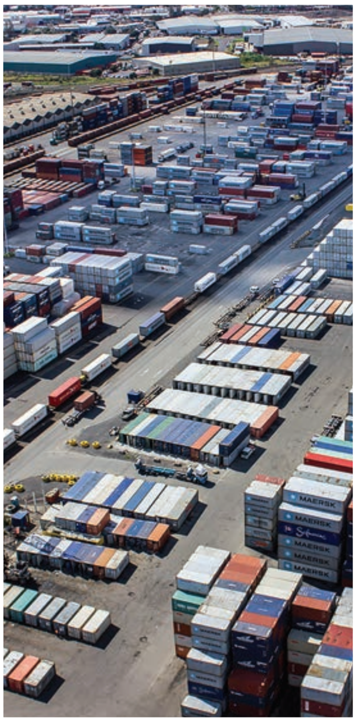
DELIVERING FOR NEW ZEALAND

KIWIRAIL INTEGRATED REPORT 2021







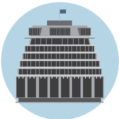


KiwiRail
KiwiRail
TOLL
TOLL

CONTENTS

Left Domestic freight operators increasingly rely on rail as part of a reliable and lower-carbon emission link in their supply chains.

FY21 CAPITAL HIGHLIGHTS AT A GLANCE



FINANCIAL

Operating surplus: $63.2m[1], +58% year-on-year

Operating margin: 9.3%, against 6.3% last year

10-year strategic plan completed including Pathway to Profit

Value of Rail updated: $1.7-2.1 billion per annum

Budget 2021 initiatives and business cases prepared, submitted, and approved with $1.3 billion committed

Settlement of insurance claim for the 2016 Kaikoura earthquake with KiwiRail recovering 90% of maximum claim entitlement

Inaugural Rail Network Investment Programme approved by the Minister of Transport, establishing long term investment programme for 'Below Rail' business.

$63.2m
operating surplus

10-year
strategic plan completed including Pathway to Profit

$1.7-2.1b
Value of Rail per annum

RELATIONSHIPS

New Zealand Rail Plan published outlining the Government's strategic priorities for rail

Introduction of capacity management to Import/Export and Domestic markets

Synlait siding opened, with new Freight Carriage Agreement including recovery of capital invested

Rail Freight Premier On time performance 85% to 30 minutes

Interislander reliability at 98%

Scenic Plus product development

Successful launch of Te Huia inter-regional commuter rail including related infrastructure works and delivery of the carriage refurbishment program at Hutt Workshops.

NZ RAIL PLAN
published outlining the Government's strategic priorities for rail

TE HUIA
commuter service between Hamilton and Auckland launched

ASSETS

Contract signed with Hyundai Mipo Dockyard for two new rail-enabled ferries; $350m, 15-year committed loan facility finalised

Vehicle Booking System introduced at Southdown Container Terminal

Tar Barrel bypass completed, replacing Tunnel 21 on the Main North Line

Auckland Metro Recovery project progressed: 134.4km of re-rail, 21,540 sleepers and 29 turnouts replaced, on top of BAU capex programme

Physical work started on Auckland Metro Programme including: Papakura to Pukekohe electrification, Wiri to Quay Park third main line extension, Drury Rail Stations, RNGIM, (Rail Network Growth Impact Management) and CRL enablement packages

Wellington Metro: Trentham to Upper Hutt double track ready to open, built 45km of Overhead Line Supply, 4.7km track replaced Wellington station, Wairarapa and short tunnels

Northland line reopened with the capability of taking modern Hi-cube containers

Locomotive Reliability MDBF (Mean Distance Between Failures) 56,800, above target

Locomotive availability 80%, in line with target

Temporary speed restrictions (TSR) under the target limits (12-month average TSR lost time) for most priority routes.

$350m
15-year committed loan facility finalised for two new rail-enabled ferries

1. Operating Surplus represents earnings before depreciation & amortisation, interest, impairment, capital grants and fair value changes. FY21 Operating surplus excludes impact of non-recurring items.

PEOPLE

Employee Net Promoter Score increases from +24 in FY19 to +27 in FY21

BSafe4 Training Programme launched

Commencement of Provincial Growth Fund funded pilot programme Kakano mo Apopo – (Seeds for tomorrow) prison program

More than 200 face-to-face courses delivered and more than 42,000 online courses completed

Regional Apprenticeship Initiative confirmed

Trades on Track Apprenticeship Programme initiated

New Learning & Development facility at Southdown completed

Development of KiwiRail Specific Mental Health Awareness Programme

Health and Wellbeing Education and Support Programmes established and implemented

Diversity and Inclusion strategy endorsed by the Executive and Senior Leaders.

BSafe4

training programme launched

200+

face-to-face courses delivered and over

42,000

online courses completed

SKILLS AND KNOW-HOW

Implementation of detailed Train and Business Unit profit and loss statements supported by improved utilisation and planning analysis

First successful overhaul and upgrade of the DX locomotive to the new EFI (Electronic Fuel Injection) engines completed

Significant progress on digital programme rollout across business for operational and customer benefits

Crisis and Emergency Management framework and plans established and used successfully for our COVID-19 response

Terminal Optimisation Project – completed as a High Performance High Engagement project in Kinleith, Kawerau and Mount Maunganui and initiated in Palmerston North and Wellington

First-Time ACC Tertiary Accreditation Achieved.

Crisis and Emergency Management framework and plans established and used successfully for our COVID-19 response

FIRST

successful overhaul of DX locomotive to the new EFI engines

ENVIRONMENT

Reduced heavy vehicle impact of more than 1.1 million truck trips, saving 102.8 million litres in fuel and 276,625 tonnes of CO2-e emissions.

Achieved the best-ever monthly fuel burn rate of 5.31L/1000 gross tonne kilometres (GTK) during the year

Renewed our partnership with the Energy Efficiency and Conservation Authority (EECA) for another three-year term. Successfully applied for co-funding to support two energy efficiency projects

KiwiRail became a member of the Infrastructure Sustainability Council (ISC) and will use its rating scheme on selected infrastructure projects

102.8m

litres of fuel saved and

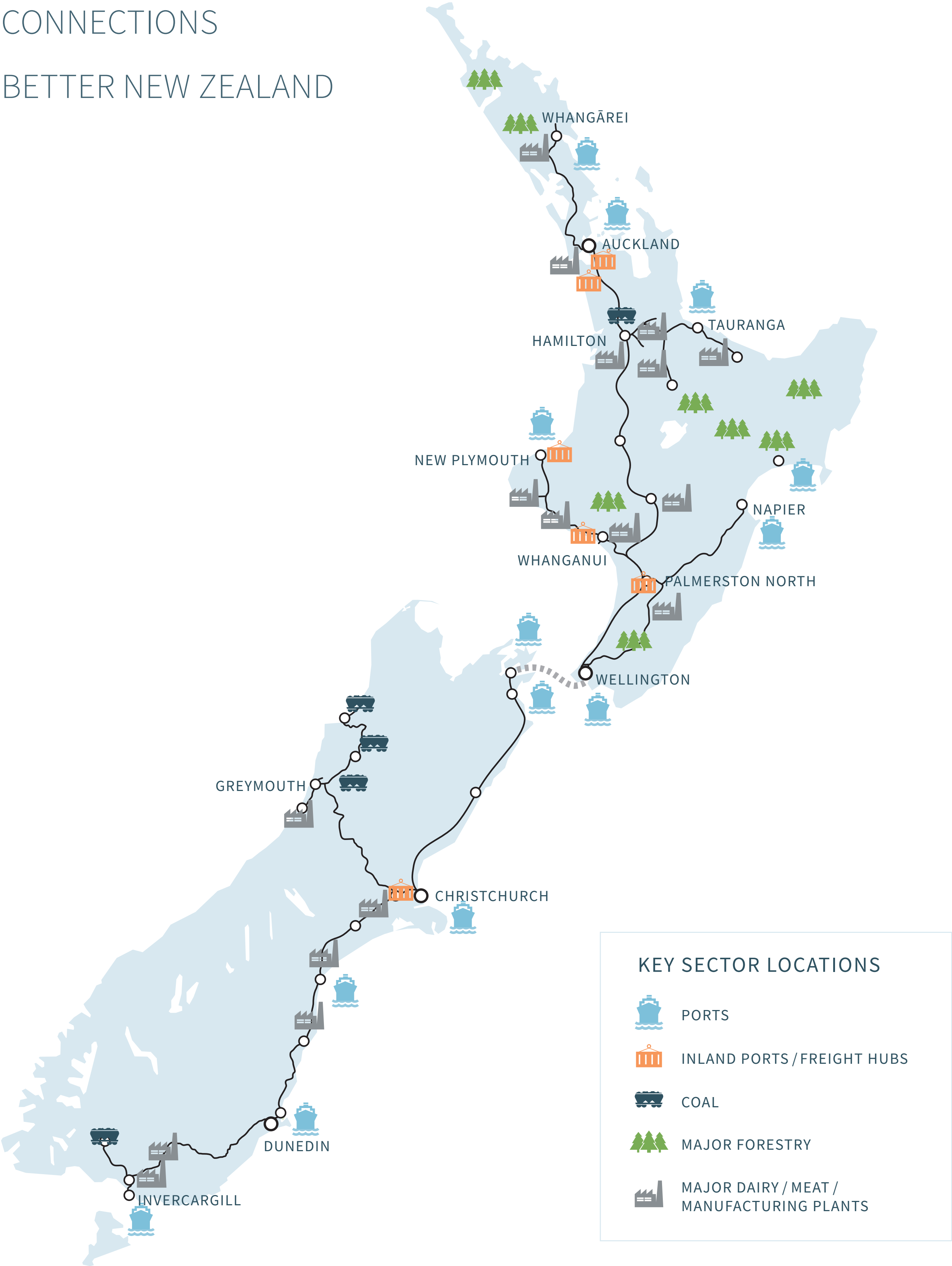
276,625

tonnes of CO_2-e emissions by cutting 1.1m truck trips

Renewed partnership with Energy Efficiency and Conservation Authority

STRONGER CONNECTIONS

BETTER NEW ZEALAND



Freight

Moves around 19 million tonnes of freight each year

Track

Operates and maintains 3,700km of track, including six million sleepers, of which 50 per cent are concrete

Interislander

Operates three ships carrying 830,000 passengers on 3,800 sailings per year*

Commuters

Helps commuters make 35 million low-carbon journeys each year on our network*

Value

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

Freight task

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

Freight services

Operates 43,000 mainline freight departures each year

172 mainline locomotives

Property

Manages more than 18,100 hectares of land

Owns more than 1,350 buildings

Manages 10,000+ leases, licences and grants

Sustainability

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

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

Infrastructure

3,100 signals

1,500 public level crossings

106 tunnels

1,344 bridges

Exports and imports

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

Tourism

Offers long-distance tourism experiences between Auckland and Wellington, Picton and Christchurch, and Christchurch and Greymouth

Our team

4,200 employees

18% female

15% under 30 years old

* Figures are pre-Covid

** The Value of Rail in New Zealand – EY 2021

MATERIALITY AND OUR REPORTING APPROACH

The report's title, Delivering for New Zealand, reflects how we are focusing on delivering the projects funded by substantial Government investment, already seeing the results of investment, and have managed to deliver a strong result in a year that is still affected by the fallout from COVID-19.

The report's aim is to provide in-depth information about what we do in our business, our relationships with stakeholders and our role as a driver of sustainable and inclusive economic growth for the year to 30 June 2021 (FY21).

This is our sixth 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 and 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 business and our stakeholders.

In FY21 we intended to undertake further steps in our materiality journey with additional stakeholder workshops and interviews to further develop our understanding of what truly matters. We decided to postpone this until FY22 as we focused on the COVID-19 recovery as an essential service provider and readying ourselves for the new funding stream from the National Land Transport Fund which started 1 July 2021.

In the meantime, we have reflected on our material issues, and consider the issues outlined here remain our top material issues. We have also continued strong levels of communication with our customers and stakeholders. Along with starting a refresh of our sustainability strategy. We will update progress in next year's report.

The table that follows lists the top-ranked material issues, in which the environment and people feature strongly.

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 Value Reporting Foundation's International Integrated Reporting Framework. The Board acknowledges its responsibility for the integrated report. 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 an unmodified audit report on the financial statements in this report.

Left Renewing the Overhead Line Supply in the Wellington Yard is part of an upgrade to the Wellington Metro Network.

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

1 ZERO HARM

- Safety culture
- Worker safety
- COVID-19 protocols
- Public safety
- Level crossings
- Dangerous Goods Shipments

People
Short to long term
High
Pages 28-30, 35-37, 48-49

2 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 24, 32-34

3 CARBON AND ENERGY

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

Environment
Short to long–term
Moderate
Pages 31, 34, 40, 41-43, 45, 46

4 CUSTOMER RELATIONSHIPS

- Essential service provider through COVID-19
- Customer satisfaction
- Customer partnerships
- Service offering
- Service provision
- Service performance

Relationships
Short to long–term
High
Pages 25, 28, 31, 32, 38-39, 40, 42, 46-49

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 35-36

6 ENVIRONMENTAL PERFORMANCE

- Environmental Management
- Environmental Incidents
- Spills Management
- Protection of biodiversity

Environment
Short to long–term
High
Pages 27, 41-43

7 MATERIALS AND WASTE

- Waste management
- End of life solutions for assets

Environment
Short to long term
High
Pages 14, 41

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 24, 25, 32, 49

9 EMPLOYEE ENGAGEMENT AND WELLBEING

- Health and Wellness
- Labour relations and labour standards
- Collaboration with union
- High Performance High Engagement, HPHE

People
Short to long–term
High
Pages 35-36, 38

10 COMMUNITY RELATIONSHIPS

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

Relationships
Short to medium–term
Moderate
Pages 27, 28-30

Value Creation Timing: Short-term is considered with 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.

Below Senior Storeperson Keryn Cottier checking inventory at the soon-to-be-renovated Hillside workshop.

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 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 4,200 people bring the expertise, pride and passion to KiwiRail.

ENVIRONMENT

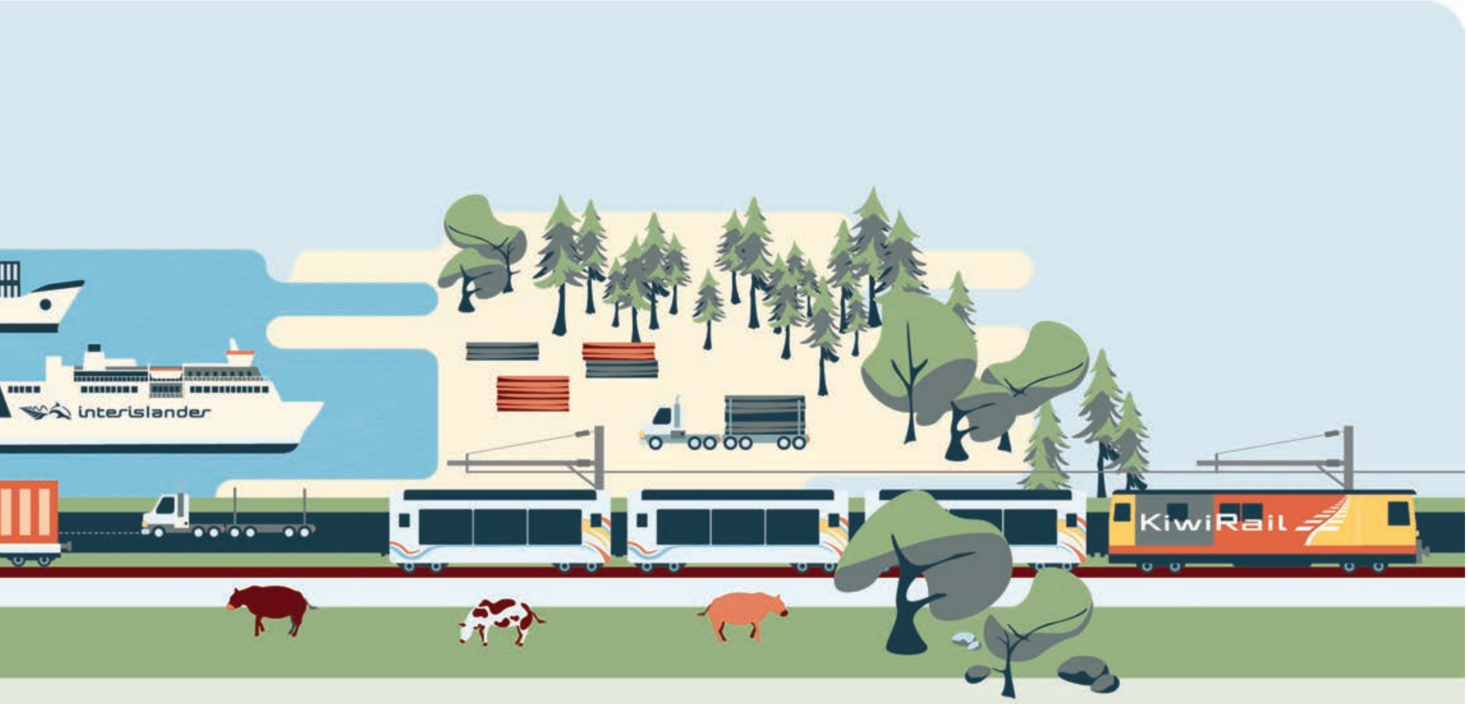
We are the kaitiaki (guardian) of the rail corridor and the land, air and water in which we operate.

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 PROPERTY PORTFOLIO

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

An 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.

ACTING CHAIR'S REPORT

FY21 was my fourth year on KiwiRail's Board and it continues to be an extraordinarily exciting time to be involved in the rail industry in New Zealand. I would like to acknowledge the Government's support to date, which has exceeded $8 billion in financial commitment since 2017. While we are delighted to receive the Government's support, I would also like to acknowledge the effort of our Executive who have worked closely with our shareholder and agencies to deliver the value of this investment across the many projects within our 10-year plan.

As the world grapples with the impact of carbon and the challenges caused by climate change, rail is increasingly seen as part of the environmental solution. Our shareholder supports our focus on renewable energy, waste reduction, sustainability and pursuing carbon neutrality. This has our shareholder's ambition completely aligned with our customers' aspirations.

KiwiRail has a 10-year plan out to 2030. The first five years are all about setting the stage in preparation for our business growth aspirations over the next 50 years. Building a rail network that is both resilient and reliable begins with the track asset. Next is our rolling stock procurement programme. This combined investment programme is exactly what our customers are seeking. Having a track that can deliver speed and schedule integrity translates to retention and growth of market share. Effectively delivering better outcomes through this investment will bring more trade opportunities to KiwiRail for years to come.

