons) and BBSc. (Stephanie resigned from KiwiRail in October 2020.)

HOW WE ARE GOVERNED

Board members inspect carriages for the new Te Huia service at Hutt Workshops .

With a large transformation programme including significant capital investment ahead, strong governance is required to ensure success.

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 expectations of the Shareholding Ministers for the governance of KiwiRail are communicated each year to the Board via the Letter of Expectations from Shareholding Ministers and set out in the Owner's Expectations guidance, which is administered by The New Zealand Treasury.

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 Group Chief Executive.

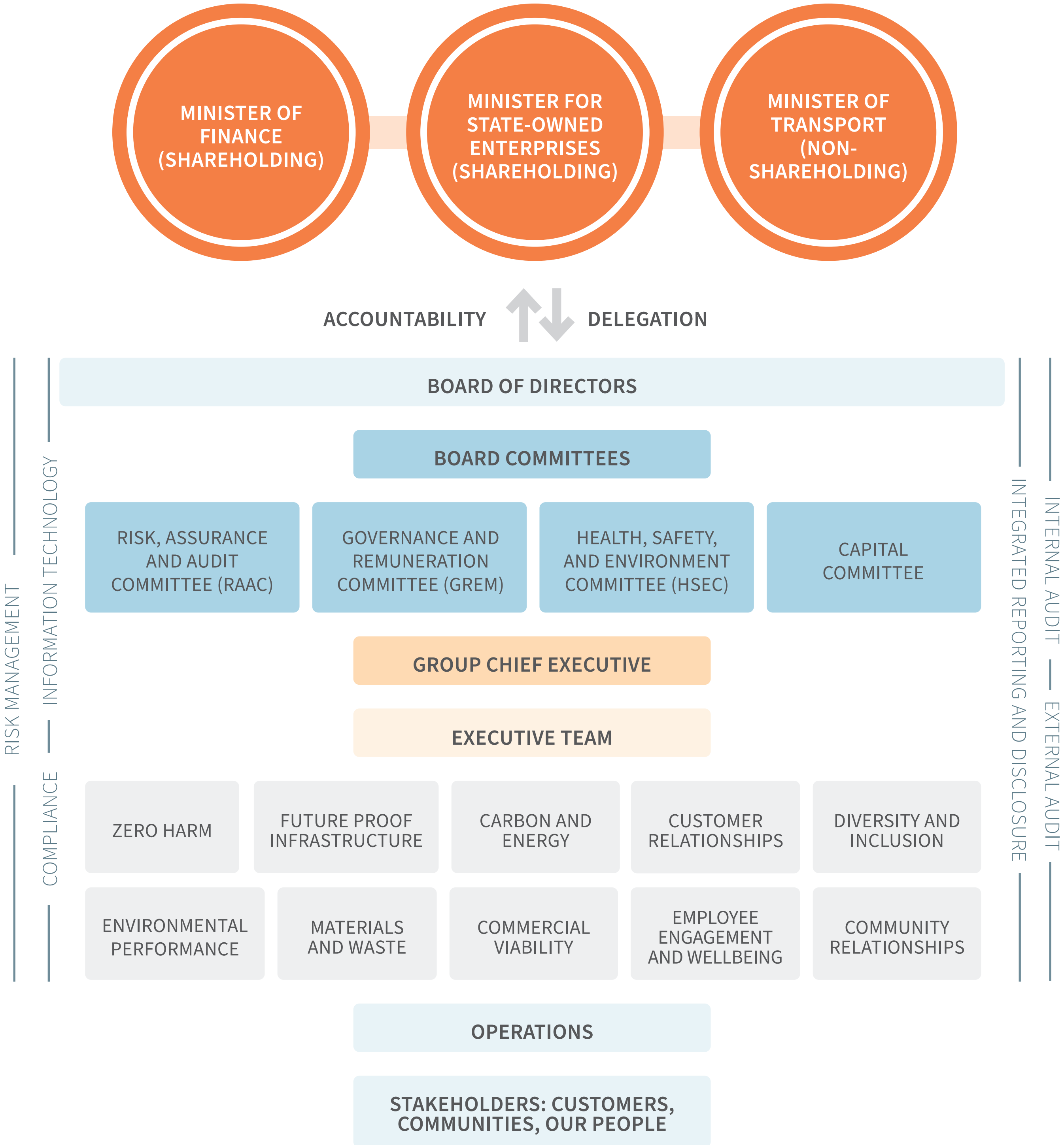
OUR COMMERCIAL MANDATE

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.

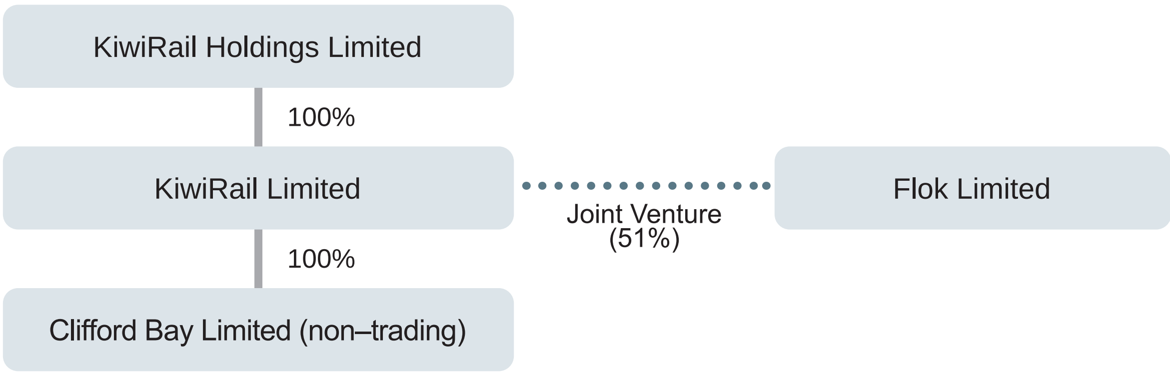
As an SOE, all KiwiRail's shares are held by Shareholding Ministers of the Crown. They are held in equal proportions by the Minister of Finance and the Minister for State-Owned Enterprises.

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.

HOW WE ARE GOVERNED



During the financial year ended 30 June 2020 the Group comprised KiwiRail Holdings Limited and its subsidiaries as detailed in the below diagram:



GOVERNANCE FUNCTIONS

Typically, the Board meets 11 times during the year as part of the regular meeting agenda. In addition, there are four committees of the Board which meet throughout year. Board Committees are open to any director to attend, and directors who are not committee members regularly attend committee meetings. These committees are described further below.

Risk, Assurance and Audit Committee (RAAC)	Governance and Remuneration Committee (GREM)	Health, Safety, and Environment Committee (HSEC)	Capital Committee
Four meetings per year	**Four meetings per year**	**Four meetings per year**	**Meets monthly**
Bruce Wattie (Chair) Maxine Moana-Tuwhangai Fiona Mules Rachel Pinn Hazel Armstrong	Brian Corban (Chair) Sue McCormack Noel Coom	Sue McCormack (Chair) Hazel Armstrong Fiona Mules Mike Williams	Noel Coom (Chair) Maxine Moana-Tuwhangai Mike Williams Bruce Wattie Brian Corban
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.	Assists the Board to suitably govern KiwiRail's management and control of safety, health and environment performance and compliance and to assist the Company directors and officers to meet their due diligence obligations under relevant laws.	Assists the Board with the prioritisation of capital expenditure, delivery and financial performance of capital expenditure programmes, and the assurance system over the capital expenditure programmes.

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.

We are also continuing to enhance our engagement with government agency stakeholders as we embark on our strategic capital investment programme.

ENTERPRISE RISK MANAGEMENT STRATEGY

KiwiRail is committed to ensuring that risk management is an integral part of the way we undertake our operations. We take an enterprise–wide approach to risk management. We 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 and 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.

Board members meet with staff at the Hutt Workshops.

DIRECTORS' ATTENDANCE AND REMUNERATION

The following Directors attended Board meetings during the 2020 financial year. The figures show the number of meetings they attended compared with the numbers of meetings held while they were directors:

Paul Harper's term as Director ended 31 October 2019. John Leuchars' term as Director ended 31 October 2019. John Dennehy's term as Director ended 31 October 2019. Bob Major's term as Director ended 31 October 2019. Hazel Armstrong and Noel Coom commenced as Directors 15 July 2019. Fiona Mules, Mike Williams and Rachel Pinn commenced as Directors 1 December 2019. Bruce Wattie and Maxine Moana-Tuwhangai commenced as Directors 23 March 2020.

Note 22 of the financial statements sets out what fees Directors earned during FY20.

DIRECTORS	BOARD MEETING
Brian Corban	9/11
Sue McCormack	11/11
Hazel Armstrong	11/11
Noel Coom	11/11
Fiona Mules (started in Dec 19)	4/6
Mike Williams (started in Dec 19)	6/6
Rachel Pinn (started in Dec 19)	6/6
Bruce Wattie (started in Mar 20)	4/4
Maxine Moana-Tuwhangai (started in Mar 20)	4/4
Bob Major (left in Nov 19)	4/4
John Dennehy (left in Oct 19)	3/3
John Leuchars (left in Nov 19)	3/4
Paul Harper (left in Nov 19)	4/4

EXECUTIVE REMUNERATION

The GREM (Governance and Remuneration) Committee of the KiwiRail Board has a charter that clearly sets out the committee's responsibility with respect to executive appointments and remuneration by *"Ensuring, based on market data and expert input, that the executive remuneration and incentive settings within KiwiRail provide for the attraction, retention and high performance of the CE and senior executives."*

In doing so, the committee ensures that the CEO and all executive roles (those reporting to the CEO) are sized independently by Ernst and Young, executive remuneration advisors. Ernst and Young have been engaged by KiwiRail as executive remuneration advisors since 2014.

In KiwiRail's case, the market for talent is primarily the transport, logistics and infrastructure sectors, as well as large private sector organisations that are of a similar size and scope (in terms of revenue and asset base as the most relevant metrics for KiwiRail's operations). The comparator group that KiwiRail benchmarks against includes these organisations but excludes banks and other financial service organisations.