The Board is pleased the KiwiRail Executive has begun our pathway to profitability through both planned volume and price modelling, and by addressing our terms of trade with our customers. This has resulted in an increase in our revenue by 7 per cent to $681.6m and achieved an operating surplus of $63.2m in FY21, up $23m compared with FY20. In a year that began with great uncertainty in the wake of the first COVID-19 lockdowns, this strong result confirms that our Executive team have the right skills and courage to deploy our transformation strategy.

The final steps were also laid this year for a new, secure funding pathway for the maintenance and renewal of New Zealand's 3,700km national rail network. Many years of underinvestment has caused degradation of the network to a significant degree. Having a vital public asset so under-funded has been an enormous challenge to KiwiRail for decades. The Rail Network Investment Programme allows KiwiRail to deliver its investment strategy over the next 10 years with certainty.

> On behalf of the board, my thanks to Greg who is leading our transformation through his introduction of new strategies, customer centricity, a higher quality of operational performance and safety with a commercial quality in the business not seen before.

I would like to thank the Government ministers and officials, and KiwiRail's Group Chief Executive Greg Miller and his team for their work over many years that has led to the new funding model. It gives the public, KiwiRail and its customers, transparency and assurance that the network will be able to support the anticipated growth that is part of KiwiRail's strategy and is part of New Zealand's commitment to reducing its greenhouse gas emissions from transport.

"Above rail and below rail" has become the shorthand description for the new funding approach which brings with it new reporting requirements internally and externally. The first New Zealand Rail Plan was released in May 2021, outlining the Government's 10-year strategy and priorities for network investment. KiwiRail's response is through the Rail Network Investment Programme which will be produced every three years, covering the work that will happen on the network or the "below rail" component of the railway. This work will be funded through the National Land Transport Fund, supported by the Crown and track-user charges from the market. For the first time, this model exists to recognise and fund rail's place in an integrated land transport network of road and rail.

The "above rail" business covers KiwiRail's commercial operations, and the company is now well set up to deliver on Government expectations to be financially self-sufficient in the coming years.

The Board's single biggest decision this year was to commit to the $1.45 billion Interislander replacement project which will transform the Cook Strait business with two new, large, purpose-built rail ferries that increase our capacity for road freight, cars, and passengers. It will bring a new range of onboard service options for our domestic and international travellers. This decision means it is an exciting time in our ferry business, as well as rail.

Any business is only as good as its people and we are fortunate at KiwiRail to have some of the best. I thank Board members for their diligence this year. We have had much to grapple with and, I believe, have made wise decisions. On behalf of the Board, my thanks to Greg who is leading our transformation through his introduction of new strategies, customer centricity, a higher quality of operational performance and safety with a commercial quality in the business not seen before. Also, thank you to the hard-working Executive and the 4,200 members of the KiwiRail family for all their efforts in working in all weather and at all hours for New Zealand and for New Zealanders. Our people are important to us and our objective is to promote a high standard of safety and improved well-being.

Sue McCormack
Acting Chair

Brian Corban *CNZM QSO*

1946–2021

This year KiwiRail's board and staff mourned the loss of one of the company's true champions, Chairman Brian Corban, who died in office on 2 May, aged 75. A former chair of Television New Zealand, Radio New Zealand and Genesis Energy, he brought to KiwiRail strong experience in private and public sector governance. He had also been a member of the Waitangi Tribunal and chair of the Melanesian Trust.

Brian's grandfather migrated to New Zealand from Lebanon in 1902 and founded Corban Wines, putting the family name on New Zealand's restaurant menus for generations to come. Brian maintained the family's strong presence in the Lebanese and West Auckland communities.

On Brian's death, State-owned Enterprises Minister David Clark said Brian had been seen, "as a transformative leader within KiwiRail, well respected for his wisdom, honesty and sense of humour".

The Board and Chief Executive of KiwiRail lost not only a straight-talking leader and determined advocate for the company, but a generous friend who continues to be missed.

GROUP CHIEF EXECUTIVE'S REPORT

Reflecting on the past year, I am delighted to report that the story for KiwiRail was one of performance, growth, and delivery, topped off by very good financial results.

KiwiRail is being transformed by a more commercial approach to management, and by Government investment – providing increased certainty for our business by enabling the long overdue replacement of core assets.

Budget 2021 saw $1.3 billion invested in KiwiRail, following on from $1.2 billion in Budget 2020 and $1.0 billion in Budget 2019. Budget funding comes on top of the New Zealand Upgrade Programme projects, and previously allocated capital for projects to help stimulate economic activity in the provinces.

This combined investment sits alongside the introduction of a new regime in FY22 providing longer-term "below rail" funding for network maintenance and upgrades. The sum of this investment has not only given KiwiRail the financial resources to deliver new infrastructure to support our growth, but has also stimulated renewed energy and pride among our team. The renaissance of rail in New Zealand is well underway and we are immensely grateful to the Government for its support and belief in rail.

Diversity and gender equity inside KiwiRail is something we continue to celebrate and improve. We are proud that women now make up 18 per cent of the workforce and comprised 24 per cent of new starts in FY21.

PEOPLE

To deliver all this work we have grown our team which is now around 4,200 and headed by a strong leadership group. Like other industries, New Zealand's closed borders and skills shortages affected our recruitment in FY21. Despite that, we increased the diversity of our workforce and we remain committed to the High-Performance, High-Engagement strategy to work co-operatively with our union partners.

Our tangible commitment to upskilling our workforce, and focussing on safety, was seen with the completion in May of our own Learning and Development Centre at Southdown offering modern learning spaces and equipment. We delivered more than 600 internal face-to-face courses and 43,000 elearning courses over FY21.

Diversity and gender equity inside KiwiRail is something we continue to celebrate and improve. We are proud that women now make up 18 per cent of the workforce and comprised 24 per cent of new starts in FY21. Similarly, those aged under 30 make up 17 per cent of the workforce but comprised 29 per cent of new hires this year, with a strong emphasis on trainees and apprentices. We are committed to recruiting cadets, apprentices, and graduates, with those categories to make up no less than 10 per cent of our new recruits each year. There is always more to do and we are committed to developing a more diverse and inclusive workforce.

We were rewarded with our Net Promoter Score rising from +24 in FY19 to +27.

INFRASTRUCTURE

KiwiRail is one of New Zealand's biggest transport logistics companies but we are much more than that as we are also delivering the largest capital programme for rail in living memory. Our workforce has a wealth of construction talent, which is deepening and expanding. Infrastructure construction is an increasingly significant part of who we are as a company. That is demonstrated by a four-fold increase in our capital expenditure in the past five years, and can be seen in our FY21 capital expenditure spend of $1.05 billion, up from $257m five years ago in FY16.

Physical work started this year on the

Papakura to Pukekohe electrification, and on a third main line extension in Auckland. Both will contribute to improvements for passenger services in Auckland, along with a large body of catch-up renewals to prepare the network for the opening of the City Rail Link. The discovery of worse-than-expected Rolling Contact Fatigue in the rails in Auckland prompted an intense burst of activity which saw more than 130km of new rail laid in just seven months – an amount that would normally be done over many years. As a vertical rail infrastructure construction company, we were able to put in place a plan that deployed 600 workers in less than a month, along with procuring and allocating all the raw materials required in the reconstruction of the Auckland Metro rail corridor. If we had to outsource this work, it would have taken 10 months to secure the people and over 12 months to secure the materials, and would have cost $40m more than the fabulous KiwiRail effort to support Auckland Transport commuters. Work also started on the design and consenting for three new stations in south Auckland to serve the expected population growth there and to connect new communities to low-carbon public transport.

Preliminary planning began for the construction of a spur to connect the rail network at Whangarei with the port at Marsden Point. In January, the Northland Line re-opened and, for the first time, was able to carry hi-cube containers after an intensive project in 2020 saw five bridges replaced and the floors of 13 tunnels lowered. We used local suppliers and local labour wherever possible to boost to the Northland economy, with a workforce of over 700 across the year.

VALUE OF RAIL

Every tonne of freight carried by rail has 70 per cent fewer greenhouse gas emissions than if the same freight carried by trucks. An updated "Value of Rail" report this year independently assessed the value of rail for New Zealand at up to $2.1 billion per annum. Without rail in FY21, the same freight carried by road would have required an additional 1.1 million truck trips, using 100m litres of fuel and creating 276,000 tonnes of CO2 emissions. This year we achieved our best-ever monthly fuel burn rate of 5.31L/kGTK. As well as environmental benefits, this brings financial savings. We are determined to capitalise on these benefits and deliver for our shareholders, our customers, our team and the New Zealand economy, while working towards our target of a 30 per cent reduction of carbon emissions by FY30 compared with FY12.

> Our focus has shifted from being a price taker to fully understanding our return on investment, and our capital commitment for our asset base on a per customer basis.

INTERISLANDER

One of the biggest and most exciting projects currently underway is the building of two new bespoke Interislander ferries designed for Cook Strait conditions, with the very latest technology available in motive power. Our new hybrid diesel-electric ferries with the newly designed ergonomic hull will produce 40 per cent less emissions per crossing. For vessels that are 50 per cent wider in beam and 30 per cent longer on the waterline, they will also produce half the wake height. Our information tells us that our energy savings target is just the beginning. We have also designed these vessels with significant battery banks to support berthing in harbour whilst operating operating on battery power charged up while in transit across Cook Strait. The energy system is designed to be changed out as future new technology arrives to power our vessels.

The technology and management systems onboard the new vessels are a 50-year advancement from the conventional technology employed on our ageing vessels. A bridge simulator has already been set up to prepare ships' masters for the new arrivals and it makes clear what a huge leap in technology and manoeuvrability the ships will represent over those in our current fleet, which are nearing the end of their 30-year working lives. Designing new terminal facilities in Wellington and Waitohi Picton to accept the new ships has been a significant focus this year, and is continuing into 2022.

CUSTOMERS

The Domestic freight market remained strong all year, in a lift after the 2020 initial COVID-19 lockdown, and as international and coastal shipping was thrown into disarray. Across the company, full year revenue of $681.6m was 7 per cent ahead of last year thanks to a commercial re-set with the Port of Tauranga and improved business and management strategies.

Significantly, some of our biggest and growing customers are domestic freight operators who are also road transporters, but increasingly rely on rail as part of a reliable and lower-carbon link in their supply chains.

We're continuing to develop online solutions to improve the interface with customers, and the efficiency of our business. Developments this year include:

- Vehicle booking system introduced at Southdown
- Introduction of capacity management system for domestic and Import/Export freight to use capacity more fairly, to give certainty to customers and to reduce empty wagons on trains

More scrutiny and alignment of our operating performance to best practice in global rail returns is occurring. Our team is learning rapidly from new technology wrapped around our operating systems that delivers factual, real-time, operational, and customer trade data, allowing superior diagnostics for enhanced financial performance.

Safety Performance Indicator	Results
Safe Work Conversation	Average Safety Engagement Activities/Conversations for every worker in FY21 is 5.5
Hazards and Near Miss Reporting	Average increase over last three years is 52% per year
SPADs (Signal Passed At Danger)	Average reduction over the last three years is 11% per year
Collision (Terminal Operations)	Average reduction over the last three years is 16% per year
Lift-offs	Average reduction over the last three years is 29% per year

Our focus has shifted from being a price taker to fully understanding our return on investment, and our capital commitment for our asset base on a per customer basis. We now talk about asset allocation, therefore capital allocation, service profiles, volume and frequency with seasonal peaks and troughs all modelled before price.

ZERO HARM

KiwiRail's commitment to improved safety is taken seriously at all levels of the company. Introduction of the ORA online reporting system has improved reporting and transparency, and the company's commitment to improved safety is unrelenting. High-risk events fell significantly in FY21 compared with the previous year, dropping from 360 to 85, and the total number of recordable injuries fell to 223 from 238. The FY21 target of 1300 SHE (Safety, Health and Environment) work conversations was well exceeded with around 21,000 conversations, keeping safety front of mind every day.

SCENIC

The COVID-19 pandemic has hit the scenic and tourism side of our business hard. With New Zealand's borders closed, revenue on our three scenic trains fell $10.7 million in FY21 compared with FY20. Pre-Covid, on average, foreign visitors accounted for around 65 per cent of passengers on our three scenic trains - the Northern Explorer, Coastal Pacific and TranzAlpine. We have closely followed market developments and have adjusted timetables and fares to encourage domestic travellers but the sector remains difficult, and the future uncertain.

Closed borders also impacted passenger revenue on Interislander, down $1.8m year-on-year, though an increase in domestic tourism meant the impact was not as hard as it might otherwise have been.

ADDITIONAL HIGHLIGHTS

In a busy year, other highlights include:

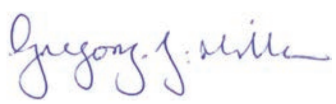
- The start of the five-year trial of Te Huia (Hamilton-Auckland passenger service)
- Tar Barrel bypass completed on the Main North Line
- Synlait siding opened in Dunsandel
- $7m year-on-year revenue increase from our property portfolio
- The launch of exciting plans to assemble wagons at new Hillside workshops in Dunedin
- Launch of the inaugural New Zealand Rail Plan and KiwiRail's first Rail Network Investment Programme, heralding a new network investment strategy with funding from the Land Transport Fund
- 450 new wagons delivered
- Interislander customer satisfaction 90%
- Achieved our lowest rail freight fuel burn, with a 13.47% reduction in fuel since FY16, (39m litres of fuel saved through the Driver Advisory System from February 2015 to March 2021)
- Completion of the Main North Line reinstatement programme.

I want to record my thanks and gratitude to our acting chair, Sue McCormack and to KiwiRail's board for their governance in FY21, and their support following the death of chairman Brian Corban. I thank too, KiwiRail's Executive team and management for their leadership, and everyone in KiwiRail for their dedication and focus during the year.

COVID-19 continues to bring challenges and uncertainty to our work environment but as we look forward to the arrival of new rolling stock, which will help us achieve our growth targets while lowering emissions, there could not be a better time to be in rail. It is an extraordinarily busy time for the company and I would not wish to have it any other way.

FINAL THOUGHT

As we complete a year full of change and success, I wish to acknowledge and reflect on a great New Zealander, Brian Corban, our former chairman. He was a man with marvellous business insight, an incredible person possessing a unique generosity of spirit, with a rare mix of charisma, high family values and a strong belief in humanity, someone who has left his mark on all of us.



Greg Miller
Group Chief Executive

The first of KiwiRail's new ferries is due to arrive in 2025 (Artist's impression).

PERFORMANCE OF OUR BUSINESS UNITS

Global and domestic economies rebounded in FY21 and that was reflected in revenue and volumes in our key export commodities such as forestry coal, meat and dairy.

However, COVID-19 continues to impact global supply chains and the effects have been felt in New Zealand with constraints on container supply. Shipping lines continue to suffer network reliability performance, global ports have been severely impacted by COVID-19–related productivity and shipping costs have increased.

The impact on KiwiRail's customers, New Zealand ports and the landside supply chain was felt in the busy six months from October to March. KiwiRail was able to bring a significant uplift in rail capacity to Port of Tauranga as backlogs of freight were cleared following a period of constraint.

The domestic volumes on rail and Interislander continued to grow in the last 12 months and key partners Toll and Mainfreight opened new facilities as demand for domestic rail increased.

$393m

total revenue, 6% increase on FY20

$11m

growth in domestic revenue, 13% increase

$6m

growth in bulk, 11% increase

$4m

growth in forestry, 7% increase

Interislander provides a vital social and economic link across Cook Strait for New Zealand.

Without international tourists, Interislander was less busy than pre-Covid times. However, as Kiwis were unable to travel overseas, Interislander provided a domestic travel option for people to get out and see New Zealand.

The Interislander peak season operation ran particularly smoothly this year.

Disruptions to the wider transport supply chain (port congestion, international shipping changes, etc) meant that there was higher domestic freight demand on Cook Strait compared with previous years. In particular we experienced higher volumes in the off-peak and shoulder periods of the annual freight demand cycles.

COVID-19 and the ability to go overseas to dry dock our ships has disrupted our planned maintenance programme, but despite those constraints Kaiarahi was able to safely undertake a dry dock in Sydney in April. Regularly dry docking our vessels is a maritime regulatory requirement. All our three ships had a wet dock stint for scheduled maintenance.

Significant progress was made on advancing the new ship and terminals through Project iReX, including entering into a contract with Hyundai Mipo Dockyard in South Korea to build our new ships. Work also advanced on the new operating model and transition process Interislander needs to go through ahead of the first new ship arriving in 2025.

SCENIC TRAIN SERVICES

$129m
revenue, down 1% on FY20

680,000
passengers carried

1.3m
lane metres of trucks carried

560,000
lane metres of rail freight, including road bridging carried

98%
scheduled services operated as planned

KiwiRail has a long and proud history of connecting people and places via three iconic train journeys - Northern Explorer, Coastal Pacific and TranzAlpine, run under The Great Journeys of New Zealand.

However, COVID-19 has taken a heavy toll on tourism and our operations suffered the impact when the three train journeys were halted in March 2020 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.

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 planning to introduce a new service class from Spring 2022 for our TranzAlpine Scenic service, while ensuring more accessible fares also remain available

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

$16m
revenue, down $8m on FY20

PROPERTY

KiwiRail Property is at the heart of New Zealand's strategic freight flows and we are working with strategically aligned partners to develop new sites and intermodal freight hubs across the country to ensure goods get to market efficiently.

This includes land acquisition and consenting for a new freight hub near Palmerston North. Such initiatives will enable us to improve the efficiency of customers' supply chains, help shift more freight volume to rail, and generate income growth through long-term, sustainable, leasing arrangements.

Our team of property experts manages development of the portfolio, leasing, facilities management, resource management consenting and land acquisition and disposals. Our portfolio includes more than 1,350 buildings and more than 10,000 third-party leases, licences and grants, including 900 commercial leases, and the documentation of 3,400 public and private level crossings across our network. As a holder of resources for future generations, kaitiakitanga is important to us. 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.

$56m

revenue, up 14% on FY20

$3.6b

portfolio value

CAPITAL

Significant investment continued in the national network this year, including through the Government's New Zealand Upgrade Programme (NZUP), the National Land Transport Fund (NLTF) and Provincial Growth Fund (PGF).

A major focus is preparing the Auckland metro network for the anticipated increase in commuter services when the City Rail Link begins in 2024/2025. KiwiRail has been allocated $933 million through NZUP 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. In addition, we're undertaking a major maintenance programme across Auckland, with an investment from the NLTF.

In Wellington, $194 million of Transitional Rail funding from the NLTF has seen the construction of the long-anticipated second rail line between Trentham and Upper Hutt. 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 $270m investment through NZUP.

KiwiRail has refurbished 12 carriages at Hutt Workshop for the daily Hamilton-Auckland passenger service, Te Huia. The Government has also invested in upgrades to the Capital Connection (Palmerston North – Wellington) carriages to ensure the continuation of the service.