For executive positions KiwiRail benchmarks against the median of Total Fixed Remuneration (i.e. Base Salary plus fixed benefits and allowances) and typically pays between 95%-105% of the market median. For the CEO and executive roles, KiwiRail does offer a short-term incentive (STI) scheme but does not offer any long-term incentive scheme.

GROUP CHIEF EXECUTIVE OFFICER'S REMUNERATION (YEAR ENDED 30 JUNE 2020)

	SALARY & BENEFITS[1] $	PAY FOR PERFORMANCE[2] (STI) $	TOTAL REMUNERATION $
FY20	1,052,453	-	1,052,453
FY19	1,042,350	218,453	1,260,803

1. Actual salary paid includes holiday pay paid per NZ legislation. Benefits include KiwiSaver.
2. Pay for performance relates to prior financial year ended 30 June 2018.

KIWIRAIL SHORT TERM INCENTIVE SCHEME (STI)

The current STI programme has been in place since the financial year ended 30 June 2015. The short-term incentives are designed to *"support our goals, reward us for organisational and individual success and ensure our success for the future."*

The scheme is reviewed annually and is offered to the Group CEO and selected senior executives by the Board.

There are two gateways which must be achieved for any payout to be made. The first is an EBITDA gateway set by the Board and the second gateway is that there must be no fatality of employee or contractor to the business. No payments were made in FY15, FY19, or FY20 as the EBITDA gateway was not achieved in those years.

The scheme is at the discretion of the Board and no employee has a contractual right to participate in the scheme. Employees are invited into the scheme annually.

Once the gateways for the STI have been met payments are made based on the achievement of KPIs which have been signed off by the GREM committee.

The chart below outlines the nature of the KPIs and the weighting given:

	Description	Performance measures	Weighting %
STI	Set at maximum of 50% of base salary. Based on a number of key financial and non-financial performance measures.	EBITDA Performance improvement objectives Zero Harm metrics Staff engagement score	40 30 20 10

EMPLOYEE REMUNERATION

There were 1279 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 2020, as set out below

1050-1060	1	260-270	3
750-760	1	250-260	3
500-510	1	240-250	3
410-420	2	230-240	9
400-410	2	220-230	13
390-400	1	210-220	18
380-390	1	200-210	15
370-380	1	190-200	14
350-360	2	180-190	29
340-350	2	170-180	29
330-340	2	160-170	48
320-330	2	150-160	56
310-320	4	140-150	81
300-310	1	130-140	121
290-300	2	120-130	156
280-290	6	110-120	282
270-280	2	100-110	366

Total employees earning in excess of $100,000	1279
Employees who are included but who are no longer at KiwiRail as at 30 June 2020	66
Net total employees earning in excess of $100,000 and employed at KiwiRail as at 30 June 2020	1213

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.

KEY PERFORMANCE INDICATORS

KiwiRail Holdings Limited

Statement of Corporate Intent comparisons *

	30 June 2020 Actual	30 June 2020 Target
Human Capital		
Employee Net Promoter Score**	n/a	+24
Total Recordable Injuries	237	173
SPAD As	27	9
Natural Capital		
GHG emissions per NTK (gms)	28.13	26.81
Truck avoidance (m)	1.1	1.3
Financial/Physical Capital		
Operating Surplus ($m) - pre lease accounting adjustment	14	61-71
Accounting adjustment for leases ($m)	26	30
Operating surplus ($m) - reported	40	91-101
Operating costs as a percentage of revenue (%) - pre lease accounting adjustment	98	90-91
Operating costs as a percentage of revenue (%) - reported	94	85-87
Capital expenditure - net of grants ($m)	414	542
Capital expenditure - Main North Line ($m)	76	120
Reliability – locomotive MDBF (000 kms)	51	45
Reliability – ships services to advertised sailings (%)	99	99
New sleepers laid (000)	89	122
Social Capital		
Revenue ($m)	639	684
New Zealand exports carried on rail (%)	25	26
On Time Performance - Freight Premier (%)	88	88
On Time Performance - Interislander (%)	90	95
Tourist passengers carried (m)	0.9	1.1
Commuter journeys enabled (m)	28	36

* Refer to Statement of Corporate Intent 2020 to 2022 for definitions of performance measures

** The FY20 employee survey was deferred until FY21 as the survey was scheduled for late March when New Zealand went to alert level 4, and our focus was on operational safety

KEY PERFORMANCE INDICATORS

KiwiRail HoLdings Limited
Statement of Corporate Intent comparisons *

Required Information	30 June 2020 Actual	30 June 2020 Target
Shareholder Return Measures		
Total Shareholder Return	**N/A**	**N/A**
Dividend Yield	**Nil**	**Nil**
Dividend Payout	**Nil**	**Nil**
Return on Average Equity (%)	**(24)**	**(20)**
Profitability/Efficiency Measures		
Return on Average Capital Employed (%)	**(18)**	**(15)**
Operating Margin (%)	**6**	**13-15**
Leverage/Solvency Measures		
Shareholders' Funds to Total Assets (%) (Closing equity/total assets)	**60**	**83**
Gearing Ratio - net (%) (net debt/closing equity)	**2**	**14**
Interest Cover (operating surplus/net finance costs)	**7.2**	**6.4**
Solvency (current assets/current liabilities)	**0.98**	**1.29**

VOTE TRANSPORT

Vote Transport: Non-Departmental Capital and Other Expenditure

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

1. Rail – Public Policy Projects (M72)

This appropriation is limited to public policy rail initiatives.

	2020 Actual	2020 Budget
Amount of Appropriation ($000)	3,270	3,270
Performance Measure:		
The public policy projects are carried out in line with the programme	100%	100%

Outcome of investment: Undertaken public policy projects such as level crossing improvements and legalisation, corridor fencing / anti-trespass, vegetation removal throughout the rail network and support of Heritage Rail access.

2. Rail – Railway Safety (M72)

This appropriation is limited to public safety works.

	2020 Actual	2020 Budget
Amount of Appropriation ($000)	**500**	**500**
Performance Measure:		
A safer railway system	**Achieved**	**Achieved**

Outcome of investment: Contributed to a safer rail network by capital upgrades of level crossings, as well as funding of annual Rail Safety week, Roadshows and Safety marketing.

3. 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.

Supplementary: This appropriation decreased by $2m to align with forecast property sales

	2020 Actual	2020 Budget	2020 Supplementary	2020 Final Budget
Amount of Appropriation ($000)	**9,217**	**15,000**	**(2,000)**	**13,000**
Performance Measure:				
Property transactions are carried out in line with agreed outcomes	**71%**	-	-	**100%**

Outcome of investment: Enabled transfer of funds between KiwiRail and New Zealand Railways Corporation for land purchases and sales.

4. 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.

Supplementary: This appropriation increased by $8.04 million for 2019/20 due to the net of $30.54 million increase as part of the New Zealand Upgrade Programme, and $22.5m decrease to align expenditure with forecasts for rolling stock and Interislander ferries work programmes.

In Principle Expense Transfer from FY20 to FY21 for $18.54m for the New Zealand Upgrade Programme.

	2020 Actual	2020 Budget	2020 Supplementary	2020 Final Budget
Amount of Appropriation ($000)	462,500	473,000	8,040	481,040
Performance Measure:				
Capital is invested in the New Zealand rail system as approved by Shareholding Ministers	96%	-	-	100%

Outcome of investment: Renewal and maintenance of core freight and tourism assets including: ferries and landside facilities; renewals and refurbishment of existing locomotives, wagons, carriages and related equipment; safety critical and compliance works of circa 1,500 buildings and associated sites; and, improvements to the digital landscape of KiwiRail, and security related spend to ensure the protection of property.

5. Rail – KiwiRail Holdings Limited Loans (M72)

This appropriation is limited to loans to KiwiRail Holdings Limited to fund capital projects and provide working capital.

	2020 Actual	2020 Budget
Amount of Appropriation ($000)	174,250	174,250
Performance Measure:		
All documentation and transactional requirements are met	100%	100%

Outcome of investment: Enabled rollover of loan to assist KiwiRail in funding capital projects

6. 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.

In Principle Expense Transfer FY20 to FY21 for $6.3m unspent portion of appropriation

	2020 Actual	2020 Budget	2020 Supplementary	2020 Final Budget
Amount of Appropriation ($000)	37,182	44,056	(595)	43,461
Performance Measure:				
Capital is invested in the New Zealand rail system as approved by Shareholding Ministers	84%	-	-	100%

Outcome of investment: Traction overhead system renewal practically complete from Petone to Trentham on the Hutt Valley Railway Line, completed 965 of 1213 traction mast foundations across the network.

7. Rail – Maintaining an Electric Locomotive Fleet (M72)

This appropriation is limited to maintaining the operation of the existing electric locomotive fleet.

Supplementary: This appropriation decreased by $4.6m to $8.4m due to an expense transfer to 2020/21.

	2020 Actual	2020 Budget	2020 Supplementary	2020 Final Budget
Amount of Appropriation ($000)	**8,400**	**13,000**	**(4,600)**	**8,400**
Performance Measure:				
Work is carried out per the agreed programme	**100%**	-	-	**100%**

Outcome of investment: Enabled KiwiRail to maintain the capabilities to refurbish and commission electric locomotives.

8. Auckland City Rail Link - Operating (M72)

This appropriation is limited to the operating expenses incurred by the Crown for the Auckland City Rail Link project.

Supplementary: This is a new appropriation of $150K for 2019/20 to fund KiwiRail's operational readiness costs for the Auckland City Rail Link project.

In Principle Expense Transfer from FY20 to FY21 of $140K, $10K no longer included

	2020 Actual	2020 Budget	2020 Supplementary	2020 Final Budget
Amount of Appropriation ($000)	-	-	**150**	**150**
Performance Measure:				
Work is carried out per the agreed programme	**0%**	-	-	**100%**

Outcome of investment: Due to project planning and resourcing requirements this appropriation has been moved into the following year. Resources and activities have commenced August 2020.

Appropriations outside of Vote Transport - Tuawhenua Provincial Growth Fund – Transport Projects (M72)

Rail Projects

This category is limited to a capital injection to finance approved rail related projects that contribute to the outcome of a lift in the productivity potential in the regions.