Close to $20 million of PGF investment has been used to begin revitalising Dunedin's Hillside Workshops, and to complete the plan and start land purchases for the inter-modal Regional Freight Hub near Palmerston North.

In addition to funding through Budgets 2019 and 2020, KiwiRail received a further $39 million to contribute to a high-performance maintenance facility at Christchurch's Waltham site.

$1.05b
spent on assets

5
bridges replaced on Northland Line

13
tunnel clearances increased on Northland line

2
rail-enabled ferries ordered

Our 3,700 kilometres network is the foundation of KiwiRail and enabling connections from Southland to Northland.

KiwiRail owns and maintains the entire national rail network. Operating a rail network means meeting ongoing costs to:

- Keep the network operating safely and effectively within its existing parameters
- Maintain current service levels for customers

KiwiRail invested $86 million during the year for network maintenance, operations and management, and an additional $153 million on capital renewals and upgrades, including rail and sleeper replacement, bridge strengthening, upgraded signalling and level crossings.

KiwiRail completed a number of strategic capital projects to upgrade the network, with funding from the NZ Upgrade Programme, National Land Transport Fund and Provincial Growth Fund. This includes work in the Auckland and Wellington Metro areas, including repair and replacement of track damaged by Rolling Contact Fatigue.

From FY22 the rail network will be maintained and upgraded using the new funding framework with contributions from the NLTF, track user charges and a Crown top up. Work to be done is outlined in the Rail Network Investment Programme.

45
kilometres of Overhead Line Supply renewed in Wellington

$153m
capital investment (excludes strategic projects)

134.4km
re-railing in the Auckland Metro network

NEW PLANNING AND FUNDING MODEL FOR RAIL

Above KiwiRail is moving to a new funding model for investment in the network.

FY22 is the first period of the new planning and funding model, with below rail (network investment) funded from the NLTF (National Land Transport Fund) from 1 July 2021. Under the new planning and funding framework, the national rail network will be funded on a long-term basis alongside the rest of the land transport system, including the road and public transport networks.

Rail network funding for the national freight and tourism network will primarily come from the newly established Rail Network activity class, with the money that funds this coming from the NLTF, track user charges and a top up from the Crown. NLTF funding will also support ongoing investment in the metropolitan passenger networks through the Public Transport Infrastructure activity class, alongside funding from other sources.

To access the NLTF funding, KiwiRail has produced the first RNIP (Rail Network Investment Programme) which sets out the work programme for the next three years (with a forecast for the 10-year period) to continue the work that will deliver a resilient and reliable national rail network.

KiwiRail will continue to fund its commercial freight and passenger above rail operations from the net operating cash flows received from delivering these services. The Crown may provide support to invest in a commercial growth opportunity (to increase its longterm return) or to deliver an outcome with primarily public benefits (such as the Budget 2021 investment to assemble wagons at the Hillside Engineering Workshops). This new approach to planning and funding the rail network, along with the other investments in rail, will recognise both the commercial and broader policy objectives of investment in the rail network, and will enable KiwiRail to secure existing services and lay the foundations for growth as a profitable business.

We're looking forward to the next steps towards getting this work underway and investing in the future of rail for all New Zealanders.

FINANCIAL CAPITAL

INPUTS

Our financial capital comprises operational revenue, Government investment, grant funding 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.

FY21 HIGHLIGHTS:

- Operating surplus: $63.2m[1], +58% year-on-year
- Operating margin: 9.3%, against 6.3% last year
- 10-year strategic plan completed including Pathway to Profit
- Value of Rail updated: $1.7-2.1 billion per annum
- Budget 2021 initiatives and business cases prepared, submitted, and approved with $1.3 billion committed
- Settlement of insurance claim for the 2016 Kaikoura earthquake with KiwiRail recovering 90% of maximum claim entitlement
- Rail Network Investment Programme approved by the Minister of Transport, providing long term funding mechanism for 'Below Rail' business.

FY22 FOCUS:

- Implementation of the long-term funding mechanism and sustainable operating model
- Execute COVID-19 strategic response and recovery plans
- Improve operating margin of above rail business (EBITDA/ External revenue)
- Increase commercial yields and improve customer terms of trade
- Focus on Profit & Loss management and accountability across the business to drive improved financial performance at an operational level
- Develop separate above and below rail financial reporting.

Solid revenue growth in our domestic freight markets has seen KiwiRail deliver a strong bottom line for the financial year 2021 (FY21). The operating surplus of $63.2 million[1] in FY21 for the KiwiRail Group is up $23 million compared with FY20.

This was achieved by a company-wide focus on putting customers first, maintaining our network service offering throughout disruptions, having a clear focus on strict cost control, aligning capital to revenue-earning services and integrating our service offerings to improve use of our resources. A central effort has been a commercial reset for key customers, aligning our service offering and prices with the market, with significant

Above KiwiRail saw solid growth in domestic freight markets.

1. Operating Surplus represents earnings before depreciation & amortisation, interest, impairment, capital grants and fair value changes. FY21 Operating surplus excludes impact of non-recurring items.

progress made during FY21.

Overall, revenue was up 7 per cent on the previous year to $681.6 million. The revenue growth came across most sectors. Road freight operators are now among KiwiRail's largest customers, and their business with rail is growing.

Domestic and export revenues increased with forestry freight revenue up 7 per cent on the previous year, bulk freight up 11 per cent, domestic 13 per cent, and commercial vehicle freight on the Interislander up 2 per cent.

Our container freight export revenue was on a par with the previous year, which reflects the ongoing turmoil in international supply chains caused by COVID-19.

Closed borders continue to affect our tourism services, with a revenue fall from our three scenic trains. We reduced the financial impact by tailoring our timetables, fares and schedules to match demand, but this remains a difficult environment for tourism operators.

COVID-19 will continue to create on-going uncertainty around revenue projections particularly for Scenic tourism trains and Interislander passenger revenue potential.

We will continue to deliver on the Government's commitment to rail, including the significant investment of $1.3 billion in Budget 2021, on top of previous investments of $1.2 billion in Budget 2020 and $1 billion in 2019. This prepares us well for freight growth at the same time as we grow our skills and team capability to deliver on the $4.5 billion 10-year Rail Network Investment Programme.

We are grateful for this Government support to fund critical capital projects. We have seen a roughly four-fold increase in our capital expenditure in the past five years with FY21 capex of $1.05 billion, compared with $257m in FY16. An $8 billion transformation of rail is underway and KiwiRail is growing its role as an essential and sustainable part of New Zealand's supply chain.

Above KiwiRail is growing its role as an essential part of the supply chain.

FINANCIAL STATEMENTS

The financial statements are included from page 68 onwards and detail the financial performance for the year and the financial position at 30 June 2021.

Areas which may be of particular interest are:

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

Note 1 (f) – Impact of COVID-19 – details the key areas where judgement has been applied due to increased uncertainty from the ongoing impact of COVID-19

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

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

Note 8 (c) – Impairment of Non-Financial Assets and Note 13 – Investment Property – explains why KiwiRail impairs $323 million of KiwiRail 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

KAWENATA

In March KiwiRail entered its first-ever formal relationship agreement with an iwi when it signed a Kawenata with Te Ātiawa o Te Waka-a-Māui Trust.

KiwiRail is committed to building lasting partnerships with Māori across New Zealand as major investment projects get underway.

Te Ātiawa o Te Waka-a-Māui Trust represents Te Ātiawa whānau who whakapapa back to Te Tau Ihu - the top of the South Island. Waikawa Marae sits at the entrance to the Tōtaranui (Queen Charlotte Sound) and includes Kura Te Au (Tory Channel).

Though the two entities have a long and shared history, they have been working more closely together on the i-ReX project which will see the the purchase of two new, rail-enabled ferries and improved port facilities in Wellington and Waitohi Picton.

The Kawenata will support the mahi and redevelopment in Waitohi Picton in the short and medium term, but its benefits are intended to be much broader in binding both organisations to principles of open collaboration, mutual respect and understanding, and sustainable management of the rohe. This includes the social, cultural, physical, and environmental wellbeing of tangata whenua and the wider community.

KiwiRail is working to improve and sustain relationships with all iwi and hapū as the organisation continues with a raft of development projects upgrading the New Zealand rail network.

At the agreement signing, Te Ātiawa o Te Waka-a-Māui Trust Chair Rachael Hāte acknowledged the effort, contribution and mahi done between the iwi and KiwiRail, saying “This agreement further celebrates how a partnership can work”.

KiwiRail's iwi and hapū partnership focus is a key foundation of the organisation's growth strategy.

To bring a stronger Te Ao Māori perspective to the organisation, KiwiRail is also building a new generation of leaders through the Toi Toi Māori Leadership programme.

Above Archdeacon Harvey Ruru QSM, left, and Executive General Manager Interislander Walter Rushbrook at the signing of KiwiRail's first formal relationship agreement with an iwi.

Above KiwiRail works hard to build strong relationships with its stakeholders.

RELATIONSHIPS CAPITAL

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.

FY21 HIGHLIGHTS:

- New Zealand Rail Plan published outlining the Government's strategic priorities for rail
- Introduction of capacity management to Import/Export and Domestic markets
- Synlait siding opened, with new Freight Carriage Agreement including recovery of capital invested
- Rail Freight Premier On-time performance 85% to 30-minutes
- Interislander On-time reliability 98%
- Scenic Plus product development
- Successful launch of Te Huia inter-regional commuter rail including related infrastructure works and delivery of the carriage refurbishment program at Hutt Workshops.

FY22 FOCUS:

- Invest in network, facilities and rolling stock to maintain core services and enable safe, reliable, and efficient services
- Drive regional growth by delivering on PGF investment
- Commuter rail renewal and upgrade programmes in Auckland and Wellington, and the new Hamilton to Auckland service
- Foster a safety mindset and promote rail safety
- Partner with iwi and other stakeholders on new initiatives in our property and supply chain portfolios
- Grow tourism and deliver enhanced tourism offerings to further support regional economies
- Partner with government agencies to embed a sustainable planning and funding model.

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. Our new ferries and port terminals planned to be delivered mid-2020s are being designed to meet the future demands of our road, rail and tourism markets. KiwiRail has delivered enhancements to our digital platforms to improve the speed and efficiency of how customers book and manage their freight through to delivery. Our new Customer Relationship Management system enables us to build stronger connections with customers and deliver an improved experience.

CONNECTING WITH COMMUNITIES

With 4,200 people in our KiwiRail team nationwide and a rail and ferry network

that spans the country, KiwiRail wants to play its part in supporting communities and being a good neighbour. This is seen in several local activities over the past year:

- We partnered with community groups to undertake rubbish clean-ups and tree-plantings at several sites
- The Great Journeys of New Zealand continued its sponsorships of activities including the Banana Boat Ocean Swim Series, Coast to Coast, Wellington on a Plate and Picton Maritime Festival
- 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 more than 100,000 people
- Interislander continued its partnership with Life Flight Charitable Trust, helping save the lives of New Zealanders every day
- Interislander received and processed 243 applications for community support, and supported 190 groups during the year
- 275 bands sailed free on Kaitaki as part of our 'Bands on Board' programme
- We donated more than $30,000 in vouchers to help with community fundraisers and showcased Interislander to more than 250,000 people.

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 engaged local artist Leon Hohepa to paint a mural at Ngati Toa Domain in Wellington – a site that was a frequent target for graffiti
- We worked with an artist and local school children to create a mural in Sunnyvale, West Auckland
- Signal boxes in Wellington have been wrapped in artwork by a local artist to discourage tagging
- Further beautification work in Auckland - in the form of murals and the wrapping of signal boxes - has been completed since the close of the financial year
- Graffiti has been removed by contractor partners throughout our network as part of our ongoing beautification efforts.

Above The Interislander cheer squad celebrates competitors' efforts at the Interislander Swim the Lighthouse event of the Banana Boat NZ Ocean Swim series, one of the events KiwiRail supports.

SAFETY AROUND THE RAILWAY TRACKS

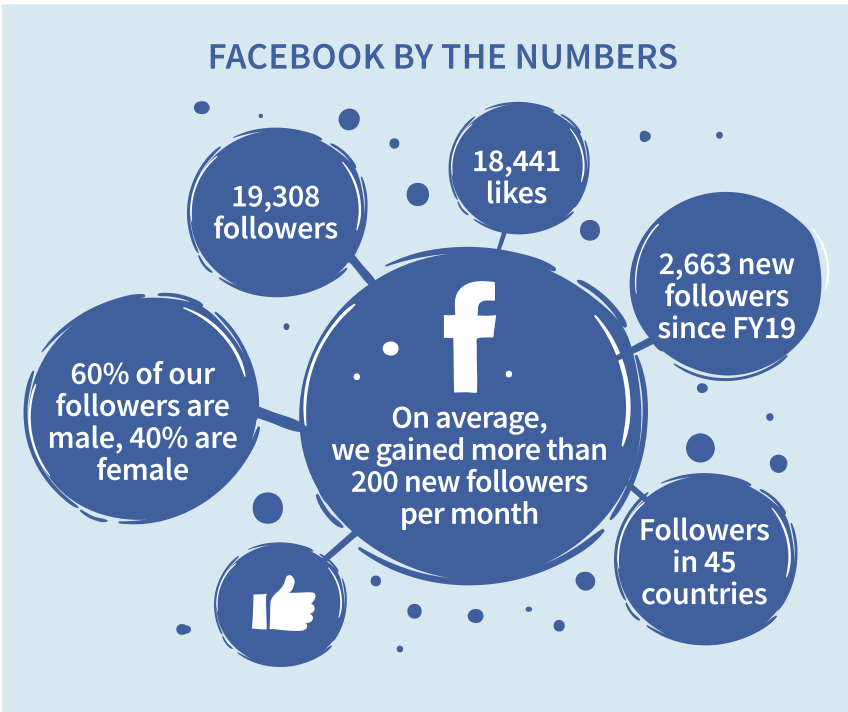
KiwiRail's nationwide network of ambassadors visited schools and attended community events around the country to promote rail safety. We continue to sponsor and work closely with TrackSAFE New Zealand, a charitable trust that raises awareness of rail safety and educates the public on how to keep

Above TrackSAFE Foundation Manager Megan Drayton at the opening of Rail Safety Week 2020 in Wellington Railway Station. KiwiRail works closely with TrackSAFE to promote rail safety.

themselves safe around tracks and trains. In August, we ran a successful national campaign for Rail Safety Week drawing attention to the impact of near misses between pedestrians, vehicles and trains. Across our national network, we have continued to invest in fencing and new signage to reduce trespassing at known hotspots.

SOCIAL MEDIA CHANNELS

We have continued to grow our social media presence, connecting with hundreds of thousands of people in New Zealand and overseas via Facebook, Instagram and YouTube. Our posts range from project updates, funding announcements and safety messages, to photos and videos of our day-to-day operations. Social media offers a two-way connection between KiwiRail and the public and fosters a genuine sense of community. The stories we share online demonstrate the shared value of rail to New Zealand and New Zealanders.



UNLOCKING NORTHLAND'S POTENTIAL

Above Increasing the capacity of tunnels in Northland allows trains to carry hi-cube containers.

In January 2021, KiwiRail reopened the line between Auckland and Whangārei after lowering the tracks in 13 tunnels, replacing five bridges and beginning a general track upgrade that will be completed in 2022.

Lowering the tracks has allowed the line to carry hi-cube containers, which are standard in international shipping. Within a week of the line reopening KiwiRail had picked up new business moving these larger containers from a vessel that had diverted to Northport because of congestion issues at Ports of Auckland. On the back of the work existing customers also committed additional volumes. We intend to provide additional services once these upgrades are complete.

With freight volumes moving within Northland expected to increase from 18 million tonnes a year currently to 23 million tonnes by 2042, rail will play a crucial part in developing an efficient and resilient integrated transport system for the region.

Funding from the Provincial Growth Fund enabled works to get underway and the line was closed in mid-2020 to enable work on the tunnels and bridges.

The Government's NZ Upgrade Programme will fill the missing pieces by committing to adding a 19km spur line to Northport and upgrading the mothballed line from Whangārei to Otiria in the Bay of Islands.

A revitalised rail network will support economic growth across Northland in the same way an expanded rail network connected to the Bay of Plenty's key primary industries supported growth in that region in the 1950s.

Rail used to play a much larger role in Northland than it does now. Before the port moved from Whangārei to Marsden Point in 2007, KiwiRail carried about a million tonnes of freight in Northland each year. In short order, that fell to around 100,000 tonnes. Building the link will see that change.

A rail-connected Northport will offer mid- and far-North producers an efficient option to get their goods overseas and around New Zealand.

At the same time, a mode shift to rail for Northland freight will reduce carbon emissions and means lower road maintenance costs and fewer heavy trucks on highways into Auckland.

ASSETS CAPITAL

INPUTS

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

OUTCOMES

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

Above Forty-five kilometres of the Overhead Line Supply in Wellington has been renewed.

FY21 HIGHLIGHTS:

- Contract signed with Hyundai Mipo Dockyard for two new rail-enabled ferries; $350m, 15-year committed loan facility finalised
- Vehicle Booking System introduced at Southdown Container Terminal
- Tar Barrel bypass completed, replacing Tunnel 21 on the Main North Line
- Auckland Metro Recovery project completed: 134.4km of re-rail, 21,540 sleepers and 29 turnouts replaced, on top of BAU capex programme
- Physical work started on Auckland Metro Projects including: Papakura to Pukekohe electrification, Wiri to Quay Park third main line extension, Drury Rail Stations, RNGIM, (Rail Network Growth Impact Management) Rolling Contact Fatigue remediations and City Rail Link (CRL) enablement packages
- Wellington Metro: Trentham to Upper Hutt double track ready to open, built 45km of Overhead Line Supply, 4.7km track replaced Wellington station, Wairarapa and short tunnels
- Northland line reopened with the capability of taking modern Hi-cube containers
- Locomotive Reliability MDBF (Mean Distance Between Failures) 56,800, above target
- Locomotive availability 80%, in line with target
- Temporary speed restrictions (TSR) under the target limits (12-month average TSR lost time) for most priority routes.

FY22 FOCUS:

- Delivering the strategic asset replacement programme including ferries which are due to arrive in 2025 and 2026, rolling stock/ mechanical, and delivering the RNIP (Rail Network Investment Programme)
- Increase maturity of asset management and maintenance systems to ensure strong asset resilience for continuity of service
- Integrated planning to optimise alignment between rolling stock availability, network access for maintenance, asset management, delivery in full, on time (DIFOT) planning, technology, and customer demand
- Use delivery models that provide opportunities for local employment
- Deliver the Metro networks upgrades and support City Rail Link Limited (CRLL) and Link Alliance to deliver to CRL.