Supplementary: Increases for Tourism and Marsden Point Rail Link Land Purchases with $16m for Central North Island hub deferred to outer years

In Principle Expense Transfer from FY20 to FY21: $14.3m with $0.3m for CNI hub deferred due to COVID-19 and $14m for Tourism spend.

	2020 Actual	2020 Budget	2020 Supplementary	2020 Final Budget
Amount of Appropriation ($000)	**41,700**	**33,600**	**22,400**	**56,000**
Performance Measure:				
Work is carried out per the agreed programme	**80%**	-	-	**100%**

Outcome of investment: 8 out of 10 milestones delivered.

Enabling Infrastructure Projects

This category is limited to expenses incurred on local transport-related infrastructure projects that contribute to the outcome of a lift in the productivity potential in the regions. The amounts disclosed below relate to KiwiRail's portion of the appropriation only.

Supplementary: Funding for essential repair to the North Auckland Line and additional funding for land purchases with some of the funding carried forward into FY21.

In Principle Expense Transfer FY20 to FY21 for the balance of the appropriation.

	2020 Actual	2020 Budget	2020 Supplementary	2020 Final Budget
Amount of Appropriation ($000)	**51,374**	-	**67,400**	**67,400**
Performance Measure:				
Work is carried out as per the agreed programme	**93%**	-	-	**90% or greater**

Outcome of investment: North Auckland Line - 13 out of 14 milestones delivered.

Interislander cabin attendants train in the pool with life rafts.

FINANCIAL STATEMENTS

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

	Note	GROUP 2020	GROUP 2019
		$m	$m
Operating revenues	2	639.2	682.9
Operating expenses	3	(599.2)	(657.2)
Operating surplus		**40.0**	**25.7**
Capital grants	4	196.4	93.6
Depreciation and amortisation expenses	8(a), 8(b), 20	(142.3)	(103.9)
Foreign exchange and commodity gains/(losses)	5	5.1	(2.2)
Impairment	8(c)	(338.1)	(249.3)
Impairment – Kaikoura earthquake	8(c)	(79.8)	(131.8)
Insurance proceeds		74.6	46.4
Movement in value of investment properties	13	5.7	2.5
Net finance expenses	6	(5.5)	(4.6)
Other income	27	17.2	-
Other costs – Kaikoura earthquake		(1.4)	(1.1)
Net deficit before taxation		**(228.1)**	**(324.7)**
Income tax expense	7	-	-
Net deficit after taxation		**(228.1)**	**(324.7)**
Other comprehensive income/(loss)			
Items that can be reclassified into net surplus/deficit:			
Losses from cash flow hedges		(3.3)	-
Items that cannot be reclassified into net surplus/deficit:			
Building revaluation	8(c)	(2.7)	(0.2)
Total comprehensive loss		**(234.1)**	**(324.9)**

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	GROUP 2020	GROUP 2019
		$m	$m
Current assets			
Cash and cash equivalents	9	285.0	114.8
Short-term deposits	9	40.0	-
Trade and other receivables	10	112.7	222.0
Inventories	11	87.1	75.8
Financial assets	12	3.5	3.4
		528.3	**416.0**
Non-current assets			
Property, plant and equipment	8(a)	1,051.1	894.3
Right-of-use assets	20	101.8	-
Investment property	13	87.3	85.0
Investment in joint venture	14	1.1	-
Intangible assets	8(b)	0.9	0.9
Financial assets	12	0.4	-
Trade and other receivables	10	0.3	0.3
		1,242.9	**980.5**
Total assets		**1,771.2**	**1,396.5**
Current liabilities			
Trade and other liabilities	15	196.6	127.8
Employee entitlements	16	104.6	95.5
Financial liabilities	12, 20	231.5	187.1
Income taxes payable	7	-	-
Provisions	17	8.6	4.8
		541.3	**415.2**
Non-current liabilities			
Employee entitlements	16	48.9	45.8
Financial liabilities	12, 20	124.5	62.3
Provisions	17	-	-
		173.4	**108.1**
Total liabilities		**714.7**	**523.3**
Equity			
Share capital	23	2,088.0	1,668.8
Retained earnings		(1,045.6)	(815.7)
Asset revaluation reserve		17.4	20.1
Cash flow hedge reserve		(3.3)	-
		1,056.5	**873.2**
Total liabilities and equity		**1,771.2**	**1,396.5**

Brian Corban, CNZM, QSO
Chair
24 November 2020

Susan McCormack
Deputy Chair
24 November 2020

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

GROUP	Note	Share Capital	Retained Earnings	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Total
		$m	$m	$m	$m	$m
As at 30 June 2018		**1,233.8**	**(494.9)**	**20.3**	**-**	**759.2**
Net deficit for the period		-	(324.7)	-	-	(324.7)
Other comprehensive income/(loss)						
Revaluation reserve of transferred buildings		-	-	(0.2)	-	(0.2)
Total comprehensive (loss)		**-**	**(324.7)**	**(0.2)**	**-**	**(324.9)**
Transactions with owners						
Capital Investment	23	435.0	-	-	-	435.0
Crown appropriation - land transactions	18	-	3.9	-	-	3.9
As at 30 June 2019		**1,668.8**	**(815.7)**	**20.1**	**-**	**873.2**
Net deficit for the period		-	(228.1)	-	-	(224.9)
Other comprehensive income/(loss)						
Losses from cash flow hedge reserve		-	-	-	(3.3)	(3.3)
Buildings revaluation reserve		-	-	(2.7)	-	(2.7)
Total comprehensive (loss)		**-**	**(228.1)**	**(2.7)**	**(3.3)**	**(234.1)**
Transactions with owners						
Capital Investment	23	419.2	-	-	-	419.2
Crown appropriation - land transactions	18	-	(1.8)	-	-	(1.8)
As at 30 June 2020		**2,088.0**	**(1,045.6)**	**17.4**	**(3.3)**	**1,056.5**

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

	Note	GROUP 2020	GROUP 2019
		$m	$m
Cash flows from operating activities			
Receipts from customers		625.2	687.0
Receipt of government wage subsidy		26.4	-
Interest received		4.4	3.4
Payments to suppliers and employees		(568.0)	(621.2)
Payments for interest on borrowings		(4.0)	(12.6)
Payments for interest on leases		(3.7)	-
Net cash from operating activities	20	**80.3**	**56.6**
Cash flows from investing activities			
Sale of property, plant and equipment		1.8	1.1
Capital grant receipts		224.1	89.9
Insurance proceeds		74.6	44.1
Sale of investment in joint venture		(2.8)	-
Purchase of property, plant and equipment and investment properties		(686.4)	(455.6)
Purchase of intangibles		(18.1)	(14.1)
Transfer to short-term deposits		(40.0)	-
Net cash used in investing activities		**(446.8)**	**(334.6)**
Cash flows from financing activities			
Crown capital investment		539.2	315.0
Proceeds from NZRC land sales		9.2	2.7
Loans		25.3	-
Repayment of borrowings		(14.2)	(10.8)
Repayment of leases		(22.8)	(1.1)
Net cash from financing activities		**536.7**	**305.8**
Net increase in cash and cash equivalents		**170.2**	**27.8**
Cash and cash equivalents at the beginning of the year		114.8	87.0
Cash and cash equivalents at the end of the year	9	**285.0**	**114.8**

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

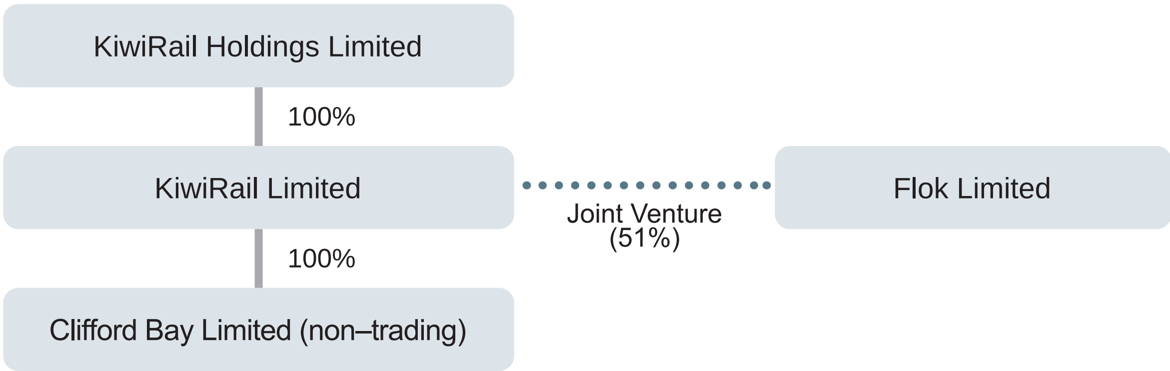
NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

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 diagram below:



The following activities are carried out by the Group:

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

The financial statements of the Group are for the year ended 30 June 2020 and were authorised for issue by the Board of Directors on 24 November 2020.

(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.

(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.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

1. GROUP INFORMATION (continued)

(d) STANDARDS AND INTERPRETATIONS

The accounting policies adopted are consistent with those of the previous financial year except as follows:

NZ IFRS 9 *Financial Instruments*

The Group has adopted hedge accounting in respect of cash flow hedge derivatives in line with the Group's Treasury Policy.

Cash flow hedge derivatives are used to manage the variability in cash flows of highly probable forecast transactions, to hedge the variability in cash flows arising from foreign exchange rate movements.

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised in the statement of comprehensive income and the cash flow hedge reserve within equity 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 the Statement of Financial Performance in foreign exchange and commodity net gains and losses.

If a derivative financial instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation of the hedge relationship is revoked or changed, then hedge accounting is discontinued.

The cumulative gain or loss previously recorded in the cash flow hedge reserve remains there until the forecast transaction occurs.

If the underlying hedged transaction is no longer expected to occur, the cumulative, unrealised gain or loss recognised in the cash flow hedge reserve with respect to the derivative instrument is recognised immediately in the Statement of Financial Performance.

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.

NZ IFRS 16 *Leases*

The Group has adopted NZ IFRS 16 Leases (NZ IFRS 16), which is effective for the Group as at 1 July 2019. The nature and the effect of these changes are described below.