The ongoing Budget investment since 2019 is allowing us to invest in much-needed locomotives, shunts and wagons that are at the end of their commercial lives, 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 NLTF (National Land Transport Fund) enables longer term investment in our rail network, which supports our ability to effectively plan, recruit and deliver for our customers.

NETWORK INFRASTRUCTURE

To keep the network operating safely and effectively, we must regularly inspect our track, replace old assets and carry out preventative maintenance and repairs.

In FY21 we spent nearly $600m on improving the resilience and reliability of our main lines to meet increasing freight volumes, and new infrastructure projects to support greater mode-shift from road to rail.

With investment through the Provincial Growth Fund, KiwiRail has completed all work to lower tracks in and refurbish 13 tunnels and rebuild five timber bridges on the Northland line. (See Case Study P 31) As of 30 June, teams had laid 76,000 of 140,000 new sleepers and 10.4km of 20km of new rail. Track work will be completed in early 2022, when additional freight services will be introduced on the line. Existing customers have already committed to additional volumes. The second stage of work – reopening the mothballed line from Kauri (north of Whangārei) to Otiria – is expected to begin in early 2022. Planning is also underway for construction of the new rail link to Marsden Point. Directly connecting the port and rail network is expected to make rail a more attractive option when discharging container ships at the port.

In Auckland we've made solid progress building a third rail line from Mt Wellington Highway bridge to Otahuhu Station and from Puhinui Station past Wiri Junction, with much of the work to build a third rail line between Middlemore and Wiri expected to start in the first quarter 2022. We've also completed enabling works for the Papakura – Pukekohe electrification, with major construction expected to begin later this year. Detailed planning for the three stations around Drury is also underway.

Work has continued to progress 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. Work upgrading the Wairarapa Line is underway.

FERRY REPLACEMENT

Work has been continuing at pace on the once-in-a-generation project to replace our existing three ferries with two new large, bespoke, rail-enabled ferries. (See page 34) The two 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.

The Government committed $400 million in Budget 2020 towards the ferry and terminal infrastructure replacement project, on top of $35 million funding in Budget 2019.

ROLLING STOCK AND MECHANICAL FACILITY UPGRADES

This year saw continuing progress in our strategy to deliver future rolling stock and mechanical facility upgrades.

Funding of more than $1.5 billion has been allocated in Budgets since 2019 enabling us to work towards replacing rolling stock that is at the end of its serviceable life. This includes replacing our South Island mainline locomotives, lighter duty mainline locomotives and shunt locomotives across the country.

With $20 million through the Provincial Growth Fund and $85 million through Budget 2021, Hillside Workshops is being revitalised with a new mechanical facility, new offices and workshops, and a wagon assembly plant. This will allow KiwiRail staff based at multiple sites in Dunedin to co-locate to Hillside, and support taking on more apprentices. This will create a new life for this historic site.

In addition to ongoing work upgrading Hutt Workshops and other key maintenance facilities around the country, we are also building a new Mechanical Hub at Waltham in Christchurch.

Below Work is underway on building a new Mechanical Hub at Waltham in Christchurch.

CASE STUDY

Above In June KiwiRail signed the contract for the two new Interislander ferries. From left are: Ships Programme Manager Project iReX Massimo Soprano, Executive General Manager Interislander Walter Rushbrook, Capital Projects & Asset Development Chief Operating Officer David Gordon, Group Chief Executive Greg Miller, iReX Programme Governance Board Chair Paul Harper and Programme Director iReX Stephen O'Keefe.

SIGNING OF FERRY AGREEMENT

KiwiRail's once-in- a generation upgrade of its ferry business took a significant step forwards with the signing of a $550m contract with shipyard Hyundai Mipo Dockyard (HMD) for two new, rail-enabled Cook Strait ferries.

With an ageing ferry fleet, the much-needed investment will secure a safe and resilient rail, freight and passenger service between the North and South Islands.

The Interislander service is an extension of State Highway One for freight and passengers and an integral part of the rail freight corridor which runs from Auckland to Christchurch and beyond.

Already operating around 3,800 ferry services a year, transporting about 850,000 passengers, 250,000 cars and billions of dollars' worth of freight, the new ferries are large enough to cope with the significant predicted growth.

The state-of-the-art new ferries will also deliver a 40 per cent reduction in Interislander's carbon emissions as the old ferries are phased out. They are designed to deliver more carbon reduction over time as new green technologies become available.

The new ferries will offer more choice of onboard services including accommodation, entertainment and food and beverages for passengers and freight drivers.

HMD will deliver the first new ferry in 2025 and the second in 2026.

The two 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. When running at full operating capacity, they will be able to carry nearly double the number of passengers, and commercial and passenger vehicles when compared with the current fleet.

The rail freight capacity will triple.

The two 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.

The purchase is part of the combined $1.45 billion ferry upgrade project, which also sees improvements to the terminal infrastructure at Kaiwharawhara in Wellington and Waitohi Picton to meet modern standards and to accommodate the new ferries when they arrive.

PEOPLE CAPITAL

INPUTS

Our 4,200 people bring expertise, pride and passion to KiwiRail.

OUTCOMES

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

FY21 HIGHLIGHTS:

- Employee Net Promoter Score increases from +24 in FY19 to +27 in FY21
- BSafe4 Programme launched
- Commencement of Provincial Growth Fund funded pilot programme Kakano mo Apopo – (Seeds for tomorrow) prison program
- More than 200 face-to-face courses delivered and more than 42,000 online courses completed
- Regional Apprenticeship Initiative confirmed
- Trades on Track Apprenticeship Programme initiated
- New Learning and Development facility at Southdown completed
- Development of KiwiRail Specific Mental Health Awareness Programme
- Health and Wellbeing Education and Support Programmes established and implemented
- Diversity and Inclusion strategy endorsed by GSEC and Senior Leaders.

FY22 FOCUS:

- Attract, develop, and retain talent given KiwiRail's ageing workforce and critical goals
- Utilise and grow our capability to deliver KiwiRail's substantial capital investment programme
- 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
- Increase focus on reducing High Risk Activity through use of Critical Control Verification
- Improve our hazards awareness and near-miss reporting
- Maintain emphasis on Health and Safety Action Teams / Health and Safety Committees and achieving increased engagement in site Safety, Health & Environment critical risks, hazard identification, and controls.

With staff in more than 50 towns and cities across the country, KiwiRail is one of New Zealand's largest employers. We are 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 will continue to build a safe, skilled and increasingly diverse workforce.

Above The number of kapa haka and waiata groups in KiwiRail is growing.

Left KiwiRail is committed to developing its team, including Locomotive Engineer Trainee Dodie Joseph on the West Coast.

EMPLOYEE ENGAGEMENT

Staff engagement has improved considerably over the past four years. Our employee net promoter score (eNPS) was -21 in 2016, with staff reluctant to recommend KiwiRail as a place to work. It has turned around and our eNPS score is now +27, with more people willing to actively promote KiwiRail as a good employer. While there are still areas where we need to improve, the cultural shift is encouraging.

KiwiRail worked hard to support our people during the COVID-19 pandemic. Throughout, our focus has been to protect the health and wellbeing of our staff and continue to operate essential train and ferry services to keep New Zealand running during lockdowns.

HPHE (High Performance High Engagement) continues to be applied in KiwiRail with its protocols and processes working from business as usual at Hutt Workshops, to the renovation and development of RSAS (Rolling Stock Asset Services) depots across the country. It is also developing in InterIslander. While it is never straightforward, engagement with frontline staff and their unions keeps being the best way to achieve gains for all parties.

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 and rangatahi (young people) in the workforce. We have developed multiple Mana Wahine / Women's networking groups and we have established a Kapa Kotahi (under 30s) employee networking group. We have developed engaging recruitment videos and advertisements to attract a more diverse candidate pool, and have refreshed our mentoring programme and working-from-home guidelines to attract and retain diverse talent.

We also continue to support a range of cultural initiatives, with Te Kupenga Mahi gaining further momentum over the past 12 months. The number of kapa haka and waiata groups continues to grow, 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. Following the establishment of our rainbow network, KiwiRail was represented at Auckland's Pride parade.

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.

ZERO HARM

Our core value of 'Care and Protect' is critical to our business so it is pleasing to have seen an improvement in safety performance as a result of strengthening engagement and participation in our Safety Health and Environment (SHE) strategic programmes and frontline activities. The number of SHE Work Conversations throughout the organisation continues to increase year-on-year (up 11per cent on last year), encouraging higher levels of quality interactions between frontline workers and their line managers. Our Near Miss/ Hazard reporting has increased 50per cent. A 30 per cent reduction in both Signal Passed At Danger (SPADs) and mainline derailments also indicates an encouraging rail operations safety focus. The introduction of control verification activities has increased the focus on preparation and monitoring of high-risk tasks. We completed more than 1000 control verification activities across the organisation last year. Our safety leadership training programme, BeSafe4, is progressing well with a strong focus on safety behaviors and personal accountability. More than 1,800 people have completed the programme so far.

DEVELOPMENT OF OUR PEOPLE

KiwiRail has invested in new training facilities to provide fit-for-purpose environments that are conducive to good learning. We are committed to creating industry qualifications for apprenticeships and have developed new qualifications for the industry including Level 3/4 for Traction, Yard Operations and Locomotive Engineers. Track qualifications are currently being developed.

CASE STUDY

DIGITAL SHIELD FOR WELLINGTON

Digital shields help protect rail workers and infrastructure, while reducing the impact on passengers as works are being carried out. KiwiRail is pioneering the use of digital shields as part of its works in and around the rail corridor.

This industry-leading technology was developed on KiwiRail's Trentham to Upper Hutt double-tracking project in the Wellington region. The shields have been used to protect excavator drivers from overhead power lines and other sensitive areas such as the live rail corridor, by locking the controls of excavators if any part of the machine gets too close.

The shields are made by creating a virtual twin of the physical environment, using a laser scanner. This survey technique collects millions of points of data, which is then used to build a 3D digital model. These models allow us to create digital shields a set distance from the position of the real-world objects.

Once a shield is created, it is sent to a computer onboard the excavator that is linked to a GPS unit. The system on the excavator knows where the machine is, and through a series of sensors, what shape it is, as well as where the shield sits.

If the excavator comes into contact with the location of a shield, then a signal is sent to the hydraulic system and the controls are locked out, preventing the machine from coming too close to the real-world hazard.

The technology used to create the shield used on the Trentham to Upper Hutt line can be fitted to most modern excavators, and differs from other systems as it is a truly 3D protection system (as opposed to geofencing or slew locks and height restrictors).

Above Innovations to protect those working on tracks with a Digital Shield has been honoured with an award.

It can be applied to underground pipes and cables, as well as above ground items. Alternatively, it can be used to protect newly constructed items, and avoid accidental damage and rework.

KiwiRail is scoping opportunities to use the shields in other locations where works are being carried out, including in Auckland.

The work of KiwiRail, along with Downer and Aurecon was honoured with Engineering New Zealand's 2021 Innovation Award.

SKILLS AND KNOW-HOW CAPITAL

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.

FY21 HIGHLIGHTS:

- Implementation of detailed Train and Business Unit profit & loss statements supported by improved utilisation and planning analysis
- First successful overhaul and upgrade of the DX locomotive to the new EFI engines completed
- Significant progress on digital programme rollout across business for operational and customer benefits
- Crisis and Emergency Management framework and plans established and used successfully for our COVID-19 Response
- Terminal Optimisation Project – completed as a High Performance High Engagement project in Kinleith, Kawerau and Mount Maunganui and initiated in Palmerston North and Wellington
- First-Time ACC Tertiary Accreditation Achieved.

FY22 FOCUS:

- Implement Digital Transformation Strategy
- 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
- 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.

Above KiwiRail continues to develop virtual reality modules as a way of teaching skills such as shunting.

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 innovation we show in maintaining our assets, and the new technologies we are embracing.

DIGITAL TRANSFORMATION

We continue 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:

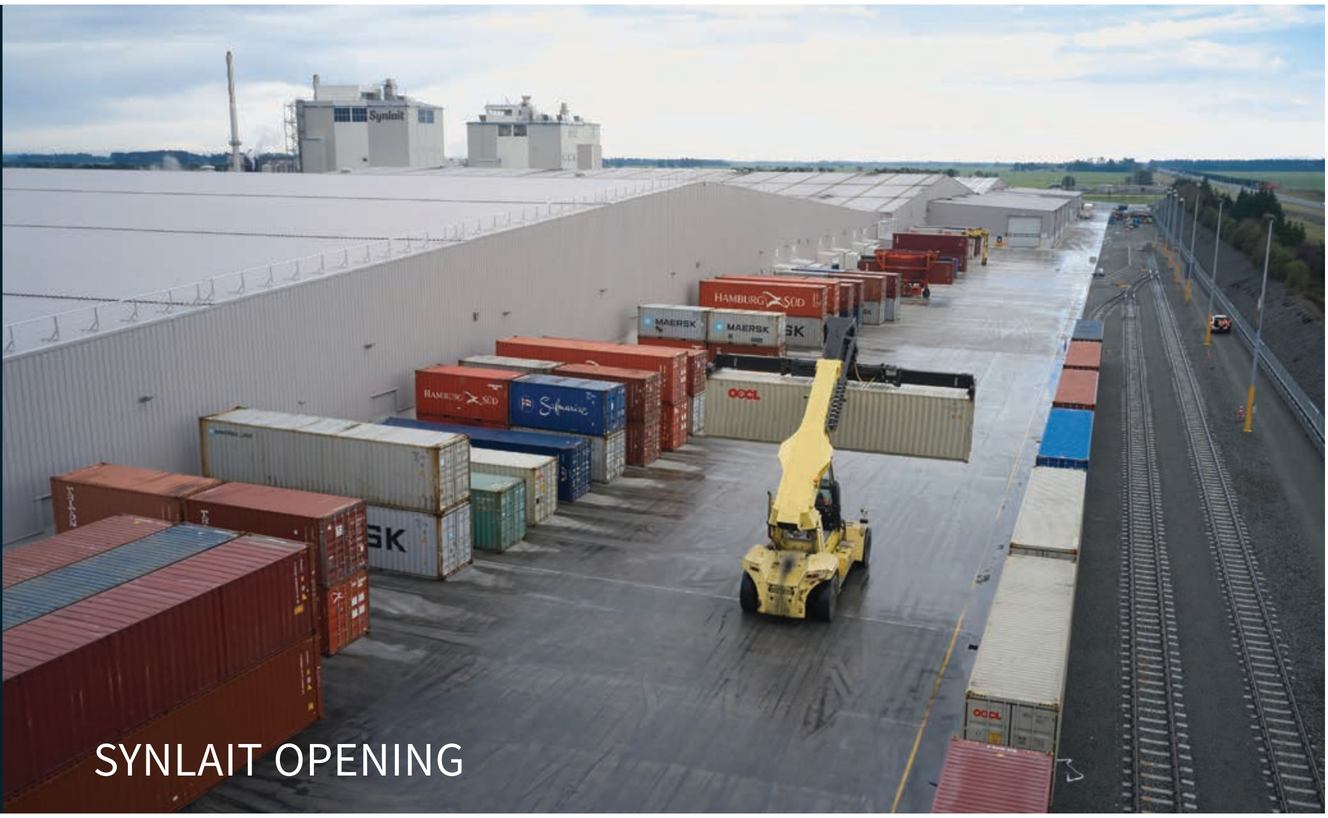
- Digitalising our customer interactions through our new Customer Digital Engagement platform
- Real-time journey visibility and tracking
- Integrated dashboards and in-time data for key insights into our business
- Enabling technologies to support Sales and Operational Planning
- Smart assets with sensors, tracking devices and real time communications both internally and for our customers.

DIGITAL LEARNING

KiwiRail has digitised a significant portion of our learning processes, as we remain focused on modernising how we learn. We are using digital e-learning to build capability, enabling us to train more for less, and encouraging learning anywhere, any time. More than 36,000 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 of e-learning, webinars and traditional formats has already been tried and tested, and will be significant in the future. Virtual reality modules for shunting activities have been launched and are embedded into our training programmes, and we continue to develop further modules for other business areas.

Below Digital engineering has been used to create a virtual design of the upgrade for the Plimmerton Station on the Wellington network.

CASE STUDY



SYNLAIT OPENING

In May 2021, KiwiRail joined Lyttelton Port Company and Synlait Milk to open a new rail siding at Synlait Dunsandel.

This project, some 10 years in the making, supports Synlait's commitment to reduce its environmental footprint, simplify its supply chain network to provide greater control and traceability of product, and improve customer responsiveness.

The siding opening also aligned with KiwiRail's determination to play a greater role as a low-emissions enabler for freight and for New Zealand's import and export community. The completion of the siding, and the ability to move Synlait's product onto rail, removes around 16,000 truck movements from State Highway 1 each year.

Synlait Co-Founder and Acting CEO Dr John Penno notes, "building a world class and sustainable value chain for our customers is a key strategic priority and is part of what makes Synlait unique. The rail siding extends our highly integrated manufacturing facility even further from farm-to-can to farm-to-port.

"KiwiRail's freight trains have 70per cent fewer emissions per tonne carried, compared with road transport, and have the ability to send our goods directly to Lyttleton Port optimising our operations, and reducing our overall emissions profile."

Above A new rail siding at Synlait's plant is helping create a sustainable supply chain.

KEY FACTS:

- Took around 30,000 labour hours to build
- Involved laying 2.5km of rail, installing 5,400 cubic metres of ballast and 3,400 sleepers
- Allows up to 30 wagons to be loaded on the 600m hard stand.

ENVIRONMENTAL CAPITAL

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 saves 70 per cent carbon emissions over the equivalent freight carried by road.

Above Rail will play a key part in reaching New Zealand's goal of a net zero carbon economy by 2050.

FY21 HIGHLIGHTS:

- Reduced heavy vehicle impact of more than 1.1 million truck trips, saving 102.8 million litres in fuel and 276,625 tonnes of CO2-e emissions
- Achieved the best-ever monthly fuel burn rate of 5.31L/1000 gross tonne kilometres (GTK) during the year
- Renewed our partnership with the Energy Efficiency and Conservation Authority (EECA) for another three-year term. Successfully applied for co-funding to support two energy efficiency projects
- KiwiRail became a member of the Infrastructure Sustainability Council (ISC) and will use its rating scheme on selected infrastructure projects.

FY22 FOCUS:

- Remain on track to achieve a 30 per cent reduction in carbon emissions by 2030
- 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
- Continue to implement sustainability initiatives in delivering the capital investment programme
- Build and refine a broader set of environmental performance data
- Continue focus on driving the implementation of environmental project plans across business units (Contaminated Land, Trade Waste, Fish Passage and Hazardous Waste).

CARBON AND ENERGY

KiwiRail is committed to supporting New Zealand's goal of achieving a net zero carbon economy by 2050.

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.

In 2021, the Climate Change Commission provided its initial advice to Government on climate action in New Zealand and the paths New Zealand can take to meet its climate targets. One of the key recommendations to decarbonise the transport sector was to increase modal shift from road to rail and coastal shipping. Supporting opportunities to move more freight by rail will help realise the recommendations of the Commission's report. The investment programme outlined in the NZ Rail Plan and Rail Network Investment Programme will play a critical part in achieving this.

Other benefits of shifting freight from road to rail include reduced congestion by taking cars and trucks off our roads; reduced air pollution; improved road safety, including fewer injuries and fatalities; lower road maintenance costs for taxpayers; and fuel savings.

Our Sustainability Programme includes carbon emissions reduction targets over the medium and long term. These are to reduce our carbon emissions by 30 per cent by 2030 (against a FY12 baseline[1]) and to be net zero carbon by 2050. We measure our carbon emissions (CO2-e) on an intensity basis for our rail freight operations, and on an absolute basis for the organisation. In FY21, our carbon footprint for scope 1 and 2 emissions[2] was 232,763 t CO2-e. Our carbon performance is shown in the table below.

Our carbon footprint has fluctuated since our base year in FY16[3], due to growth in our freight task, and the impact of COVID-19. In FY21 we achieved our lowest rail freight fuel burn, with an overall improvement of 9.4 per cent since FY16. This has been achieved through the continued focus on our Driver Advisory System (DAS) on our mainline locomotives. This focus reflects a culmination of further engagement with our locomotive engineers, increased emphasis on operational behaviours from senior leadership and continued support from the Rail and Maritime Transport Union (RMTU).

On the ferries, we have reduced our fuel burn per sailing by 0.1 per cent compared with base year FY16. However, we have seen an increase in fuel per sailing in FY21, largely due to a disruption in our planned maintenance schedule due to COVID-19. We have been unable to get our ships into dry dock for hull cleaning which would usually play a large part in improving fuel efficiency.

A key aspect of our Sustainability Programme is our close collaboration with the Energy Efficiency and Conservation Authority (EECA). In August, we signed another three-year partnership agreement with EECA, and with their support continue to progress initiatives towards our 2030 target. In March, as part of EECA's 'GenLess' campaign, we were able to highlight the success of DAS to a broader audience and help support EECA's message about living more with less energy.

Fuel usage by our trains and ferries makes up most of our carbon footprint (as shown in Figure 1) and has been the area of greatest focus within the programme. Our Rolling Stock Procurement team has now completed the procurement of 16 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. Due to delays caused by COVID-19, the new units are expected to arrive later in 2021.

KiwiRail has begun the procurement process for two new diesel-electric hybrid ships to enter service from 2025. The new ferries will provide a large step change opportunity to decarbonise our operations.

The remaining part of our footprint comprises emissions from across our other operations and facilities. We are committed to driving energy efficiency measures and identifying fuel-switching opportunities, including reviewing utilisation of our vehicle fleet, reducing the use of diesel generators to run refrigerated containers, and identifying where we can reduce energy use at larger sites.

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, which illustrates the carbon reduction achieved using rail and includes information on fuel savings. 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 FY21, KiwiRail transported more than 18 million tonnes of freight which equates

CARBON PERFORMANCE

	FY16 2015-16	FY19 2018-19	FY20 2019-20	FY21 2020-21
Rail Freight Carbon Intensity (grams CO_2-e emissions per net tonne kilometre)	28.68*	27.03*	27.67*	26.68
Carbon footprint - scope 1 and 2 (tonnes CO_2-e emissions)	270,625*	240,090*	230,613*	232,763

* These figures differ to those reported previously. This is due to an adjustment in how our fuel consumption figures are now calculated, as well as reflecting changes from Ministry for Environment's (MfE) GHG emission factors.

1. Our 2030 carbon reduction target was chosen to align with New Zealand's commitment to the Paris Agreement which has a base year of 2005. The earliest year that KiwiRail has a robust GHG inventory for is for 2012 hence we have chosen FY12 as our base year for our 2030 target.
2. Scope 1 emissions cover direct emissions from activities under our control such as fuel usage by our fleets. Scope 2 emissions cover indirect emissions from the generation of electricity purchased and used by KiwiRail.
3. Our Sustainability Programme has an FY16 baseline as this was when we signed our first EECA partnership agreement and measured our first 2020 carbon reduction target against.

CARBON FOOTPRINT - 232,763 t CO_2e

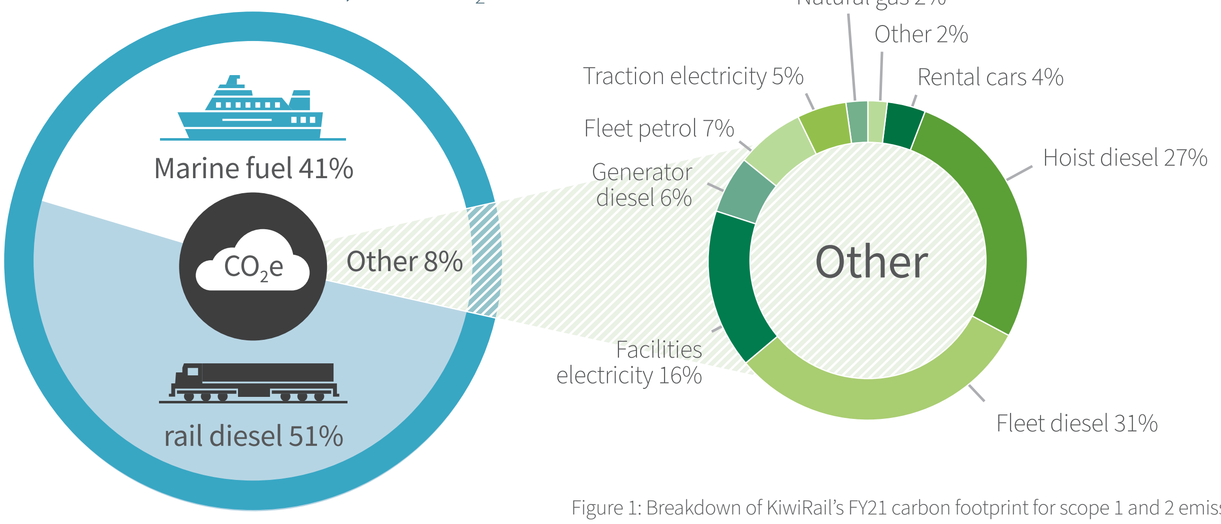


Figure 1: Breakdown of KiwiRail's FY21 carbon footprint for scope 1 and 2 emissions

to taking more than 1 million truck trips off the road, avoiding over 276,000 tonnes of CO2-e emissions.

ENVIRONMENTAL PERFORMANCE

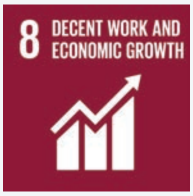
KiwiRail has prioritised two Environmental Action Plans flowing from our Environmental Policy and Sustainability Strategy over the last year, relating to land management and its Biodiversity. One is undergoing internal consultation, and the other is in place to inform environmental and social outcome focuses for design, operations and maintenance projects, enabling long term legacy outcomes in project delivery. The Safety, Health & Environment (SHE) Management System will set out environmental guidance, standards and regulatory obligations and accountabilities. The focus has been on providing guidance for front line and operational staff around environmental controls to reduce impacts, that also align with regulatory requirements, and advice on Te Ao Māori environmental values.

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.

There are 17 SDGs in total and we have identified three as priorities for our business. These are SDG 8 Decent Work & Economic Growth, SDG 9 Industry, Innovation & Infrastructure, and SDG 13 Climate Action, although our activities help progress many 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 objectives.

Our Sustainability Strategy 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. Notable achievements in FY21 are set out in the table below.

SUSTAINABLE DEVELOPMENT GOAL AND TARGET	KIWIRAIL'S RESPONSE
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. INTERISLANDER As already noted, 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 first of the new ferries, which will enter service from 2025, 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
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 (through the Rail Network Investment Programme) to improve the resilience and reliability of connections for freight and people in the regions. This includes the new Te Huia commuter service connecting Hamilton and Auckland, and improvements to the Auckland Metro network to ensure it is resilient and easily maintained, allows for more reliable passenger and freight services, and future-proofs Auckland for further demand. The Government has provided funding of more than $1.5 billion for a suite of projects to support growth. In addition, funding from the Government's New Zealand Upgrade Programme has been allocated to building a rail link to Marsden Point and upgrading the mothballed line between Kauri and Otiria. This will revitalise Northland rail by enabling improved reliability and resilience, shorter journey times and allow high capacity intermodal containers to be carried on the Northland line and connecting Northport to the rail network.
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 (GHG) is through an increase in modal shift of freight from road to rail, since every tonne of freight moved by rail produces 70 per cent fewer carbon emissions compared with heavy road freight over the same distance. The investment programme outlined in the NZ Rail Plan and RNIP is critical to achieving increased volumes on rail. Modal shift is also supported by the Climate Change Commission's recommendation to Government in its advice earlier this year. GLIDEPATH TO ELECTRIFICATION KiwiRail also continues to explore new low carbon fuel options, including extending the electrification of Auckland's rail network from Papakura to Pukekohe as part of the Auckland Metro Programme.

STRATEGIC OUTLOOK

We are focused on delivering value to all our stakeholders: customers, employees, partners, shareholders, and the New Zealand public. We will do this by maximising the benefits from investment in rail and delivering on our plans to achieve our goals and transform our business.

Our 10-year strategy is made up of two five-year components:

- The first five years are building on our current momentum, adding rolling stock, increasing our scenic offerings and increasing our key sector market share ahead of the new ferry deliveries. This will be achieved by delivering on the Rail Network Investment Programme, purchasing new rolling stock and ferries, and investing in digital solutions, re-setting commercial contractual terms aligned to the next best alternative, and continuing to drive financial accountability.
- Achieving this will springboard us into our second five years, where we will leverage our new, modernised assets and increased capacity to continue to increase freight and passenger volumes, and develop new markets and opportunities. In this period, we will achieve a self-sustaining above rail business, independent of Crown funding.

We will deliver through our key strategic themes which include:

- Putting the customer at the centre of everything we do and growing our earnings
- Optimising our commercial delivery
- Achieving Zero Harm
- Being an employer of choice and improve our gender mix
- Delivering on the key capital projects that will increase the value of rail
- Bringing increasing sustainability benefits as we drive for net zero carbon emissions by 2050

MARKET OUTLOOK FOR THE YEAR AHEAD

Market forecasts have been made more uncertain because of the ongoing impact of COVID-19 on the economy, but KiwiRail has weathered the lockdowns well. After the first series of lockdowns, the freight side of the business was relatively quickly operating at pre-COVID-19 levels, aided by our ability to meet an uplift in domestic demand caused by international ship imports consolidating to fewer ports.

While the borders remain closed to international tourists the two lines of business most impacted by border closures or restrictions are the Interislander and scenic services. KiwiRail is focused on increasing its market share within the freight sector, particularly as it operates nationwide. Across the KiwiRail freight business, volatility of commodity prices is a strong influence on key revenue streams, particularly in the areas of forestry, dairy and coal.

Above Delivering on the Rail Network Investment Programme is key to KiwiRail's strategy.

FREIGHT

The market outlook for the year ahead is largely positive. KiwiRail is forecasting increased demand for freight across forestry, coal, imports/exports and domestic (freight movement within New Zealand).

Supply chain congestion challenges are expected to continue in FY22. Rail will be an important part of the solution, as shipping lines continue to bypass ports in an attempt to reduce costs and remain on schedule. "Just-in-time" supply chain strategies will be increasingly risky for manufacturing and retailing, reducing the need for time sensitive freight movements on road and increasing the market for freight on rail.

The domestic market for rail is primarily the movement of time-sensitive freight from distribution centres and freight forwarders between major cities. Growth in this market is driven by offering reliable and cost-competitive services. KiwiRail has reset its pricing over the last two years which has led to freight customers matching the mode most appropriate to their service and budget requirements. The health of the domestic economy is a key barometer for growth in domestic freight volumes. KiwiRail has been investing in our wagon fleet to keep it competitive with the high productivity motor vehicles (HPMV) road units. For example, we will continue to invest in wagons with higher cubic capacity and intermodal equipment to expand the catchment of customers who have access to the rail network. This aligns to our heavier payload wagons which give us an increased cubic capacity and competitive cost per cubic metre and per tonne, relative to larger HPMV road vehicles.

Import/Export (IMEX) overall volumes remain stable in the short to medium term with supply chains slowly adapting to larger container ships and fewer port calls. KiwiRail ensures high levels of connectivity within the IMEX sector across the country. Any changes to upper North Island port locations will impact the supply chain, and need to be worked through.

Bulk freight remains dominated by coal export levels and the overall demand for coal. Key decisions will be required ahead of the end of a current coal contract (2026) on the West Coast of the South Island.

Forestry continues to move towards peak “Wall of Wood”, which is expected in the next 15-20 years. KiwiRail continues to play a valued role, offering forestry shuttle services between ports and forestry hubs and increasing its footprint in this sector as new rolling stock comes on stream. Softer export prices earlier in the year lowered the volume of exports in the short-term. This quickly rebounded. Diverting logs for domestic processing creates some opportunities for rail, but these are limited due to the proximity of the processing mills to the forests, which makes transporting by rail uneconomic, and is only attractive whilst export prices are low.

COMMERCIAL VEHICLES

The market for Commercial Vehicles moving between islands sees Interislander competing directly with Bluebridge. Capacity on our ships will be limited through the first half of FY22 with each of the ferries going to dry docks for servicing. To optimise the limited space until the arrival of our two new rail-enabled ships in 2025 and 2026, we are introducing digital tools to influence customer behaviour and improve utilisation, for example, electronic self-serve bookings for customers, online booking, and travel confirmation.

Below The new learning centre at Southdown was opened with the unveiling of a pou.

Above The tourism markert continues to pose challenges in the age of COVID-19.

TOURISM

COVID-19 will continue to dampen demand across the tourism sector, impacting demand for Interislander passengers and scenic rail services. Domestic demand is likely to continue to fluctuate with more volume expected during weekends and school holidays. Scenic train services have been reduced to bare minimum levels to soften the financial impact from the reduction in tourists. We will continue to stimulate the domestic market where possible.

PROPERTY

While commercial real estate investment has generally been subdued during the pandemic, the logistics sector has proven relatively resilient and market demand is still strong. We have had good customer interest in new developments at a number of sites. Transacting these will be key to demonstrating capability to the market and building a longer-term development pipeline.

Construction sector activity continues to be strong, driving prices and timeframes for delivery. We continue to closely monitor the position of tourism tenants and others affected by lockdowns, and to review debt, but impacts to date have been less than forecast. We continue to monitor how increases in flexible working arrangements are affecting demand for, and the nature of, corporate accommodation requirements and develop these into our future corporate accommodation strategy.

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 continuing to reduce our critical risks and improving our environmental accountability. 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.

KiwiRail is focused on the following safety initiatives:

- Safety Rules Transformation

  Our commitment continues to Safety, Health and Environment 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. There are two distinct project dimensions; Content Development and Digital Delivery.

- Safety Leadership

  Our safety leadership training programme is progressing well with a strong focus on safety behaviors. Our focus for the year ahead is to complete the rollout of the training to the remaining 40 per cent of the business, driving greater ownership and accountability for safety at an individual level.

INVESTMENT IN RAIL

We will continue to focus on delivering the multi-billion dollar investment programme to renew and replace our core assets and restore the national rail network to a resilient and reliable level.

From 1 July 2021 we will be operating under the new planning and funding model, with below rail (network investment) funded from the NLTF. To access the NLTF funding, KiwiRail has produced the first Rail Network Investment Programme (RNIP) which sets out the work programme for the next three years (with a forecast for the 10-year period) to deliver a resilient and reliable national rail network.

KiwiRail will continue to fund its commercial freight and passenger above rail operations from the net operating cash flows received from delivering these services, and from the Crown investment we have received to replace aged assets such as rolling stock and ferries. The new approach to planning and funding the rail network, along with the other investments in rail, will recognise both the commercial and broader policy objectives of investment in the rail network, and will enable KiwiRail to secure existing services and provide the platform for growth as a profitable business.

With the new funding model in place, we'll also be working on providing greater separation of our above and below rail financial reporting over the coming year.

DIGITAL CONNECTIVITY AND SERVICES

For the first time KiwiRail has been able to dedicate funds to improving IT infrastructure, with the rollout of Windows 10 desktop enabling "work-from-anywhere". We are continuing to invest in our digital assets with funding set aside over the next three years to modernise our interactions with our customers, enable a more efficient service offering, and provide modern tools for our workforce.

As we refresh our physical assets (rolling stock and ferries), we are looking to embrace the advances of technology for the management of our assets. In future, we aim to utilise the data generated to enable predictive analytics, provide greater insights and improve decision making.

Below The Rail Plan was launched by, from second left, Transport Minister Hon Michael Wood with the support of SOE Minister Hon David Clark, Group Chief Executive Greg Miller and Ōhāriu MP Greg O'Connor.

KIWIRAIL BOARD OF DIRECTORS


Sue McCormack


Noel Coom


Hazel Armstrong


Rachel Pinn


Mike Williams


Maxine Moana-Tuwhangai


Bruce Wattie

Sue McCormack
Acting Chair

Sue practised as a corporate commercial lawyer for 35 years before retiring from partnership in 2019. She is the Chancellor of the University of Canterbury, 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 also 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.

Rachel Pinn
Director

Rachel is the director of her own transport consultancy business. She brings significant local and central government experience in strategic planning, passenger transport and procurement. Rachel has board experience in both central government and the not-for-profit sector.

Rachel is the past Chairperson of the Tauranga Budget Advisory Service and a member of the Bay of Plenty Department of Conservation Board. Rachel is a full member of the New Zealand Planning Institute and has a master's degree in transport studies and is an NZQA assessor for the NZ Certificate in Infrastructure Procurement Procedures.

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, the NZ Transport Agency, GNS Science, The 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 has been specialising in providing corporate finance advice and assistance to clients since 1985. He was a partner with PricewaterhouseCoopers (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, financial analysis, capital structuring, business case development, economic regulation, business and share valuations, and cost of capital.

Bruce holds a Bachelor of Commerce and Administration in Economics and Accounting and completed the International Business Programme at Harvard Business School, Boston, USA. He is a Chartered Accountant with the New Zealand Institute of Chartered Accountants.