NZ IFRS 16 replaces NZ IAS 17 Leases (NZ IAS 17). It removes the distinction between operating and finance leases for lessees and has changed the definition of a lease. It requires the recognition of a right-of-use asset, representing the right to use the underlying leased asset, and the recognition of a lease liability, recognising the commitment to pay under the lease for the term of the lease, on the Statement of Financial Position for all leases. Lessor accounting under NZ IFRS 16 is substantially unchanged from NZ IAS 17.

The Group adopted NZ IFRS 16 using the modified retrospective method with the date of initial application being 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to apply the new lease definition to existing lease contracts. This resulted in some contracts that were leases under NZ IAS 17 no longer meeting the definition of a lease under NZ IFRS 16.

The Group leases property and plant and equipment in the normal course of its business.

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

Group as Lessee

Before the adoption of NZ IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. From 1 July 2019, the Group assesses at contract inception whether a contract is, or contains, a lease by identifying if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equals the lease assets and liabilities recognised under NZ IAS 17). The requirements of NZ IFRS 16 were applied to these leases from 1 July 2019.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

1. GROUP INFORMATION (continued)

(d) STANDARDS AND INTERPRETATIONS (continued)

Leases previously classified as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining leases payments, discounted using the incremental borrowing rate at the date of initial application (discussed in further detail below).

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics. The weighted average discount rate applied ranges from 3.38% to 3.88%;
- Applied the short-term leases exemption to leases with lease terms that end within 12 months of the date of initial application and do not contain a purchase option; and
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease and in determining the right-of-use asset and lease liability where the contract contained a purchase option.

The right-of-use assets were recognised based on the amount equal to the lease liabilities. Based on the above, as at 1 July 2019 the adoption of NZ IFRS 16 has impacted the statement of financial position of the Group, as at 1 July 2019, by increasing total assets by $146.0m, to recognise the right-of-use assets in non-current assets, and increasing total liabilities by $138.8m, to recognise the lease liability in financial liabilities. A deferred tax asset of $89.3m has been recognised on the lease liability and deferred tax liability of $91.1m has been recognised on right-of-use assets.

Based on the application of the standard under the modified retrospective approach, the Group arrived at different transition values for the right-of-use asset and the corresponding lease liabilities. This is attributed to the application of the transition requirements of NZ IFRS 16 whereby the lease liability and carrying amount of the right-of-use asset for finance leases is carried forward and not reconsidered.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

	$m
Operating lease commitments as at 30 June 2019	95.3
Weighted average incremental borrowing rate as at 1 July 2019	3.66%
Discounted operating lease commitments at 1 July 2019	98.8
Less:	
Commitments no longer meeting the definition of a lease	(0.3)
Commitments relating to short-term leases	(1.0)
Commitments relating to leases of low-value assets	-
Add:	
Commitments relating to leases previously classified as finance leases	6.4
Exercise price of purchase options not included in operating lease commitments as at 30 June 2019	34.9
Lease liabilities as at 1 July 2019	138.8

The financial statements for the Group as at 31 December 2019 omitted the category of exercise price of purchase options not recognised at 30 June 2019. This affected the opening right-of-use asset and lease liabilities on adoption of NZ IFRS 16 Leases and has been corrected in the information above.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

1. GROUP INFORMATION (continued)

(e) 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.

(f) IMPACT OF COVID-19

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

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

The key areas where judgement has been applied due to increased uncertainty around estimates and outcomes are as follows:

- Provision for doubtful debts (refer note 10)
  - The recoverability of receivable balances have been assessed taking into account the current state of the economy and the aging profile of outstanding receivables.
- Valuation of property, plant and equipment (refer note 8)
  - In assessing the value of the Group's rail infrastructure and rolling stock assets at balance date, the external valuer considered the current financial and economic uncertainty which has arisen as a result of COVID-19. The external valuer concluded that due to the long-lived nature of the assets, and the continued New Zealand Government infrastructure stimulus into the rail network, the impact on the Group's asset base was likely to be limited.
  - In assessing the value of the Group's buildings at balance date, the external valuer considered a range of inputs and market evidence to assess the impact of COVID-19 in arriving at market value.
- Valuation of investment property (refer note 13)
  - In assessing the value of the Group's investment property assets at balance date, the external valuer considered a range of inputs and market evidence to assess the impact of COVID-19 in arriving at market value.
- Impairment of non-financial assets (refer note 8)
  - Asset impairment testing includes assumptions relating to the uncertain fiscal environment brought on by the impact of COVID-19 on future cash flows in the medium to long term. Growth rate estimates, gross margins, changes in working capital and discount rates have been reassessed and updated as appropriate due to the significant changes in economic and market conditions.
- Valuation of employee entitlements (refer note 16)
  - The judgements and assumptions behind the independent valuation of employee liabilities have been assessed to ensure they are appropriate in the current environment.
- Going Concern
  - Based on an assessment of the Group's current operating performance, the level of future funding and associated benefits, and the potential impacts of COVID-19 on future performance as outlined above, management has not identified any conditions or events that may cast significant doubt on the Group's ability to continue as a going concern.

(g) LONG-TERM FINANCIAL VIABILITY

In Budget 2020, the Group received $1.2b of new funding commitments from the Crown to enable the Group to progress planned investments in new ships and rolling stock, replace legacy network assets and to fund the new planning and funding framework for Rail (through the National Land Transport Fund). Over the medium to long-term these investments, collectively, will assist in increasing rail freight volume capacity, improving operational efficiency and providing a solid platform for commercial growth.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

1. GROUP INFORMATION (continued)

(h) RAIL REVIEW

The Rail Review, led by the Ministry of Transport, alongside the Group, the NZ Transport Agency, the Treasury, Auckland Transport, Auckland Council and Greater Wellington Regional Council is defining and developing the future of rail in New Zealand.

The overall purpose of the Rail Review is to ensure a sustainable funding model for rail and to integrate rail into the transport system, so rail is planned, funded and maintained alongside other transport modes. The Rail Review defines the purpose of rail in the transport system and will increase certainty for the Government on what investment is needed for it to play that role.

The Group's commercial performance is being constrained by historical under-investment in the asset base. The NZ Rail Plan notes that a strategic investment priority will be to restore resilience and reliability to the national rail network. This will enable the Group to improve its service offering to freight customers, support increased volumes on rail and provide a platform for KiwiRail to grow as a commercial business.

In June 2020 the Land Transport (Rail) Legislation Act 2020 became law, amending the Land Transport Management Act 2003 (LTMA) and the Land Transport Act to implement the new planning and funding framework for rail (through the National Land Transport Fund). The Group is working with agencies on the transition to the new framework, which will provide the Group with much needed longer-term funding certainty that is essential to its business.

While the outcome of the Rail Review is still being finalised, decisions made following the completion of the Review may have an impact on the future carrying value of assets in the Group. The Group currently values its rail network assets on a cash generating basis. Were this to change to a non-cash generating basis using optimised depreciated replacement cost, the carrying value of the rail network assets would increase. Based on current year figures, the assets would increase from $136m (2019: $170m) to $6,553m (2019: $6,264m). The amount by which the Group's rail network assets are annually impaired would reduce and the depreciation charge would increase. The amount impaired in the current year was $418m (2019: $381m) while the depreciation amount would increase by $342m (2019: $337m).

2. OPERATING REVENUES

	GROUP 2020	GROUP 2019
	$m	$m
Freight	371.7	402.7
Interislander	130.2	137.7
Infrastructure	62.2	60.8
Property	49.1	47.0
Scenic	24.6	30.9
Other	1.4	3.8
Total operating revenues	**639.2**	**682.9**

Revenue recognition

Revenue is recognised when or as performance obligations are satisfied by transferring control of goods or services to customers at transaction prices specified in the contracts. Control typically transfers to customers on delivery of products or as services are provided. Transaction prices include all amounts which the Group expects to be entitled to net of goods and services tax, expected rebates and discounts. Where applicable, rebates and/or discounts are included within the consideration using an estimation typically based on the most likely method, and are only recognised to the extent that it is highly probable that a significant reversal will not occur.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

3. OPERATING EXPENSES

	GROUP 2020	GROUP 2019
	$m	$m
Salaries and wages	391.5	374.9
Restructuring	2.1	0.3
Defined contribution plan employer contributions	13.2	12.1
Other employee expenses	11.1	16.8
Gross employee expenses	**417.9**	**404.1**
Amount capitalised	(100.6)	(63.7)
Net employee expenses	**317.3**	**340.4**
Materials and supplies	112.8	113.6
Fuel and traction electricity	75.0	86.4
Lease and rental costs	13.2	37.2
Incidents and insurance	23.8	19.9
Contractors' expenses	5.8	6.9
Audit fees	0.5	0.4
Impairment of receivables	2.8	0.2
Directors' fees	0.4	0.4
Loss on disposal of property, plant and equipment	0.1	1.1
Other expenses	47.5	50.7
Total operating expenses	**599.2**	**657.2**

4. CAPITAL GRANTS

	GROUP 2020	GROUP 2019
	$m	$m
Ministry of Transport	38.9	39.5
Auckland Transport	10.7	9.3
New Zealand Transport Agency	2.8	8.9
City Rail Link	29.9	11.8
Local Councils	61.9	18.4
Ministry of Business, Innovation and Employment	39.6	2.9
Other	12.6	2.8
Total capital grant income	**196.4**	**93.6**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

4. CAPITAL GRANTS (continued)

The Group receives grants from Government entities for the purposes of maintaining and upgrading the railway network and infrastructure, the re-establishment of mothballed lines, expanding metropolitan services and for establishing regional commuter services.

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 any relevant conditions are met. Funding received as reimbursements for capital projects are recognised in the same period as the expenditure to which it relates.

5. FOREIGN EXCHANGE AND COMMODITY GAINS AND LOSSES

	GROUP 2020	GROUP 2019
	$m	$m
Net realised foreign exchange and commodity gains	5.3	2.0
Net change in the fair value of derivatives	(0.2)	(4.2)
Total foreign exchange and commodity gains/(losses)	**5.1**	**(2.2)**

Foreign exchange and commodity losses on fuel related contracts of $0.2m (2019: $1.7m gain) are not included in the table. These losses are included within ‘Fuel and Traction Electricity Expenses’ in note 3.

Foreign currency translation

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

Monetary assets and liabilities in foreign currencies at balance date are translated at exchange rates as 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.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to New Zealand dollars 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.

6. NET FINANCE EXPENSES

	GROUP 2020	GROUP 2019
	$m	$m
Finance income		
Interest income on bank deposits	4.3	3.6
	4.3	3.6
Less Finance expenses		
Interest expense on borrowings	(6.7)	(12.5)
Interest expense on leases	(3.8)	(0.3)
Net change in fair value of interest rate swaps	0.7	4.6
	(9.8)	(8.2)
Net finance expenses	**(5.5)**	**(4.6)**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

6. NET FINANCE EXPENSES (continued)

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.

7. 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 the reporting date and any adjustments to tax in respect of previous years.

(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 2020	GROUP 2019
	$m	$m
Components of tax expense		
Current tax expense	-	-
Deferred tax expense	-	-
Tax benefit/(expense)	**-**	**-**
Reconciliation between tax expense and accounting surplus		
Deficit before tax	(224.9)	(324.7)
Tax at 28%	63.0	90.9
Tax effect of:		
(Non-deductible expenditure)/ non-assessable income	0.3	0.3
Other temporary differences	(63.3)	(91.2)
Tax benefit/(expense)	**-**	**-**

The Group has an unrecognised deferred tax asset of $1,119.4m (2019: $1,052.6m) arising from deductible temporary differences of $2,458.2m (2019: $2,398.7m) and unused tax losses of $1,539.9m (2019: $1,360.5m).

Imputation credits

The Group has formed an imputation group. The Group has access to $1.2m imputation credits (2019: $1.2m imputation credits).

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

8. NON-FINANCIAL ASSETS

(a) PROPERTY, PLANT AND EQUIPMENT

2020	Land	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant & Equipment	Assets Under Construction	Total
Cost/Valuation	$m	$m	$m	$m	$m	$m	$m	$m
Balance at 1 July 2019	**3.1**	**60.2**	**170.1**	**376.9**	**256.5**	**269.5**	**88.2**	**1,224.5**
Transfer at at 1 July 2019 on adoption of NZ IFRS 16 Leases	-	-	-	-	-	(18.1)	-	(18.1)
Additions	-	8.7	137.3	106.7	48.1	17.9	379.0	697.7
Disposals	(3.1)	-	-	(2.1)	-	(4.1)	-	(9.3)
Category Transfers	-	3.8	-	1.6	-	(2.2)	(1.7)	1.5
Revaluation	-	(12.1)	-	-	-	-	-	(12.1)
Impairment	-	(13.2)	(178.7)	(53.8)	-	-	(212.0)	(457.7)
Impairment Reversal	-	-	7.2	5.0	-	-	-	12.2
Balance at 30 June 2020	**-**	**47.4**	**135.9**	**434.3**	**304.6**	**263.0**	**253.5**	**1,438.7**
Accumulated depreciation								
Balance at 1 July 2019	**-**	**6.6**	**-**	**60.1**	**120.2**	**143.3**	**-**	**330.2**
Transfer at at 1 July 2019 on adoption of NZ IFRS 16 Leases	-	-	-	-	-	(5.2)	-	(5.2)
Depreciation expense	-	4.0	18.8	37.3	36.4	22.3	-	118.8
Disposals	-	-	-	(1.1)	-	(2.2)	-	(3.3)
Category Transfers	-	1.2	-	-	-	-	-	1.2
Revaluation	-	(9.4)	-	-	-	-	-	(9.4)
Impairment	-	(2.5)	(9.7)	(17.9)	-	-	-	(30.1)
Impairment Reversal	-	-	(9.1)	(5.5)	-	-	-	(14.6)
Balance at 30 June 2020	**-**	**(0.1)**	**-**	**72.9**	**156.6**	**158.2**	**-**	**387.6**
Net book value								
At 1 July 2019	**3.1**	**53.6**	**170.1**	**316.8**	**136.3**	**126.2**	**88.2**	**894.3**
At 30 June 2020	**-**	**47.5**	**135.9**	**361.4**	**148.0**	**104.8**	**253.5**	**1,051.1**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

8. NON-FINANCIAL ASSETS (continued)

(a) PROPERTY, PLANT AND EQUIPMENT (continued)

2019	Land	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant & Equipment	Assets Under Construction	Total
Cost/Valuation	$m	$m	$m	$m	$m	$m	$m	$m
Balance at 1 July 2018	**3.1**	**44.2**	**206.0**	**308.3**	**235.8**	**256.2**	**103.2**	**1,156.8**
Additions	-	16.5	95.7	109.0	20.7	14.5	212.1	468.5
Disposals	-	-	-	(2.4)	-	(1.3)	0.3	(3.4)
Category Transfers	-	-	-	-	-	0.1	0.5	0.6
Revaluation	-	(0.2)	-	-	-	-	-	(0.2)
Impairment	-	(0.3)	(137.1)	(49.4)	-	-	(227.9)	(414.7)
Impairment Reversal	-	-	5.5	11.4	-	-	-	16.9
Balance at 30 June 2019	**3.1**	**60.2**	**170.1**	**376.9**	**256.5**	**269.5**	**88.2**	**1,224.5**
Accumulated depreciation								
Balance at 1 July 2018	**-**	**3.3**	**-**	**41.7**	**89.5**	**124.1**	**-**	**258.6**
Depreciation expense	-	3.3	14.1	35.4	30.7	19.6	-	103.1
Disposals	-	-	-	(1.8)	-	(0.4)	-	(2.2)
Revaluation	-	-	-	-	-	-	-	-
Impairment	-	-	(11.7)	(10.8)	-	-	-	(22.5)
Impairment Reversal	-	-	(2.4)	(4.4)	-	-	-	(6.8)
Balance at 30 June 2019	**-**	**6.6**	**-**	**60.1**	**120.2**	**143.3**	**-**	**330.2**
Net book value								
At 1 July 2018	**3.1**	**40.9**	**206.0**	**266.6**	**146.3**	**132.1**	**103.2**	**898.2**
At 30 June 2019	**3.1**	**53.6**	**170.1**	**316.8**	**136.3**	**126.2**	**88.2**	**894.3**

(i) Recognition and Measurement

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

Items of property, plant and equipment under construction are classified as assets under construction. 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 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 24(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.

8. NON-FINANCIAL ASSETS (continued)

(a) PROPERTY, PLANT AND EQUIPMENT (continued)

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

	GROUP 2020	GROUP 2019
	$m	$m
Cost	161.9	149.7
Accumulated depreciation	(54.9)	(47.6)
Net carrying value	**107.0**	**102.1**

(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 derecognition 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 assets over their expected useful lives to their estimated residual values. 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**
Railway Infrastructure	
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
Rolling Stock and Ships	
Wagons and carriages	5 - 30 years
Locomotives	5 - 25 years
Ships	20 years
Containers	10 years
Plant and Equipment	
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 LIMITED AND SUBSIDIARIES

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

8. 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) Property, plant and equipment pledged to secure borrowing

Details of property, plant and equipment pledged as security is provided in note 12(b)(i).

(b) INTANGIBLE ASSETS

	Note	Group 2020	Group 2019
		$m	$m
Opening balance		**0.9**	**0.3**
Additions		17.6	14.0
Amortisation		(0.4)	(0.8)
Impairment	8(c)	(17.2)	(12.6)
Balance at 30 June		**0.9**	**0.9**

Intangible assets comprise software applications which have a finite useful life and are recorded at cost less accumulated amortisation and impairment losses. Intangible assets 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 the Net Deficit

		GROUP 2020	GROUP 2019
		$m	$m
Impairment of Cash Generating Units (below)		338.1	249.3
Impairment Kaikoura earthquake (cost of reinstatement)	25	79.8	131.8
Impairment in net deficit		**417.9**	**381.1**

Impairment of Cash Generating Units ("CGUs")

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

- Rail – non-leased buildings, railway infrastructure, rolling stock, plant and equipment, right-of-use assets and intangible assets; and
- Interislander - ships and related plant and equipment, right-of-use assets and intangible assets that relate to the Interislander business unit.

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

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal or its value in use. For revalued assets the impairment is treated as a revaluation decrease (see note 8(a)(ii) above). For assets not carried at a revalued amount the total impairment is recognised in net surplus or deficit.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

8. NON-FINANCIAL ASSETS (continued)

(c) IMPAIRMENT OF NON-FINANCIAL ASSETS (continued)

(i) Rail CGU

The Group has determined the recoverable amount of the Rail CGU to be fair value less costs of disposal.

In determining the recoverable amount 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 net realisable value is adopted to determine the individual asset's fair value less costs of disposal. Market values such as steel prices and scrap metal rates are considered in determining the asset's fair value. The recoverable amount of assets that have a scrap value lower than the cost of removal is 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 information as at 30 June 2020.

As at 30 June 2020 the recoverable amount of the Rail CGU does not exceed the carrying amount and an impairment has been recognised.

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

GROUP 2020	2020 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
Rail CGU				
Buildings	60.9	(10.7)	(2.7)	47.5
Railway infrastructure	288.6	(152.7)	-	135.9
Rolling stock	386.7	(25.3)	-	361.4
Plant and equipment	98.0	-	-	98.0
Right-of-use assets	43.5	-	-	43.5
Assets under construction	454.1	(212.0)	-	242.1
Total property, plant and equipment	1,331.8	(400.7)	(2.7)	928.4
Intangible assets	18.1	(17.2)	-	0.9
Total Rail CGU	**1,349.9**	**(417.9)**	**(2.7)**	**929.3**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

8. NON-FINANCIAL ASSETS (continued)

(c) IMPAIRMENT OF NON-FINANCIAL ASSETS (continued)

GROUP 2019	2019 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**
Rail CGU				
Buildings	54.2	(0.3)	(0.2)	53.7
Railway infrastructure	287.6	(117.5)	-	170.1
Rolling stock	339.6	(22.8)	-	316.8
Plant and equipment	118.9	-	-	118.9
Assets under construction	310.5	(227.9)	-	82.6
Total property, plant and equipment	1,110.8	(368.5)	(0.2)	742.1
Intangible assets	12.6	(12.6)	-	-
Total Rail CGU	**1,123.4**	**(381.1)**	**(0.2)**	**742.1**

(ii) Interislander CGU

The recoverable amount of the Interislander CGU is its value in use. The value in use is estimated using the discounted cashflow (DCF) valuation method. Under this method, future cash flows of the Interislander CGU are estimated, and discounted to a present value using a post-tax discount rate of 6.1%. The present value of the future cash flows is the value in use.