THE KIWIRAIL EXECUTIVE TEAM

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 domestically and abroad. In May 2019, he became Group Chief Executive Officer. Previously Managing Director and Chief Executive of Toll, he led large global supply chain strategies across multiple transport modes including rail, road, ports, sea and air freight services, establishing businesses across Asia, the United States, Australia and the Pacific. He has significant experience in business transformation acquisition and divestment, was previously a director and managing director of Tranz Rail Holdings subsidiary Tranzlink International and was a senior executive of the Mainfreight Group. Greg fostered the Maori transport network Te Kupenga Mahi and held former 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 is KiwiRail's Chief Operations Officer, overseeing all operational parts of the business including rolling stock and operations. Prior to taking on his current roles, he was Group General Manager of Network Services, leading KiwiRail's 'below rail' network of track, bridges and tunnels along with the company's engineering function. Todd has been with KiwiRail since 2007 and has more than 15 years in the construction and operation of rail networks across New Zealand and the United Kingdom. An engineer by training, he has previously worked with London Underground and in roles across the pulp and paper sector in New Zealand.

David Gordon

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 the transport infrastructure sector, was Planning and Development head for Wellington International Airport and a senior manager in the strategy consulting team of Ernst and Young.

Robert Gibbes

Chief Operating Officer – Construction Delivery

Robert leads KiwiRail's construction team responsible for delivering significant programmes of capital works and ensuring the business achieves the targeted benefits safely and on time. The team includes plant and protection, and supports the various capital programmes to achieve the objectives required to ensure the successful transformation of KiwiRail over time.

Robert joined KiwiRail in 2020 and brings a wealth of experience from almost 30 years in the building and infrastructure industry. Robert has experience in commercial construction, has owned an infrastructure construction business and undertaken his own building developments. Originally from the dairy industry, Robert also led a range of businesses during his 20 years at Fletcher Building.

Rod Lay

Group Chief Financial Officer

Rod is KiwiRail's Group Chief Financial Officer, responsible for the Company's accounting and finance operations, together with providing governance over all financial processes and policies. 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. He is a qualified chartered accountant with CAANZ and joined the KiwiRail executive team in August 2019.

Usman Pervaiz

Chief Corporate Affairs Officer

Usman is overseeing strategic growth and innovation functions 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 experience, and has qualifications in civil engineering, environmental engineering, sustainable development and a Master of Business Administration. He has strengths in strategy development and execution and working closely with operational leaders during implementation. Usman has business experience in Asia, Australia and New Zealand across multiple sectors including logistics, supply chain, energy, construction and engineering consultancy. He has previously worked with EnergyAustralia, Downer, Jacobs and Parsons Brinckerhoff.

Garry Collings

Group Chief Information Officer

Garry is KiwiRail's Group CIO, overseeing objectives and strategies for the IT department, selecting and implementing suitable technology to streamline all internal operations and deploy systems and platforms to improve customer experience. Garry has 24 years of experience in CIO and general management operational positions within the transport and logistics sector. Prior to KiwiRail, his previous roles included CIO Mondiale, General Manager ANZ for Coretex, General Manager Specialised Transport for Toll, Group General Manager IT for Tranz Rail and CIO at Mainfreight.

Joanne Black

Group General Manager Communications

Joanne leads KiwiRail's communications team which handles internal and external communications, ministerial liaison and customer 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, most recently as deputy editor and a columnist for the New Zealand Listener. She was for many years a reporter in the Parliamentary press gallery before working as a Beehive press secretary from 2012-2015.

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.

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 19 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.

Sue Jensen

Acting Group General Manager Human Resources

Sue is currently the Acting Group General Manager Human Resources, overseeing HR strategy and operations, employment relations, learning and development, culture and diversity programs, talent acquisition, strategic workforce planning, and HR technology systems. She joined KiwiRail at the end of 2019 and brings 20 years of extensive experience working within and leading teams in large complex highly unionised organisations. Before joining KiwiRail she held the role of Director for HR and Organisation Development at the New Zealand Blood Service, an essential service in the public health sector.

Andrew Norton is currently on secondment to the Transition Unit of the Department of Prime Minister and Cabinet, which is instituting the reforms to the health sector.

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, she has worked across a range of local and central government agencies with a particular focus on the transport and infrastructure sector. Prior to KiwiRail, Helen worked as a consultant leading finance transformation programmes in the public sector after several years as Financial Controller for Wellington City Council. Helen is a champion for diversity and inclusion as the Executive Sponsor for the KiwiRail women's network Mana Wahine and a member of the Diversity and Inclusion Committee.

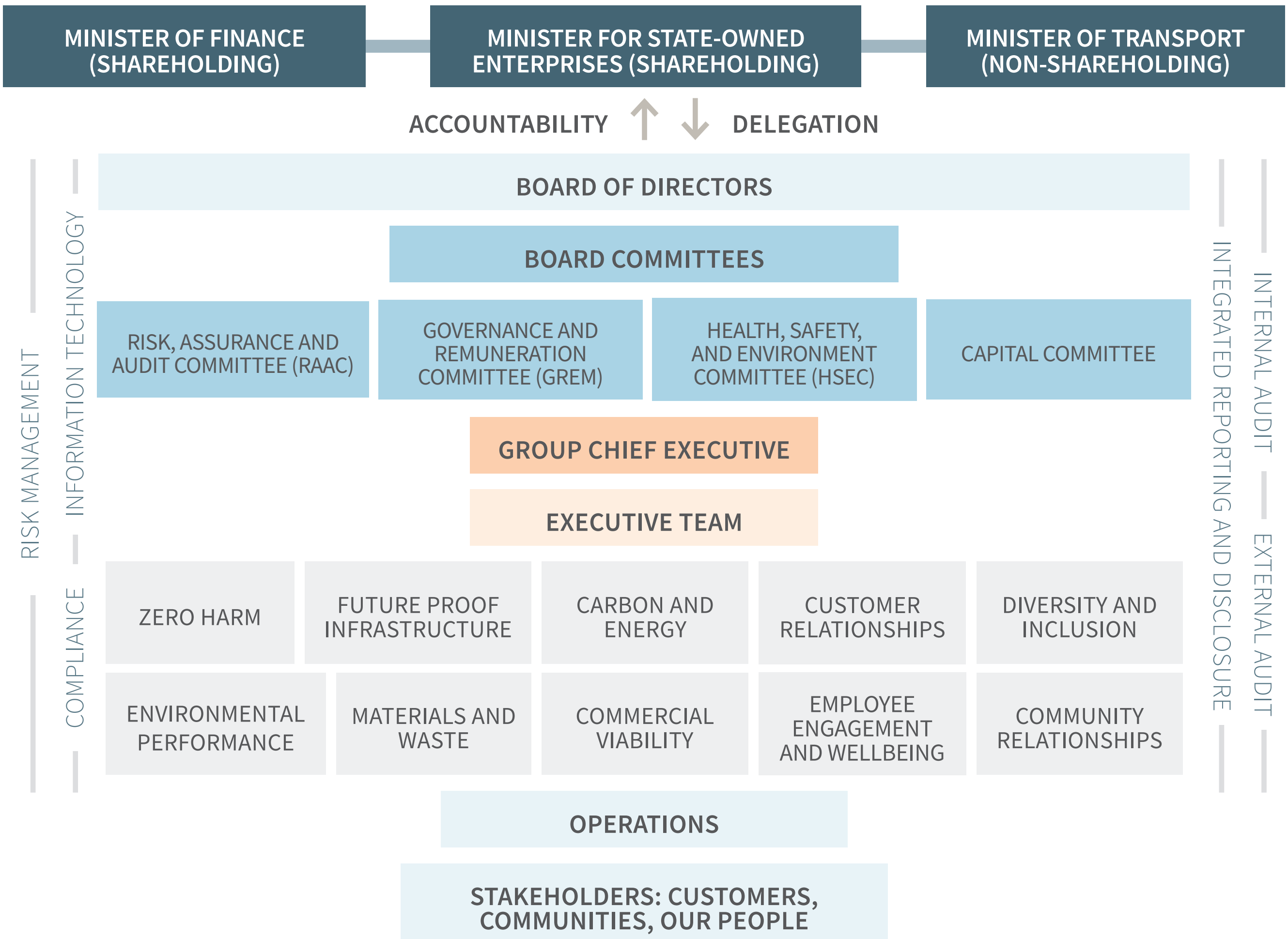
HOW WE ARE GOVERNED

With a large transformation programme including significant capital investment, 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 Expectation document, 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.

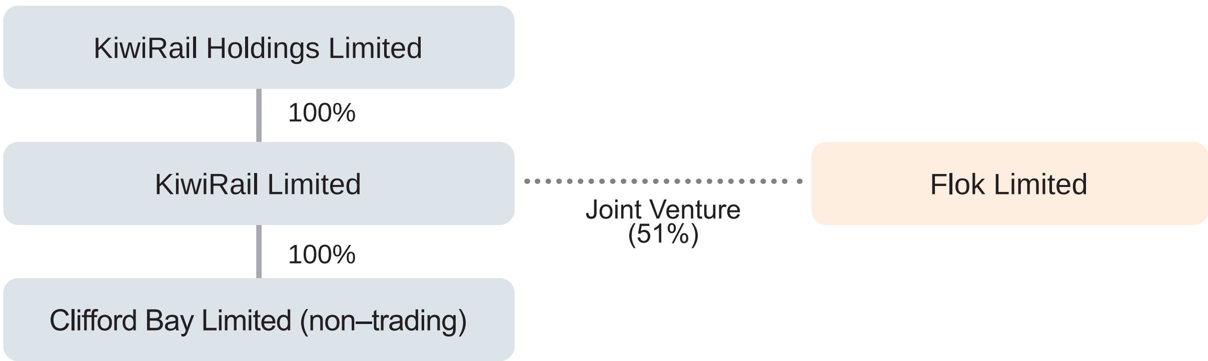
As an SOE, all KiwiRail's shares are held by Shareholding Ministers of the Crown. They are held in equal proportions by the Minister of Finance and the Minister for State Owned Enterprises.

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.

During the financial year ended 30 June 2021 the Group comprised KiwiRail Holdings Limited and its subsidiaries as detailed in the diagram below.

GOVERNANCE FUNCTIONS

Typically, the Board meets 11 times during the year as part of the regular meeting agenda, though additional off-cycle Board meetings may also be held if necessary. 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 in the table 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) Hazel Armstrong Maxine Moana-Tuwhangai Rachel Pinn	Sue McCormack (Chair) Noel Coom Mike Williams	Sue McCormack (Chair) Hazel Armstrong Rachel Pinn	Noel Coom (Chair) Maxine Moana-Tuwhangai Bruce Wattie Mike Williams
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 Chair and the Board to consider the 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 progress 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.

DIRECTORS' ATTENDANCE AND REMUNERATION

Brian Corban's term as Chair and Director ended on 2 May 2021 following his death. Fiona Mules resigned as a Director effective 2 July 2021.

Note 22 of the financial statements sets out what fees Directors earned during FY21.

Directors attended Board meetings during the 2021 financial year as set out in the table below.

DIRECTORS	BOARD MEETING ATTENDANCE
Brian Corban	9/10
Sue McCormack	13/14
Hazel Armstrong	13/14
Noel Coom	14/14
Maxine Moana-Tuwhangai	14/14
Fiona Mules	13/14
Rachel Pinn	14/14
Bruce Wattie	14/14
Mike Williams	14/14

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 Group Chief Executive Officer (CEO) and all executive roles (those reporting to the Group 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 95per cent-105per cent of the market median. For the Group CEO and executive roles, KiwiRail does offer a short-term incentive (STI) scheme but does not offer any long-term incentive scheme.

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 leaders 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 an employee or contractor to the business. No payments were made in the FY20 or FY21 financial 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 table below outlines the nature of the KPIs, and the weighting given.

GROUP CHIEF EXECUTIVE OFFICER'S REMUNERATION (YEAR ENDED 30 JUNE 2021)

	SALARY & BENEFITS[1] $	PAY FOR PERFORMANCE (STI) $	TOTAL REMUNERATION $
FY21[2]	997,452	-	997,452
FY20	1,052,453	-	1,052,453
FY19	1,042,350	218,453[3]	1,260,803

	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

1. Actual salary paid includes holiday pay paid per NZ legislation. Benefits include KiwiSaver.
2. Salary and benefits voluntarily reduced by 20per cent for six months from 4 May 2020 due to financial challenges relating to COVID-19 pandemic.
3. Pay for performance relates to previous CEO for financial year ended 30 June 2018. Greg Miller commenced as Group CEO from 1 May 2019.

EMPLOYEE REMUNERATION

There were 1749 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 2021, as set out below.

990-1000	1
710-720	1
470-480	1
420-430	1
410-420	1
400-410	1
380-390	3
370-380	1
360-370	3
350-360	2
340-350	3
330-340	2
320-330	5
310-320	4
300-310	1
290-300	5
280-290	5

270-280	7
250-260	4
240-250	9
230-240	14
220-230	16
210-220	20
200-210	22
190-200	30
180-190	37
170-180	34
160-170	65
150-160	84
140-150	131
130-140	163
120-130	280
110-120	351
100-110	442

Total employees earning in excess of $100,000	1749
Employees who are included but who are no longer at KiwiRail as at 30 June 2021	86
Net total employees earning in excess of $100,000 and employed at KiwiRail as at 30 June 2021	1663

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

Statement of Corporate Intent comparisons *

	30 JUNE 2021 ACTUAL	30 JUNE 2021 TARGET
Financial Capital		
Revenue ($million) [Reported]	710	608-620
Operating surplus ($million) [Reported]	91	5-20
Operating surplus ratio (%) [Reported]	13	1-3
Freight NTK carried (million)	4,196	4,140
Yield of property portfolio (%)	6	7
Relationships Capital		
Commuter journeys enabled (million)	22	29
Tourist passengers carried (million)	0.7	0.6
Number of new partnerships (number)	9	8
Assets Capital		
Capital Expenditure – BAU ($million)	352	288
OTP (On time performance) – Freight Premier (%)	85	90
Reliability – Locomotive Mean Distance Between Failures (thousand kms)	57	40
OTP – Interislander – arrival within 15 mins of scheduled time (%)	79	92
Reliability – Ship services to advertised sailings (%)	98	99
Locomotive Availability (%)	80	80
Capital Expenditure – Strategic projects ($million)	676	958
Average age of rolling stock – Locomotives (years)	25.3	25.5
Average age of rolling stock – Wagons (years)	25.3	25.3
Average sleeper condition (1-meets code requirements – 5-does not meet code requirements)	2.17	2.02
Average rail condition (1-meets code requirements – 5-does not meet code requirements)	2.11	2.02
Achievement of major milestones	Contract negotiations complete with shipyard for build of new ferries South Island Loco contract awarded MNL complete & insurance receipts confirmed NAL open for Hi-Cube Containers Trentham to Upper Hutt double track opens	Award ship contract Award loco contract Complete MNL rebuild

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

KEY PERFORMANCE INDICATORS

Statement of Corporate Intent comparisons *

	30 JUNE 2021 ACTUAL	30 JUNE 2021 TARGET
People Capital		
Employee Net Promoter Score (number)	27	25
Grow our younger employee demographic (% of total workforce)	15	15
Women in the workforce (%)	18	18
Safety, Health & Environment Work Conversations & Critical Control Verifications (number)	24,461	21,000
Safety, Health & Environment Hazard and Near miss reporting (number)	2,346	3,322
Safety, Health & Environment High Risk Events (number)	85	302
Total Recordable Injury Frequency Rate (number)	31.2	25.4
Skills & Know-how Capital		
Benefits realised through our digital programme ($million)	1.7	2.9
E-learning programmes run (number)	42,942	22,500
Environment Capital		
GHG emissions per NTK (grams)	26.7	28.1
Truck Avoidance (million)	1.15	1.16

REQUIRED INFORMATION	30 JUNE 2021 ACTUAL	30 JUNE 2021 TARGET
Shareholder Return Measures		
Total Shareholder Return	N/A	N/A
Return on Average Equity (%)	0	(16)
Profitability/Efficiency Measures		
Return on Average Capital Employed (%)	1	(14)
Operating Margin [Reported] (%)	13	1-3
Leverage/Solvency Measures		
Shareholders' Funds to Total Assets (%) (closing equity/total assets)	68	80
Gearing Ratio - net (%) (net debt/closing equity)	(16)	7
Interest Cover (operating surplus/net finance costs)	74.2	2.3
Solvency (current assets/current liabilities)	1.0	1.80

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

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.

Rail – Public Policy Projects (M72)

This appropriation is limited to public policy rail initiatives.

	2021 Actual	2021 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.

Rail – Railway Safety (M72)

This appropriation is limited to public safety works.

	2021 Actual	2021 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.

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.

In Principle Expense Transfer from FY21 to FY22 for $4.153m unspent portion of appropriation.

	2021 Actual	2021 Budget
Amount of Appropriation ($000)	47	4,200
Performance Measure:		
Property transactions are carried out in line with agreed outcomes	1%	100%

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

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 decreased by $210.510 million to $743.450 million for 2020/21 due to $268.050 million carried forward from 2020/21 to 2021/22 to align funding with the refined project schedules after detailed planning for a number of projects including the New Zealand Upgrade Programme, the work on Waltham maintenance facility and the railway rolling stock investment. This decrease was partially offset by $57.540 million carried forward from 2019/20 to 2020/21 due to the rephasing of funding for the New Zealand Upgrade Programme.

In Principle Expense Transfer from FY21 to FY22 for $36.7m with $34.9m reprofiled to match the iReX ships milestone payments and $1.8m of Waltham CIP funding deferred as the CIP second stage approval is in progress.

	2021 Actual	2021 Budget	2021 Supplementary	2021 Final Budget
Amount of Appropriation ($000)	706,750	953,960	(210,510)	743,450
Performance Measure:				
Capital is invested in the New Zealand rail system as approved by Shareholding Ministers	95%			100%

Outcome of investment: Debt Management Office debt-to-equity conversion of $174.25 million. 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; improvements to the digital landscape of KiwiRail; and security related spend to ensure the protection of property.

Rail – Wellington Metro Rail Networks Upgrade (M72)

The 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.

Supplementary: This appropriation increased by $6.277 million to $18.352 million for 2020/21 with funding being carried forward from 2019/20 to 2020/21 due to delays to the project due to COVID-19.

	2021 Actual	2021 Budget	2021 Supplementary	2021 Final Budget
Amount of Appropriation ($000)	18,352	12,075	6,277	18,352
Performance Measure:				
Work is carried out per the agreed programme.	100%			100%

Outcome of investment: Traction overhead system renewal practically complete on the Hutt Valley Railway Line from Petone to Upper Hutt and Wellington station to Kaiwharawhara. Remaining sections of Kaiwharawhara to Petone, Upper Hutt yard and Johnsonville Line to be completed under NLTP.

Shovel ready project funding - Rail (M72)

This appropriation is limited to grants to KiwiRail Holdings Limited to deliver infrastructure projects.

Supplementary: This is a new appropriation in 2020/21 for the delivery of shovel-ready rail infrastructure projects.

In Principle Expense Transfer from FY21 to FY22 for $1.661m unspent portion of appropriation.