No asset impairment for the Interislander CGU was required as at 30 June 2020.

The calculation of value in use is most sensitive to the following assumptions:

- Post-tax discount rate, particularly the asset beta
- Growth rate
- Sale of vessel cashflows
- Estimated future capital expenditure and operating costs

The sensitivity of changes to the above assumptions are explained below.

Post-tax discount rate and asset beta
The discount rate of 6.1% represents the current market assessment of the risk adjusted required rate of return on capital investment in the Interislander CGU. It takes into consideration the time value of money and the systemic risks of the underlying assets that have been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the CGU and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. If the discount rate were to increase by 0.5% this would result in a potential impairment of $11.4m.

Growth rate
A growth rate of 1.5% has been assumed, based on the current CPI inflation rate obtained from Stats NZ. This growth rate has been applied to both revenue and expenses. The post COVID-19 recovery period for Interislander revenue (passengers and vehicles) for the Interislander CGU is estimated to be approximately 12 months from 1 July 2020. A change in the growth rate could result in a different value in use calculation of the CGU.

Sale of vessel cashflows
It is assumed that the three Interislander vessels will be sold at the end of the cash flow forecast period. The selling prices have been estimated using industry knowledge and are denominated in foreign currencies. The cash inflows from the sales are translated to New Zealand dollars using forecast exchange rates and then incorporated into the present value calculation. A change in the estimate of sale proceeds expected, could result in a different value in use calculation of the CGU.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

8. NON-FINANCIAL ASSETS (continued)

(c) IMPAIRMENT OF NON-FINANCIAL ASSETS (continued)

Estimated future capital expenditure and operating costs

Forecast capital and operating expenditure reflects historical levels adjusted for known differences, and incorporates assumptions from asset management plans. Forecast capital expenditure does not include significant future investments that will enhance the performance of the assets of the CGU (e.g. new rail-enabled ferries). The possibility of greater than forecast capital or operating costs in the DCF model has been considered. A change in forecast capital expenditure or operating costs in the DCF could result in a different value in use calculation of the CGU.

9. CASH AND CASH EQUIVALENTS

	GROUP 2020	GROUP 2019
	$m	$m
Current accounts and call deposits	285.0	114.8
	285.0	**114.8**

Cash and cash equivalents comprise 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. Call deposits and other investments with a term of more than three months to maturity at balance date are classified as short-term deposits.

10. TRADE AND OTHER RECEIVABLES

	GROUP 2020	GROUP 2019
	$m	$m
Trade receivables	74.3	58.7
Accrued and other receivables:		
Prepayments	14.7	15.0
Related party receivables	11.0	122.5
Other	16.5	26.7
Gross receivables	116.5	222.9
Less provision for impairment	(3.5)	(0.6)
	113.0	**222.3**
Current assets	112.7	222.0
Non-current assets	0.3	0.3
	113.0	**222.3**

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

Under the requirement of NZ IFRS 9 Financial Instruments (NZ IFRS 9), a simplified business model approach is adopted in classifying and measuring financial instruments after initial recognition. This reflects the Group's management intentions and strategy in managing the group's financial assets rather than individual financial assets.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

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10. TRADE AND OTHER RECEIVABLES (CONTINUED)

Impairment

The Expected Credit Losses (ECL) model is used for impairing financial assets. The ECL model is 'forward looking' and requires immediate recognition of impairment compared to delaying until actual events of loss have occurred. There has been no material impact on impairment of trade receivables as these are currently assessed on a monthly basis. Potential trade receivable losses are provided for in when each trade receivable becomes 90 days overdue or when circumstances of potential default become known. 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:

	2020			2019		
	Gross	Impairment	Net	Gross	Impairment	Net
	$m	$m	$m	$m	$m	$m
Not past due	61.3	-	61.3	47.0	-	47.0
Past due 1 – 30 days	5.0	-	5.0	6.5	-	6.5
Past due 31 – 60 days	1.7	-	1.7	1.9	-	1.9
Past due 61 - 90 days	2.4	-	2.4	1.0	-	1.0
Past due > 91 days	3.9	(3.5)	0.4	2.3	(0.6)	1.7
Total	**74.3**	**(3.5)**	**70.8**	**58.7**	**(0.6)**	**58.1**

The average credit period on sales of goods and services is 27.2 days (2019: 26.1 days).

11. INVENTORIES

	GROUP 2020	GROUP 2019
	$m	$m
Operational Activities		
- Fuel	1.6	1.9
- Inventory held to maintain rail network	38.1	36.1
- Inventory held to maintain rolling stock	50.2	38.9
- Inventory held to maintain ships	10.0	8.8
Inventory held for resale	0.6	0.7
Contracting Activities – work in progress	2.6	2.2
Gross inventory	103.1	88.6
Less provision for stock obsolescence	(16.0)	(12.8)
Net inventory	**87.1**	**75.8**

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11. INVENTORIES (continued)

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 cost 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 $0.4m (2019: write-down of $0.3m).

12. FINANCIAL ASSETS AND LIABILITIES

	GROUP 2020			GROUP 2019		
	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
Financial assets						
Commodity forward contracts	0.2	-	0.2	0.4	-	0.4
Foreign currency forward contracts	3.3	0.4	3.7	2.9	-	2.9
Interest rate swaps	-	-	-	0.1	-	0.1
Total financial assets	**3.5**	**0.4**	**3.9**	**3.4**	**-**	**3.4**
Financial liabilities						
Commodity forward contracts	1.0	0.4	1.4	0.2	0.1	0.3
Loans	205.1	44.2	249.3	184.4	53.8	238.2
Leases	20.6	75.7	96.3	-	-	-
Finance leases	-	-	-	1.2	5.2	6.4
Foreign currency forward contracts	4.3	1.8	6.1	0.7	0.3	1.0
Interest rate swaps	0.5	2.4	2.9	0.6	2.9	3.5
Total financial liabilities	**231.5**	**124.5**	**356.0**	**187.1**	**62.3**	**249.4**

(a) Financial assets

The Group's financial assets designated at fair value are those derivative financial instruments within predetermined policies and limits used 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 23(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. 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.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES
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12. FINANCIAL ASSETS AND LIABILITIES (continued)

Interest-bearing liabilities
Interest-bearing liabilities is comprised of loans and leases. These 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 outstanding principal amounts of the Group's unsecured loans as at 30 June 2020 was $175.5m (2019: $174.2m).

Secured loans
A loan from Bank of New Zealand is secured against MV Aratere. Loans from Westpac Banking Corporation are secured against the MV Kaitaki & MV Kaiarahi. There are no restrictions on title. The outstanding principal for all secured loans as at 30 June 2020 was $73.8m (2019: $64.0m).

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 2020	GROUP 2019
Notional principal	$m	253.2	244.6
Average interest rate	%	1.00	2.35
Average term to maturity	years	0.75	0.94

Committed standby facility
The Group had a committed standby facility with Bank of New Zealand for $15.0m as at 30 June 2020 (2019: $15.0m) with an expiry date of 1 July 2021. As at 30 June 2020, the facility was undrawn.

Letter of credit facilities
The Group had no letter of credit facilities at 30 June 2020 (2019: nil).

Standby letter of credit
The Group had no standby letters of credit at 30 June 2020 (2019: nil).

(c) Changes in liabilities arising from financing activities

	GROUP 2019	Cash Flows	Non-cash changes		GROUP 2020
			Changes in Fair values	Others	
	$m	$m	$m	$m	$m
Loans	238.2	11.1	-	-	249.3
Leases	-	(22.7)	-	119.0	96.3
Finance leases	6.4	-	-	(6.4)	-
Total liabilities from financing activities	**244.6**	**(11.6)**	**-**	**(112.6)**	**345.6**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

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13. INVESTMENT PROPERTY

	GROUP 2020	GROUP 2019
	$m	$m
Opening balance	**85.0**	**82.8**
Additions	1.0	0.5
Disposals	(4.5)	(0.8)
Transfers	0.1	-
Fair value gains on valuation	5.7	2.5
Balance at 30 June	**87.3**	**85.0**

Investment properties are measured initially at cost, including transaction costs. Investment properties include land and buildings held to earn rental income and/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 values do not materially differ from fair values. See note 23(b)(ii) for the methodology used to determine 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.

The total rental income generated from investment properties for the year ended 30 June 2020 was $6.6m (2019: $6.4m). The direct operating expenses (including maintenance) incurred from the use of investment properties during the year was $1.4m (2019: $1.3m).

14. JOINT VENTURE - FLOK LIMITED

The Group has a 51% interest in Flok Limited (previously named Kan Technologies (NZ) Limited), a joint venture set up to develop and commercialise unmanned aerial vehicle technology for out-of-line sight flight for rail inspections and associated maintenance, and small parcel transportation along the rail corridor. The Group's interest in Kan Technologies Limited is accounted for using the equity method in the consolidated financial statements.

The net amount of GST payable to Inland Revenue is included as part of trade and other liabilities.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

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15. TRADE AND OTHER LIABILITIES

	GROUP 2020	GROUP 2019
	$m	$m
Trade payables	98.4	52.1
GST Payable	0.4	1.2
Unearned revenue	51.0	18.8
Accrued interest	1.0	1.7
Payable to joint operator	-	5.7
Other payables and accruals	45.8	48.3
Total payables	**196.6**	**127.8**
Current liabilities	196.6	127.8
Non-current liabilities	-	-
	196.6	**127.8**

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.

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 is included as part of trade and other liabilities.

16. EMPLOYEE ENTITLEMENTS

	GROUP 2020	GROUP 2019
	$m	$m
Current portion		
Short-term employee benefits	49.0	42.8
Annual leave entitlement accruals	49.8	46.1
Retirement and long service leave liability	5.8	6.6
Total current portion	104.6	95.5
Non-Current portion		
Retirement and long service leave liability	48.9	45.8
Total non-current portion	48.9	45.8
Total employee entitlements	**153.5**	**141.3**

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16. EMPLOYEE ENTITLEMENTS (continued)

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.

Short-term employee benefits include the Group's estimated liability relating to the remediation of employee leave entitlements under the Holidays Act 2003. The estimated liability is measured at the amount expected to be paid up to 30 June 2020.

Provisions made in respect of employee benefits which are not expected to be settled within twelve 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 to calculate these liabilities 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 range of 1.33% to 2.47% per annum (2019: from 2.22% to 2.48% per annum) and a term specific risk-free discount rate range of 0.22% and 4.16% per annum (2019: between 1.26% and 4.16% 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 paid.

17. 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 2020	ACC AEP	Reorganisation costs	Other provisions	Total
	$m	$m	$m	$m
Balance at 1 July 2019	4.0	-	0.8	4.8
Provisions made during the year	0.1	0.6	3.1	3.8
Provisions utilised or released during the year	-	-	-	-
Balance at 30 June 2020	**4.1**	**0.6**	**3.9**	**8.6**
Current provisions	4.1	0.6	3.9	8.6
Non-current provisions	-	-	-	-
	4.1	**0.6**	**3.9**	**8.6**

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 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.

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18. 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 the ultimate parent of the Group and the parent of NZRC. The sale of NZRC's land is regarded as an increase in equity of the Crown to the Group whilst the Group's acquisition of land for NZRC is treated as a reduction from the Crown's equity to the Group.

The total net proceeds from land sold/land swaps during the year was $9.2m (2019: $3.9m). The total net land acquisitions during the year was $9.7m (2019: $nil). They were treated as transactions with owners in the Statement of Movements in Equity.

19. 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 2020	GROUP 2019
	$m	$m
Capital expenditure commitments:		
Not later than one year	174.0	152.4
Later than one year but not later than five years	34.1	27.7
	208.1	**180.1**

20. LEASES

The Group has lease contracts for various items of property, plant, machinery, vehicles and other equipment used in its operations. Leases of plant and machinery generally have lease terms between 3 and 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. There are several lease contracts that include extension and termination options, which is discussed further below.

The Group also has certain leases of vehicles with lease terms of up to 12 months. The Group applies the 'short-term lease' exemptions for these leases. The Group applies the recognition exemption for low-value assets when it enters into leases for low-value assets.

Determining the lease term of lease contracts with renewal options

The Group has lease contracts that include renewal options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised. The Group considers all relevant factors that create an economic incentive for it to exercise the renewal.

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20. LEASES (continued)

Estimating the incremental borrowing rate
The Group uses its incremental borrowing rate (IBR) to measure lease liabilities when it cannot readily determine the interest rate implicit in its leases. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Right-of-use assets
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised; initial direct costs incurred; lease payments made at or before the commencement date less any lease incentives received; and a make good provision (if any). Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Plant & Equipment 3 – 12 years
- Motor vehicles 3 – 5 years
- Property 1 – 20 years

The right-of-use assets are also subject to impairment. Refer to note 8(c) Impairment of non-financial assets.

Lease liabilities
The Group recognises a lease liability at the commencement date of the lease based on the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable and variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

The Group uses the interest rate implicit in the lease or its IBR, if the rate implicit in the lease is not readily determinable, at the lease commencement date to calculate the present value of lease payments. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments).

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

2020	Property	Ships	Plant and Machinery	Motor Vehicles	Other Equipment	Total
Cost/Valuation	$m	$m	$m	$m	$m	$m
As at 1 July 2019	**78.5**	**34.9**	**17.6**	**7.7**	**7.3**	**146.0**
Additions	8.9	-	(0.2)	1.9	1.9	12.4
Purchase option exercised	-	(33.6)	-	-	-	(33.5)
Depreciation expense	(13.5)	(1.3)	(1.4)	(3.5)	(3.4)	(23.1)
As at 30 June 2020	**73.9**	**-**	**16.0**	**6.1**	**5.8**	**101.8**

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20. LEASES (continued)

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	GROUP 2020
	$m
As at 1 July 2019	138.8
Additions	13.0
Accretion of interest	3.9
Payments	(59.4)
As at 30 June 2020	**96.3**
Represented by:	
Current (Note 12)	20.6
Non-current (Note 12)	75.7
Total lease liabilities as at 30 June 2020	**96.3**

The following are the amounts recognised in profit or loss:

	GROUP 2020
	$m
Depreciation expense right-of-use assets	23.1
Interest expense on lease liabilities	3.9
Expense relating to short-term leases (Other Operating Expenses)	0.8
Total amount recognised in profit or loss	**27.8**

The Group had total cash outflows for leases of $26.4m in the period ended 30 June 2020. The Group also had non-cash additions to right-of-use assets and lease liabilities of $13.0m in the period ended 30 June 2020.

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20. LEASES (continued)

Operating lease commitments

The following table shows the operating lease commitments, being future aggregate minimum lease payments payable under non-cancellable operating leases, disclosed applying IAS 17 at 30 June 2019:

	GROUP 2019
	$m
Total minimum lease payments due:	
Not later than one year	23.3
Later than one year but not later than five years	39.9
Later than five years	32.1
	95.3

From 1 July 2019, on the adoption of NZ IFRS 16 Leases, what was previously disclosed as operating lease commitments are recognised as lease liabilities within the financial liabilities category of the statement of financial position of the Group.

Group as a 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.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Assets leased to third parties under operating leases are included in property, plant and equipment and investment properties in the Statement of Financial Position. Property, plant and equipment is depreciated over its expected useful life on a basis consistent with similar owned property, plant and equipment and investment property is revalued on an annual basis. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term and is included in revenue in the Statement of Comprehensive Income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

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

	GROUP 2020	GROUP 2019
	$m	$m
Total minimum lease payments receivable:		
Not later than one year	32.3	36.7
Later than one year but not later than five years	92.3	78.2
Later than five years	199.3	69.1
	323.9	**184.0**

For the year ended 30 June 2020, $44.1m was recognised as revenue included in net deficit (2019: $42.1m).

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21. RECONCILIATION OF NET DEFICIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP 2020	GROUP 2019
	$m	$m
Net deficit after taxation	(228.1)	(324.7)
Add/(deduct) items classified as investing or financing activities		
Loss on sale of assets	0.1	1.1
Fair value movement in derivatives	1.7	(0.4)
Capital grant receipts	(224.1)	(89.9)
Insurance proceeds	(74.6)	(44.1)
	(525.0)	(458.0)
Add/(deduct) non-cash items		
Depreciation and amortisation expense	143.9	103.9
Movements in provisions	6.9	(0.6)
Impairment of non-financial assets	417.9	381.1
Movement in fair value of investment properties	(5.7)	(2.5)
	38.1	23.9
Add/(deduct) movements in working capital		
(Increase) in trade receivables	(15.6)	(2.3)
Decrease/(increase) in other receivables	6.6	(8.5)
(Increase) in inventories	(11.3)	(4.2)
Increase/(decrease) in trade payables	46.4	(0.2)
Increase in other payables	16.2	47.9
Net cash flows from operating activities	**80.3**	**56.6**

22. RELATED PARTY TRANSACTIONS

The Group enters into transactions with related parties all of which all are 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 $419.2m (2019: $315.0m) has been received together with capital grant funding of $106.1m (2019: $39.5m).

The Group paid $56.0m (2019: $62.5m) to New Zealand Transport Agency for the Main North Line reinstatement.

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

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22. RELATED PARTY TRANSACTIONS (continued)

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

	GROUP 2020	GROUP 2019
REVENUE	$000	$000
New Zealand Post	4,367	3,965
Genesis Energy	4,266	3,706
Ministry of Business, Innovation and Employment	1,147	1,680
New Zealand Transport Agency	930	1,094
Other	338	-
	11,048	**10,445**

	GROUP 2020	GROUP 2019
EXPENSES	$000	$000
Meridian Energy	11,259	11,657
Transpower	3,668	3,656
Air New Zealand	1,706	3,115
Kordia	544	608
New Zealand Transport Agency	1,123	555
New Zealand Post	112	193
Other	433	521
	18,845	**20,305**

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.

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22. RELATED PARTY TRANSACTIONS (continued)

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

	GROUP 2020	GROUP 2019
	$000	$000
Key management personnel compensation		
Short-term employee benefits	5,460	3,628
Termination benefits	124	259
Total key management personnel compensation	**5,584**	**3,887**

The following Directors earned fees during the period:

	GROUP 2020	GROUP 2019
KHL Directors	**$000**	**$000**
Brian Corban	82	70
Susan McCormack	48	43
Hazel Armstrong	43	-
Noel Coom	43	-
Fiona Mules	24	-
Mike Williams	24	-
Rachel Pinn	24	-
Bruce Wattie	13	-
Maxine Moana-Tuwhangai	10	-
Bob Major	19	48
John Dennehy	16	44
John Leuchars	14	43
Paul Harper	14	43
Greg Miller	-	43
Mike Pohio	-	40
Guy Royal	-	14
	374	**388**

Hazel Armstrong & Noel Coom were appointed as Directors on 15 July 2019. Fiona Mules, Mike Williams & Rachel Pinn were appointed as Directors on 1 December 2019. Maxine Moana-Tuwhangai & Bruce Wattie were appointed as Directors on 23 March 2020. Paul Harper, Bob Major & John Leuchars completed their terms on 31 October 2019. John Dennehy completed his term on 18 October 2019.