	2021 Actual	2021 Budget	2021 Supplementary	2021 Final Budget
Amount of Appropriation ($000)	7,339		9,000	9,000
Performance Measure:				
Work is carried out as per the agreed programme	82%			100%

Outcome of investment: Progress on Otomo resilience project with investigations and Omoto West design complete, worksites established, and major works are in progress. The investment to date has provided work for approximately 20 roles, largely in the West Coast.

Rail - Grants (M72)

This appropriation is limited to payments under section 7 of the State-Owned Enterprises Act 1986 to KiwiRail Holdings Limited for non-commercial activities.

Supplementary: This is a new appropriation of $4 million for 2020/21 to provide funding to establish a local wagon assembly plant at Hillside, Dunedin, to increase employment and youth opportunities and rebuild industry capability.

In Principle Expense Transfer from FY21 to FY22 for $4.0m for Hillside, Dunedin local wagon assembly project.

	2021 Actual	2021 Budget	2021 Supplementary	2021 Final Budget
Amount of Appropriation ($000)	-	-	4,000	4,000
Performance Measure:				
Up to 150 construction jobs will be created between 2021 and 2023, and up to 45 FTEs will be required for the wagon assembly between 2023 and 2027.	New measure			Achieved

KiwiRail Holidays Act Remediation (M72)

This appropriation is limited to expense by KiwiRail to allow compliance with the Holidays Act 2003.

Supplementary: This appropriation decreased by $1.100 million to $27.900 million for 2020/21 due to a carry forward from 2020/21 to 2021/22 as KiwiRail continues to locate affected former staff.

In Principle Expense Transfer from FY21 to FY22 for $0.029 million unspent portion of appropriation.

	2021 Actual	2021 Budget	2021 Supplementary	2021 Final Budget
Amount of Appropriation ($000)	27,871	29,000	(1,100)	27,900
Performance Measure:				
Remediation payments are made for non-compliance with the Holidays Act 2003	Achieved			Achieved

Outcome of investment: remediation payments made to all affected current staff and a significant portion of affected former staff.

Rail - Maintaining an Electric Locomotive Fleet (M72)

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

Supplementary: This multi-year appropriation decreased by $12.365 million to $3.235 million for 2020/21 due to a carry forward from 2020/21 to 2021/22.

Multi-year appropriation: $1.811m of unspent funding rolled over from 2020/21 to 2021/22.

	2021 Actual	2021 Budget	2021 Supplementary	2021 Final Budget
Amount of Appropriation ($000)	1,424	15,600	(12,365)	3,235
Performance Measure:				
Work is carried out in line with the agreed outcomes	44%			100%

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

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 multi-year appropriation decreased by $33,000 to $687,000 for 2020/21 due to a carry forward from 2020/21 to outer years of $173,000 offset by $140,000 being carried forward from 2019/20 from the previous Auckland City Rail Link - Operating annual appropriation. Planned activity did not commence in 2019/20 due to the impacts of COVID-19.

	2021 Actual	2021 Budget	2021 Supplementary	2021 Final Budget
Amount of Appropriation ($000)	647	720	(33)	687
Performance Measure:				
Work is carried out as per the agreed programme	94%			100%

Outcome of investment: Enabled KiwiRail to set up a Transition Team to mobilise for KiwiRail's transformation to receive and operate/maintain the CRL assets. Progress to date are: structure in place, and work plan is scheduled and resourced.

Tuawhenua Provincial Growth Fund – Transport Projects (M72)

Category: Rail Projects

This category is limited to a capital injection to KiwiRail Holdings Limited to finance approved rail-related projects that contribute to the outcome of a lift in the productivity potential in the region.

Supplementary: Carried forward from 2020/21 to 2021/22 to align the funding profile with the more detailed planning of projects for Marsden Point Rail Link, Central North Island hub and Tourism.

	2021 Actual	2021 Budget	2021 Supplementary	2021 Final Budget
Amount of Appropriation ($000)	16,900	25,000	(8,100)	16,900
Performance Measure:				
Work is carried out as per the agreed programme	86%			100%

Outcome of investment: 6 out of 7 milestones delivered.

Category: 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.

	2021 Actual	2021 Budget	2021 Supplementary	2021 Final Budget
Amount of Appropriation ($000)	99,454	99,400	54	99,454
Performance Measure:				
Work is carried out as per the agreed programme.	100%			100%

Outcome of investment: North Auckland Line – four out of four milestones delivered.

Category: Regional Projects and Capability

This category is limited to supporting regional development through transport-related projects, capability building, and feasibility studies for potential transport-related projects. The amounts disclosed below relate to KiwiRail's portion of the appropriation only.

Supplementary: Drainage and culverts.

	2021 Actual	2021 Budget	2021 Supplementary	2021 Final Budget
Amount of Appropriation ($000)	21,871	-	21,871	21,871
Performance Measure:				
Work is carried out as per the agreed programme.	100%			100%

Outcome of investment: 9 out of 9 milestones delivered.

FINANCIAL STATEMENTS

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

	Note	GROUP 2021	GROUP 2020
		$m	$m
Operating revenues	2	709.5	639.2
Operating expenses	3	(618.4)	(599.2)
Operating surplus		**91.1**	**40.0**
Capital grants	4	308.0	196.4
Depreciation and amortisation expenses	8(a),8(b),20	(140.4)	(142.3)
Foreign exchange and commodity (losses)/gains	5	(2.0)	5.1
Impairment	8(c),13	(322.6)	(417.9)
Insurance proceeds		93.0	74.6
Movement in value of investment properties	13	8.6	5.7
Net finance expenses	6	(1.2)	(5.5)
Other income		9.0	17.2
Other costs – Kaikoura earthquake		(1.0)	(1.4)
Net surplus/(deficit) before taxation		**42.5**	**(228.1)**
Income tax expense	7	-	-
Net surplus/(deficit) after taxation		**42.5**	**(228.1)**
Other comprehensive income/(loss)			
Items that can be reclassified into net surplus/deficit:			
Losses from cash flow hedges		(38.2)	(3.3)
Items that cannot be reclassified into net surplus/deficit:			
Building revaluation	8(c)	(0.2)	(2.7)
Loss on share investment		(0.1)	-
Total comprehensive income/(loss)		**4.0**	**(234.1)**

The accompanying notes form part of these financial statements.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	Note	GROUP 2021	GROUP 2020
	$m	$m	$m
Current assets			
Cash and cash equivalents	9	309.4	285.0
Short-term deposits	9	50.0	40.0
Trade and other receivables	10	144.7	112.7
Inventories	11	95.8	87.1
Financial assets	12	1.9	3.5
		601.8	**528.3**
Non-current assets			
Property, plant and equipment	8(a)	1,596.9	1,051.1
Right of use assets	20	86.4	101.8
Investment property	13	95.4	87.3
Investment in joint venture	14	1.1	1.1
Intangible assets	8(b)	0.2	0.9
Financial assets	12	6.6	0.4
Trade and other receivables	10	-	0.3
		1,786.6	**1,242.9**
Total assets		**2,388.4**	**1,771.2**
Current liabilities			
Trade and other liabilities	15	422.7	196.6
Employee entitlements	16	96.6	104.6
Financial liabilities	12	88.2	231.5
Income taxes payable	7	-	-
Provisions	17	10.7	8.6
		618.2	**541.3**
Non-current liabilities			
Employee entitlements	16	46.9	48.9
Financial liabilities	12,20	93.7	124.5
		140.6	**173.4**
Total liabilities		**758.8**	**714.7**
Equity			
Share capital	23	2,679.7	2,088.0
Retained earnings		(1,025.6)	(1,045.6)
Asset revaluation reserve		17.1	17.4
Cash flow hedge reserve		(41.5)	(3.3)
Share revaluation reserve		(0.1)	-
		1,629.6	**1,056.5**
Total liabilities and equity		**2,388.4**	**1,771.2**

Susan McCormack
Acting Chair
31 August 2021

Bruce Wattie
Chair of the Risk, Assurance and Audit Committee and Director
31 August 2021

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 2021

GROUP	Note	Share Capital	Retained Earnings	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Share Revaluation Reserve	Total
		$m	$m	$m	$m	$m	$m
As at 30 June 2019		**1,668.8**	**(815.7)**	**20.1**	**-**	**-**	**873.2**
Net (deficit) for the period		-	(228.1)	-	-	-	(228.1)
Other comprehensive income/(loss)		-	-	(2.7)	(3.3)	-	(6.0)
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**
Net surplus for the period		-	42.5	-	-	-	42.5
Other comprehensive income/(loss)		-	0.1	(0.3)	(38.2)	(0.1)	(38.5)
Total comprehensive income/(loss)		**-**	**42.6**	**(0.3)**	**(38.2)**	**(0.1)**	**4.0**
Transactions with owners							
Capital Investment (net)	23	591.7	-	-	-	-	591.7
Crown appropriation - land transactions	18	-	(22.6)	-	-	-	(22.6)
As at 30 June 2021		**2,679.7**	**(1,025.6)**	**17.1**	**(41.5)**	**(0.1)**	**1,629.6**

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 2021

	Note	GROUP 2021	GROUP 2020
		$m	$m
Cash flows from operating activities			
Receipts from customers		656.7	625.2
Receipt of Holiday Act Remediation Appropriation		27.9	-
Receipt of government wage subsidy		-	26.4
Interest received		3.8	4.4
Payments to suppliers and employees		(561.0)	(568.0)
Payments for interest on loans		(3.3)	(4.0)
Payments for interest on leases		(3.3)	(3.7)
Net cash from operating activities	21	**120.8**	**80.3**
Cash flows from investing activities			
Sale of property, plant and equipment		0.5	1.8
Capital grant receipts		330.1	224.1
Insurance proceeds		93.0	74.6
Sale of investment in joint venture		-	(2.8)
Purchase of property, plant and equipment and investment properties		(958.4)	(676.7)
Purchase of intangibles		(25.2)	(18.1)
Transfer to short-term deposits		(10.0)	(40.0)
Net cash used in investing activities		**(570.0)**	**(437.1)**
Cash flows from financing activities			
Crown capital investment		549.4	539.2
Proceeds from NZRC land sales		0.1	9.2
Payment for NZRC land acquisitions		(22.7)	(9.7)
Loans		-	25.3
Repayment of loans		(30.8)	(14.2)
Lease payments		(22.4)	(22.8)
Net cash from financing activities		**473.6**	**527.0**
Net increase in cash and cash equivalents		**24.4**	**170.2**
Cash and cash equivalents at the beginning of the year		285.0	114.8
Cash and cash equivalents at the end of the year	9	**309.4**	**285.0**

The accompanying notes form part of these financial statements.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

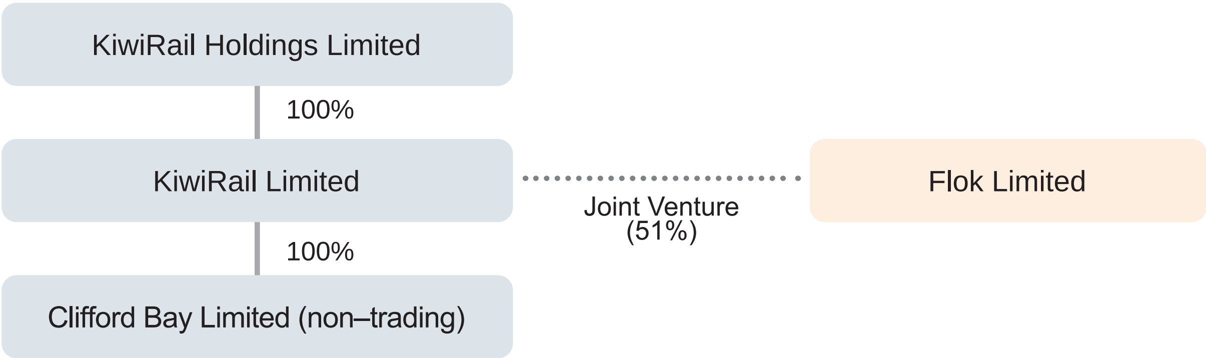
NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

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 and domestic 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/provide 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 2021 and were authorised for issue by the Board of Directors on 31 August 2021.

(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 2021

1. GROUP INFORMATION (continued)

(d) STANDARDS AND INTERPRETATIONS

There have been no material changes in accounting policies. All policies have been applied on a basis consistent with those used in previous periods.

(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 judgements 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

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 ongoing 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 has been assessed taking into account potential increased credit risk 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 engaged to conduct the valuation of the Group's rail infrastructure and rolling stock assets 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, we have 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 engaged to conduct a valuation of the assets considered a range of inputs and market evidence to assess the impact of COVID-19 in arriving at market value.
- 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.

(g) LONG-TERM FINANCIAL VIABILITY

Budget 2021, included $1.3b of new funding commitments from the Crown that will enable the Group to progress planned investment in 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 network resilience and reliability, operational efficiency and providing a solid platform for commercial growth.

(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 has defined and developed the future of rail in New Zealand.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

1. GROUP INFORMATION (continued)

(h) RAIL REVIEW (continued)

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 NZ Rail Plan defines the purpose of rail in the transport system and the investment needed for it to play that role.

Major milestones in operationalising the Rail Review include the passage of the Land Transport (Rail) Legislation Bill in June 2020, the publication of the New Zealand Rail Plan (Rail Plan) in May 2021, and the approval of the first Rail Network Investment Programme (RNIP) which came into effect from 1 July 2021.

The Group's commercial performance has been constrained by historical under-investment in its asset base. The NZ Rail Plan notes that a strategic investment priority will be to restore resilience and reliability to the national rail network. The RNIP enables funding from the National Land Transport Fund (NLTF) to restore and maintain rail network infrastructure to a resilient and reliable standard. In addition, Budgets 2019, 2020 and 2021 have committed significant shareholder equity to support the renewal of KiwiRail's commercial assets. This investment 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.

The final deliverable for the Rail Review will be the completion of a review of entity form in 2022.

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 $295m (2020: $136m) to $6,528m (2020: $6,553m). 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 $318m (2020: $418m) while the depreciation amount would increase by $461m (2020: $342m).

2. OPERATING REVENUES

	GROUP 2021	GROUP 2020
	$m	$m
Freight	392.9	371.7
Interislander	129.0	130.2
Infrastructure	84.3	62.2
Property	56.1	49.1
Scenic	16.2	24.6
Holidays Act Remediation Appropriation	27.9	-
Other	3.1	1.4
Total operating revenues	**709.5**	**639.2**

Revenue recognition

Revenue is recognised when or as performance obligations are satisfied by transferring control of goods or services to the customers at contracted transaction prices. Control typically transfers to the customer on delivery of the product or as services are provided. The transaction price includes all amounts which the Group expects to be entitled to net of sales taxes and other indirect taxes, expected rebates and discounts. Where applicable, rebates and/or discounts are included within the consideration and are only recognised when 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 2021

3. OPERATING EXPENSES

	GROUP 2021	GROUP 2020
	$m	$m
Salaries and wages	431.2	391.5
Restructuring	0.1	2.1
Defined contribution plan employer contributions	14.7	13.2
Other employee expenses	10.3	11.1
Total employee expenses	**456.3**	**417.9**
Amount capitalised	(140.4)	(100.6)
Total employee costs expensed	**315.9**	**317.3**
Materials and supplies	137.8	112.8
Fuel and traction electricity	67.4	75.0
Lease and rental costs	15.8	13.2
Incidents and insurance	28.5	23.8
Contractors' expenses	6.7	5.8
Audit fees	0.4	0.5
(Recovery from)/impairment of receivables	(0.3)	2.8
Directors' fees (Note 22)	0.4	0.4
(Gain)/loss on disposal of property, plant and equipment	(0.7)	0.1
Other expenses	46.5	47.5
Total operating expenses	**618.4**	**599.2**

Audit fees include $15,950 relating to other assurance services.

4. CAPITAL GRANTS

	GROUP 2021	GROUP 2020
	$m	$m
Ministry of Transport	150.2	75.2
Local and Regional Councils	93.1	61.9
City Rail Link	24.7	29.9
Auckland Transport	22.2	10.7
Ministry of Business, Innovation and Employment	2.5	3.3
New Zealand Transport Agency	2.3	2.8
Other	13.0	12.6
Total capital grant income	**308.0**	**196.4**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

4. CAPITAL GRANTS (continued)

The Group primarily receives grants from Government entities for maintaining the railway networks and infrastructure. Grants have been received for the re-establishment of mothballed lines, expanding metropolitan services and for establishing regional commuter services.

Grants received for services provided are recognised when the requirements of the relevant grant agreement are met. Funding received as reimbursements for capital projects are recognised in the same period as the expenditure to which it relates.

5. FOREIGN EXCHANGE AND COMMODITY GAINS AND LOSSES

	GROUP 2021	GROUP 2020
	$m	$m
Net realised foreign exchange and commodity gains	0.6	5.3
Net change in the fair value of derivatives	(2.6)	(0.2)
Total foreign exchange and commodity (losses)/gains	**(2.0)**	**5.1**

Foreign exchange and commodity losses on fuel related contracts of $0.4m (2020: $0.2m) are not included in the table. These losses are included within ‘Fuel and Traction Electricity’ in note 3.

Foreign currency translation

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

Monetary assets and liabilities in foreign currencies at balance date are translated at exchange rates ruling at balance date. All exchange differences arising on the translation of monetary assets and liabilities in foreign currencies, whether realised or unrealised, are recognised in net surplus or deficit.

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

6. NET FINANCE EXPENSES

	GROUP 2021	GROUP 2020
	$m	$m
Finance income		
Interest income on bank deposits	3.5	4.3
	3.5	4.3
Less: Finance expenses		
Interest expense on loans	(3.0)	(6.7)
Interest expense on leases	(3.3)	(3.8)
Net change in fair value of interest rate swaps	1.6	0.7
	(4.7)	(9.8)
Net finance expenses	**(1.2)**	**(5.5)**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

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 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 deferred tax asset can be utilised.

	GROUP 2021	GROUP 2020
	$m	$m
Components of tax expense		
Current tax expense	-	-
Deferred tax expense	-	-
Tax benefit/(expense)	**-**	**-**
Reconciliation between tax expense and accounting surplus		
Surplus/(deficit) before tax	42.5	(224.9)
Tax at 28%	11.9	(63.0)
Tax effect of:		
Non-deductible expenditure	0.3	(0.3)
Other temporary differences	(12.2)	63.3
Tax benefit/(expense)	**-**	**-**

The Group has an unrecognised deferred tax asset of $1,107.6m (2020: $1,119.4m) arising from deductible temporary differences of $2,294.9m (2020: $2,458.2m) and unused tax losses of $1,660.8m (2020: $1,539.9m).

Imputation credits

The Group has formed an imputation group. The Group has access to $1.2m imputation credits (2020: $1.2m imputation credits).