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23. SHARE CAPITAL

At 30 June 2020, the Group had issued 2,088,000,000 ordinary shares with no par value (2019: 1,548,800,000), each fully paid. The following rights attach to each ordinary share 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 2020**	**GROUP 2019**
	(m)	(m)
Opening balance	1,668.8	1,233.8
Shares issued	419.2	315.0
Shares approved but not yet issued	-	120.0
Balance at 30 June	**2,088.0**	**1,668.8**

24. FAIR VALUE

(a) Classification of Financial Instruments

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

	GROUP 2020	**GROUP 2019**
FINANCIAL ASSETS	$m	$m
Loans and receivables		
Cash and cash equivalents	325.0	114.8
Trade and other receivables (excluding prepayments)	102.4	207.9
	427.4	**322.7**
Fair value through net surplus or deficit		
Derivative financial assets	**3.8**	**3.4**
FINANCIAL LIABILITIES		
Amortised cost		
Trade and other liabilities	140.6	107.8
Interest-bearing liabilities	252.0	244.6
	392.6	**352.4**
Fair value through net surplus or deficit		
Derivative financial liabilities	**10.5**	**5.0**

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

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24. FAIR VALUE (continued)

(b) Fair Value Hierarchy

Fair values are determined based on the following fair value hierarchy:

- 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 (2019: nil).

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 for financial assets not quoted in active markets.

(i) Derivative financial instruments

Fair values of the financial assets and financial liabilities as well as the methods used to estimate the fair values are summarised below:

	Level 2	
Financial instruments (Net Liability)/Net Asset	**GROUP 2020**	**GROUP 2019**
	$m	**$m**
Commodity forward contracts	(0.8)	0.1
Foreign currency forward contracts	(0.9)	1.9
Interest rate swaps	(4.9)	(3.4)
	(6.6)	**(1.4)**

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, unless they are hedge accounted. 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:

	Level 2	
Non-financial assets	**GROUP 2020**	**GROUP 2019**
	$m	**$m**
Investment property	87.3	85.0
Buildings	47.5	53.6
	134.8	**138.6**

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24. FAIR VALUE (continued)

(e) Fair Value Hierarchy (continued)

(ii) Non-financial assets (continued)

NZ IFRS 13 requires that the fair value measurement of non-financial assets takes 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*
  Valuations of investment properties are carried out with sufficient regularity to ensure the carrying values do not materially differ from their fair values. The most recent valuations were carried out as at 30 June 2020 by an independent valuer who holds a recognised and relevant professional qualification.

  Investment properties are valued using market derived assumptions, particularly comparable rental and sales evidence. The independent valuer has used valuers familiar with the local property market relevant to each property. Local inputs are factored into the valuations such as rentals, capitalisation rates and land values. This has ensured that 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 5% to 15%.

- *Buildings*
  Buildings are properties held to carry-out the Group's entity-specific operations. They are revalued with sufficient regularity to ensure the carrying values do not materially differ from their fair values. The most recent valuation of buildings that form part of the Rail CGU was carried out as at 30 June 2020 by an independent valuer who has recognised and relevant qualifications.

  In carrying out the valuation, the valuers considered 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 the Group'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:

	Increase in fair value by 5%		Decrease in fair value by 5%	
Non-financial assets	**GROUP 2020**	**GROUP 2019**	**GROUP 2020**	**GROUP 2019**
	$m	**$m**	**$m**	**$m**
Buildings	3.0	2.7	0.8	0.7
Investment properties	4.3	4.1	4.3	4.1

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25. 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 its financial risk management policies. The objective of the policy is to support the delivery of the Group's financial targets while 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 total New Zealand dollar notional principal amount of outstanding forward foreign exchange contracts as at 30 June 2020 was $683.5m (2019: $97.7m).

The Group has hedged 100% (2019: 100%) of committed foreign currency capital purchases.

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 2020		GROUP 2019	
	Equity	Profit	Equity	Profit
Foreign currency sensitivity analysis				
Impact of a 10% strengthening of the NZD	(61.7)	(61.7)	(9.0)	(9.0)
Impact of a 10% weakening of the NZD	75.4	75.4	11.0	11.0

(ii) Interest Rate Risk

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

The Group has 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 to minimise and provide certainty over funding costs.

The total notional principal amount of the outstanding interest rate swaps as at 30 June 2020 was $51.0m (2019: $183.0m), with average term to maturity of 1.41 years (2019: 1.33 years) and weighted average fixed interest rate of 3.80% (2019: 3.16%). As at 30 June 2020, after considering the effect of the interest rate swaps, approximately 20.1% of the Group's borrowings are at a fixed rate of interest (2019: 53.6%).

Interest sensitivity analysis

A change in the interest rates would 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:

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25. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

(a) Market Risk (continued)

(ii) Interest Rate Risk (continued)

In NZ $m	GROUP 2020 Profit	GROUP 2019 Profit
Impact of a 100 bp interest rate increase	(1.9)	(1.6)
Impact of a 100 bp interest rate decrease	1.7	1.5

(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 $5.2m (2019: $6.2m).

(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.

The Group is exposed to counterparty risk when entering into investment and hedging instruments with individual counterparties. In accordance with the Group's Treasury Management Policy, a minimum long-term rating of A (Standard & Poor's) or A2 (Moody's) or Fitch equivalent is required to approve individual counterparty exposure. Under NZ IFRS 9, if an actual or expected change or downgrade of the counterparty's credit rating occurs or is foreseen, an impairment assessment will be considered as at reporting date indicating whether there has been a significant increase in risk.

While the Group may be exposed 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 Management 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 & Poor's A 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.

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25. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

(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.

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 2020	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
Financial Liabilities						
Trade and other payables	145.2	145.2	145.2	-	-	-
Net settled derivative liabilities	10.2	10.6	5.7	1.5	3.4	-
Leases	96.3	109.1	23.7	20.5	37.6	27.3
Borrowings	249.3	240.3	196.3	40.0	4.0	-
Total	**501.0**	**505.2**	**370.9**	**62.0**	**45.0**	**27.3**

GROUP 2019	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
Financial Liabilities						
Trade and other payables	107.8	107.8	107.8	-	-	-
Net settled derivative liabilities	5.0	4.7	1.6	0.6	2.5	-
Finance Leases	6.4	7.1	1.4	1.0	4.7	-
Borrowings	238.2	244.1	188.1	24.2	31.8	-
Total	**357.4**	**363.7**	**298.9**	**25.8**	**39.0**	-

(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 Management Policy.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

25. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

(e) Capital Risk Management

The Group manages its capital structure to ensure it can 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.

26. 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").

Impact on assets
The Group has continued to work on the rebuild for the financial year ended 30 June 2020 and an additional impairment charge of $79.8m has been recognised for the capital cost of reinstatement incurred as at 30 June 2020 (2019: $131.8m).

Insurance
The Group has insurance coverage in place under an operational infrastructure and consequential loss policy. Cover is provided for loss and damage up to a sum insured of $350m. The Group received insurance progress payments of $80.0m in the year ending 30 June 2020 (2019: $45.0m). While a claim has been submitted as at 30 June 2020, it is not practicable to estimate the full extent of the overall insurance recovery. Only the portion that can be measured reliably has been recognised as a receivable. In the year ended 30 June 2020 no receivable has been recognised (2019: $6.0m).

Crown support
The Crown has agreed to fund the uninsured cost of the rebuild. $35m was received through equity funding in the year ended 30 June 2020 (2019: $85m).

27. COVID-19 GOVERNMENT WAGE SUBSIDY

The COVID-19 Wage Subsidy Scheme was a substantial part of the NZ Government's economic response to the pandemic in March 2020. It was intended to stabilise employment and provide some level of financial certainty for employees. Employers were required to meet certain criteria in order to be granted the wage subsidy.

In May 2020 the Group applied for and received a wage subsidy from the Government totalling $26.4m. This lump sum payment was a subsidy for 12 weeks wages and salaries so was released to the profit and loss over the period to which the related costs for which the subsidy was intended to compensate were incurred. At balance date a total of $17.2m had been recognised as Other Income in profit and loss, with $9.2m remaining in the balance sheet as unearned revenue.

In the event the conditions of the subsidy are not met and any portion of the subsidy is required to be repaid, the repayment will first be applied against any unamortised unearned income liability, and where it exceeds this amount shall be recognised immediately through profit and loss.

STATUTORY REVIEW: FINANCIAL STATEMENTS

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

28. CONTINGENT LIABILITIES

Kaikoura Earthquake

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

As the rebuild and insurance claim are not complete as at 30 June 2020, it is not possible to measure the amount of this liability with any reliability. Accordingly, no provision for any liability has been made in these financial statements.

29. EVENTS SUBSEQUENT TO BALANCE DATE

There were no material events subsequent to balance date.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of KiwiRail Holdings Limited's group financial statements for the year ended 30 June 2020

The Auditor-General is the auditor of 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 78 to 117, that comprise the statement of financial position as at 30 June 2020, 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 2020; 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 New Zealand equivalents to International Reporting Standards.

Our audit was completed on 24 November 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to other matters. 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.

Emphasis of matters

Without further modifying our opinion, we draw your attention to the following disclosures in the financial statements.

Uncertainties relating to the outcome of the rail review on the carrying value of assets in future years

Note 1(h) on page 86 relating to the rail review, which is defining and developing the future of rail in New Zealand, including the future funding model. The disclosure also explains that decisions arising from the review may have an impact on the basis of preparation used by the Group and how the Group's assets could be valued and presented in the financial statements.

Key assumptions used in the impairment assessment of the Interislander cash-generating-unit

Note 8(c)(ii) on pages 95 to 96 describes the key assumptions applied by the Group in performing the impairment test of the Interislander cash-generating-unit at 30 June 2020. This includes the high sensitivity of the Group's impairment model to changes in the discount rate, post Covid-19 recovery period for vehicle and passenger revenues, and sale of vessel cash flows.

Impact of Covid-19

Note 1(f) on page 85 outlines the impact of Covid-19 on the Group.

Basis for our 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 opinion.

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 2 to 77 and page 120 but does not include the financial statements, and our auditor’s report thereon.

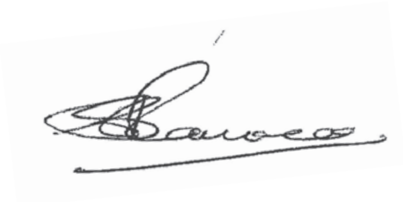
Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

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: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit, we were engaged to provide independent assurance over the procurements for the Auckland Metro Programmes. 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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FURTHER INFORMATION

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KiwiRail