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

8. NON-FINANCIAL ASSETS

(a) PROPERTY, PLANT AND EQUIPMENT

2021	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 2020	-	47.4	135.9	434.3	304.6	263	253.5	1,438.7
Additions	-	7.6	114.2	96.7	14.2	23.8	697.8	954.3
Disposals	-	-	-	(4.4)	-	(1.1)	-	(5.5)
Category Transfers	-	1.6	-	-	-	1.1	-	2.7
Revaluation	-	(0.2)	-	-	-	-	-	(0.2)
Impairment	-	(1.0)	(92.1)	(74.7)	-	-	(320.6)	(488.4)
Impairment Reversal	-	-	137.4	10.9	-	-	-	148.3
Balance at 30 June 2021	-	55.4	295.4	462.8	318.8	286.8	630.7	2,049.9
Accumulated depreciation Balance at 1 July 2020	-	(0.1)	-	72.9	156.6	158.2	-	387.6
Depreciation expense	-	3.6	14.1	40.5	34.8	22.8	-	115.8
Disposals	-	-	-	(3.7)	-	(1.0)	-	(4.7)
Category Transfers	-	-	-	-	-	1.0	-	1.0
Impairment	-	-	(5.3)	(27.3)	-	-	-	(32.6)
Impairment Reversal	-	-	(8.7)	(5.4)	-	-	-	(14.1)
Balance at 30 June 2021	-	3.5	0.1	77.0	191.4	181.0	-	453.0
Net book value At 1 July 2020	-	47.5	135.9	361.4	148.0	104.8	253.5	1,051.1
At 30 June 2021	-	51.9	295.3	385.8	127.4	105.8	630.7	1,596.9

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

8. NON-FINANCIAL ASSETS (continued)

(a) PROPERTY, PLANT AND EQUIPMENT (continued)

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 as 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 as 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 2021

8. NON-FINANCIAL ASSETS (continued)

(a) PROPERTY, PLANT AND EQUIPMENT (continued)

(i) Recognition and Measurement

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

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. The fair value of the asset received less costs incurred to acquire the asset is recognised as income included 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.

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

	GROUP 2021	GROUP 2020
	$m	$m
Cost	168.6	161.9
Accumulated depreciation	(60.6)	(54.9)
Net carrying value	**108.0**	**107.0**

(iii) Derecognition

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

(iv) Depreciation

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

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

8. NON-FINANCIAL ASSETS (continued)

(a) PROPERTY, PLANT AND EQUIPMENT (continued)

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.

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).

(b) INTANGIBLE ASSETS

	Note	GROUP 2021	GROUP 2020
		$m	$m
Opening balance		**0.9**	**0.9**
Additions		25.2	17.6
Amortisation		(1.2)	(0.4)
Impairment	8(c)	(24.7)	(17.2)
Balance at 30 June		**0.2**	**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 with a finite useful life are amortised on a straight-line basis over their estimated useful lives of 3 to 5 years.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

8. NON-FINANCIAL ASSETS (continued)

(c) IMPAIRMENT OF NON-FINANCIAL ASSETS

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.

(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, and this is less than carrying value of the assets, then the assets are impaired to this market value. Where a market value is not able to be determined, the assets will be impaired to their share of the calculated value in use for the CGU if this is less than the carrying value.

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 2021.

As at 30 June 2021 the recoverable amount of the Rail CGU is less than the carrying amount and an impairment has been recognised.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

8. NON-FINANCIAL ASSETS (continued)

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

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

Group 2021	2021 Carrying amount before revaluation and impairment	Reversal of/ (Impairment) recognised in net surplus or deficit	Movement recognised in Asset Revaluation Reserve	Carrying amount after impairment
	$m	$m	$m	$m
Rail CGU				
Buildings	53.1	(1.0)	(0.2)	51.9
Railway infrastructure	236.0	59.3	-	295.3
Rolling stock	416.9	(31.1)	-	385.8
Plant and equipment	100.1	-	-	100.1
Right-of-use assets	37.2	-	-	37.2
Assets under construction	939.9	(320.6)	-	619.3
Total property, plant and equipment	1,783.2	(293.4)	(0.2)	1,489.6
Intangible assets	24.9	(24.7)	-	0.2
Total Rail CGU	**1,808.1**	**(318.1)**	**(0.2)**	**1,489.8**

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 2021

8. NON-FINANCIAL ASSETS (continued)

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

(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 6.5%. 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 2021.

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

- Post-tax discount rate, particularly the asset beta
- 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 6.5% 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. A change in discount 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.

Estimated future capital expenditure and operating costs

Forecast capital and operating expenditure reflects historical levels adjusted for known differences. 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 2021	GROUP 2020
	$m	**$m**
Current accounts and call deposits	309.4	285.0
	309.4	**285.0**

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 three months or more are classified as short-term deposits.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

10. TRADE AND OTHER RECEIVABLES

	GROUP 2021	GROUP 2020
	$m	$m
Trade receivables	70.7	74.3
GST receivable	5.2	-
Accrued and other receivables:		
Prepayments	29.0	14.7
Related party receivables	20.8	11.0
Other	22.0	16.5
Gross receivables	147.7	116.5
Less: Provision for impairment	(3.0)	(3.5)
	144.7	**113.0**
Current assets	144.7	112.7
Non-current assets	-	0.3
	144.7	**113.0**

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

The Group applies a simplified business model approach 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.

Impairment

The Expected Credit Losses model is used for impairing financial assets. Trade receivables are currently assessed on a quarterly basis, and potential trade receivable losses are provided for when each trade receivable becomes 90 days overdue or when circumstances of potential default become known.

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 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:

	2021			2020		
	Gross	Impairment	Net	Gross	Impairment	Net
	$m	$m	$m	$m	$m	$m
Not past due	61.1	(1.1)	60.0	61.3	-	61.3
Past due 1 – 30 days	7.7	-	7.7	5.0	-	5.0
Past due 31 – 60 days	0.6	(0.6)	-	1.7	-	1.7
Past due 61 - 90 days	0.5	(0.5)	-	2.4	-	2.4
Past due > 91 days	0.8	(0.8)	-	3.9	(3.5)	0.4
Total	**70.7**	**(3.0)**	**67.7**	**74.3**	**(3.5)**	**70.8**

The average credit period on sales of goods and services is 28.0 days (2020: 27.2 days).

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

11. INVENTORIES

	GROUP 2021	GROUP 2020
	$m	$m
Operational Activities:		
Fuel	2.3	1.6
Inventory held to maintain rail network	46.1	38.1
Inventory held to maintain rolling stock	51.2	50.2
Inventory held to maintain ships	10.1	10.0
Inventory held for resale	0.8	0.6
Contracting Activities – work in progress	1.6	2.6
Gross inventory	112.1	103.1
Less: Provision for stock obsolescence	(16.3)	(16.0)
Net inventory	**95.8**	**87.1**

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 $1.0m (2020: write-down of $0.4m).

12. FINANCIAL ASSETS AND LIABILITIES

	GROUP 2021			GROUP 2020		
	Current	Non-current	Total	Current	Non-current	Total
	$m	$m	$m	$m	$m	$m
Financial assets						
Commodity forward contracts	-	-	-	0.2	-	0.2
Foreign currency forward contracts	1.4	6.6	8.0	3.3	0.4	3.7
Share investments	0.5	-	0.5	-	-	-
Total financial assets	**1.9**	**6.6**	**8.5**	**3.5**	**0.4**	**3.9**
Financial liabilities						
Commodity forward contracts	0.4	0.7	1.1	1.0	0.4	1.4
Loans	39.0	5.3	44.3	205.1	44.2	249.3
Leases (Note 20)	20.8	62.0	82.8	20.6	75.7	96.3
Foreign currency forward contracts	27.9	24.6	52.5	4.3	1.8	6.1
Interest rate swaps	0.1	1.1	1.2	0.5	2.4	2.9
Total financial liabilities	**88.2**	**93.7**	**181.9**	**231.5**	**124.5**	**356.0**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

12. FINANCIAL ASSETS AND LIABILITIES (continued)

(a) Financial assets

The Group's financial assets designated at fair value are those derivative financial instruments within predetermined policies and limits in order to manage exposure to fluctuations in foreign exchange, commodity and interest rate risks. The relevant accounting policy for these types of financial assets is set out under 'Derivative financial instruments' in note 24(b)(i). Share investments are initially recognised at cost, and subsequently revalued to fair value through other comprehensive income. Share investments are not held for trading. 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.

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

Interest-bearing liabilities
Interest-bearing liabilities are 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 2021 was $1.3m (2020: $175.5m).

Secured loans
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 2021 was $43.0m (2020: $73.8m).

As at 30 June 2021 the Group has entered into committed syndicated loan facilities for $350m to partially fund the replacement of the Group's interisland ferries. At balance date this facility is undrawn.

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

	Unit	GROUP 2021	GROUP 2020
Notional principal	$m	47.4	253.2
Average interest rate	%	1.88	1.00
Average term to maturity	years	0.85	0.75

Committed standby facility
The Group had a committed standby facility with Bank of New Zealand for $15.0m as at 30 June 2021 (2020: $15.0m) with an expiry date of 1 July 2022. As at 30 June 2021, the facility was undrawn.

Letter of credit facilities
The Group had no letter of credit facilities at 30 June 2021 (2020: nil).

Standby letter of credit
The Group had no standby letters of credit at 30 June 2021 (2020: nil).

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

12. FINANCIAL ASSETS AND LIABILITIES (continued)

(b) Financial liabilities (continued)

			Non-cash changes		
	GROUP 2020	Cash Flow	Changes in fair values	Others	GROUP 2021
	$m	$m	$m	$m	$m
Loans	249.3	(30.8)	-	(174.2)	44.3
Leases	96.3	(25.7)	-	12.2	82.8
Total liabilities from financing activities	**345.6**	**(56.5)**	**-**	**(162.0)**	**127.1**

During the financial year ended 30 June 2021 a loan held with the Debt Management Office ($174.2m) was converted to equity. This was a non-cash transaction.

13. INVESTMENT PROPERTY

	GROUP 2021	GROUP 2020
	$m	$m
Opening balance	87.3	85.0
Additions	5.6	1.0
Disposals	-	(4.5)
Transfers	(1.6)	0.1
Fair value gains on valuation	8.6	5.7
Impairment	(4.5)	-
Balance at 30 June	**95.4**	**87.3**

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

Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses from changes in the fair values of investment properties are recognised in net surplus or deficit in the year in which they arise. Valuation of leased buildings is undertaken with sufficient regularity to ensure carrying values do not materially differ from fair values. See note 24(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 2021 was $6.8m (2020: $6.6m). The direct operating expenses (including maintenance) incurred from the use of investment properties during the year was $1.4m (2020: $1.4m).

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 Flok Limited is accounted for using the equity method in the consolidated financial statements.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

15. TRADE AND OTHER LIABILITIES

	Note	GROUP 2021	GROUP 2020
		$m	$m
Trade payables		117.1	98.4
GST payable	10	-	0.4
Unearned revenue		57.2	51.0
Accrued interest		0.7	1.0
Related party payable		133.3	2.6
Other payables and accruals		114.4	43.2
Total payables		**422.7**	**196.6**
Current liabilities		422.7	196.6
Non-current liabilities		-	-
		422.7	**196.6**

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. Due to the short-term nature of the payables, no discounting is applied, and the fair value is materially similar to amortised cost.

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 receivable from Inland Revenue ('IR') is included as part of trade and other receivables in note 10.

16. EMPLOYEE ENTITLEMENTS

	GROUP 2021	GROUP 2020
	$m	$m
Current portion		
Short-term employee benefits	31.3	49.0
Annual leave entitlement accruals	59.3	49.8
Retirement and long service leave liability	6.0	5.8
Total current portion	96.6	104.6
Non-Current portion		
Retirement and long service leave	46.9	48.9
Total non-current portion	46.9	48.9
Total employee entitlements	**143.5**	**153.5**

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.*

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

16. EMPLOYEE ENTITLEMENTS (continued)

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 remaining liability relating to the remediation of employee leave entitlements under the Holidays Act 2003. The remaining estimated liability is measured at the amount expected to be paid up to 30 June 2021.

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 2.38% to 2.5% per annum (2020: from 1.33% to 2.47% per annum) and a term specific risk-free discount rate range of 0.38% and 4.30% per annum (2020: between 0.22% 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.

	ACC AEP	OTHER PROVISIONS	TOTAL
	$m	$m	$m
Balance at 1 July 2020	4.1	4.5	8.6
Provisions made during the year	0.5	2.8	2.8
Provisions utilised or released during the year	-	(1.2)	(1.2)
Balance at 30 June 2021	**4.6**	**6.1**	**10.7**
Current	4.6	6.1	10.7
Non-current	-	-	-
	4.6	**6.1**	**10.7**

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 using actuarial techniques at the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date. Any changes in assumptions will not have a material impact on the financial statements.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

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 $0.1m (2020: $9.2m). The total net land acquisitions during the year were $22.7m (2020: $9.7m). 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, and refurbishment costs relating to rolling stock and purchases of plant and equipment. The Group also has capital commitments in relation to strategic projects such as procurement of new rolling stock and ferries.

	GROUP 2021	GROUP 2020
	$m	$m
Capital expenditure commitments:		
Not later than one year	329.6	174.0
Later than one year but not later than five years	519.1	34.1
	848.7	**208.1**

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 has vehicle leases with lease terms of up to 12 months. The Group applies the 'short-term lease' exemptions for these leases. An expense of $0.4m (2020: $0.8m) relating to short-term leases is included within 'Other Operating Expenses' in note 3. The Group applies the recognition exemption for low-value assets when it enters into leases for the 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.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

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

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

2021	Property	Ships	Plant and Machinery	Motor Vehicles	Other Equipment	Total
	$m	$m	$m	$m	$m	$m
As at 1 July 2020	**73.9**	**-**	**16.0**	**6.1**	**5.8**	**101.8**
Additions	2.7	-	0.1	4.1	1.3	8.2
Category transfers	-	-	(0.2)	-	-	(0.2)
Depreciation expense	(14.4)	-	(1.3)	(3.9)	(3.8)	(23.4)
As at 30 June 2021	**62.2**	**-**	**14.6**	**6.3**	**3.3**	**86.4**

2020	Property	Ships	Plant and Machinery	Motor Vehicles	Other Equipment	Total
	$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	12.5
Purchase option exercised	-	(33.6)	-	-	-	(33.6)
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**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

20. LEASES (continued)

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 and/or, 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 lease liabilities (included in note 12) and the movements during the period:

	GROUP 2021	GROUP 2020
	$m	$m
As at 1 July	**96.3**	**138.8**
Additions (non-cash)	8.9	13.0
Accretion of interest	3.3	3.9
Payments	(25.7)	(59.4)
As at 30 June	**82.8**	**96.3**

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 classified as investment properties (note 13). 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 net surplus or deficit 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.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

20. LEASES (continued)

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

	GROUP 2021	GROUP 2020
	$m	$m
Total minimum lease payments receivable:		
Not later than one year	35.7	32.3
Later than one year but not later than five years	124.4	92.3
Later than five years	295.1	199.3
	455.2	**323.9**

For the year ended 30 June 2021, $45.4m was recognised as revenue included in net surplus (2020: $44.1m).

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

	GROUP 2021	GROUP 2020
	$m	$m
Net surplus/(deficit) after taxation	42.5	(228.1)
Add/(deduct) items classified as investing or financing activities		
(Gain)/loss on sale of assets	(0.7)	0.1
Fair value movement in derivatives	1.6	1.7
Capital grant receipts	(330.1)	(224.1)
Insurance proceeds	(93.0)	(74.6)
	(379.7)	(525.0)
Add/(deduct) non-cash items		
Depreciation and amortisation expense	140.4	143.9
Movements in provisions	0.1	6.9
Impairment of non-financial assets	322.6	417.9
Movement in fair value of investment properties	(8.6)	(5.7)
	74.8	38.1
Add/(deduct) movements in working capital		
Decrease/(increase) in trade receivables	3.6	(15.6)
(Increase)/decrease in other receivables	(35.4)	6.6
(Increase) in inventories	(8.7)	(11.3)
Increase in trade payables	18.7	46.4
Increase in other payables	67.8	16.2
Net cash flows from operating activities	**120.8**	**80.3**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

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 as disclosed in note 23 and capital grant funding from Government-related entities as disclosed in note 4.

The Group also receives operating revenue and purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown in the normal course of business which have not been separately disclosed. 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 are defined as Directors, the Group Chief Executive and all executive level direct reports of the Group Chief Executive. Key management personnel of the Group may be directors or officers of other companies or organisations with whom the Group may transact. Such transactions are all carried out independently on normal commercial terms.

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

	GROUP 2021	GROUP 2020
	$000	**$000**
Key management personnel compensation		
Short-term employee benefits	5,177	5,460
Termination benefits	-	124
Total key management personnel compensation	**5,177**	**5,584**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

22. RELATED PARTY TRANSACTIONS (continued)

The following Directors earned fees during the period and includes additional fees paid to the Chairs of the sub-committees of the Board:

	GROUP 2021	GROUP 2020
KHL Directors	**$000**	**$000**
Brian Corban	68	82
Susan McCormack	59	48
Hazel Armstrong	40	43
Noel Coom	44	43
Fiona Mules	40	24
Mike Williams	40	24
Rachel Pinn	40	24
Bruce Wattie	44	13
Maxine Moana-Tuwhangai	40	10
Bob Major	-	19
John Dennehy	-	16
John Leuchars	-	14
Paul Harper	-	14
	415	**374**

Brian Corban passed away on 2 May 2021. Susan McCormack is currently Acting Chair of the Board. Fiona Mules resigned as a Director on 2 July 2021.

23. SHARE CAPITAL

At 30 June 2021, the Group had issued 2,811,650,000 ordinary shares with no par value (2020: 2,088,000,000), each fully paid. The following rights attach to the ordinary shares issued by the Group:

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

Reconciliation of number of shares	GROUP 2021	GROUP 2020
	m	**m**
Opening balance	2,088.0	1,668.8
Shares issued	723.7	419.2
Balance at 30 June	**2,811.7**	**2,088.0**

In FY17 Cabinet approved that the Crown make an equity investment in KHL for the purposes of reinstating the Main North Line and repairing other damage to the Groups asset suffered in the 2016 Kaikoura earthquake. The terms of that approval noted that the Group also had a material outstanding insurance claim for the cost of earthquake reinstatement and required

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

23. SHARE CAPITAL (continued)

that, if the aggregate of the insurance proceeds and the Crown's equity investment exceeded the total cost of reinstatement, then the Group was to return any surplus to the Crown.

The Company's earthquake reinstatement works have now achieved practical completion and as at 30 June 2021 the Group has recognised a payable to the Crown of $132.0m for this surplus (note 15 – related party payable).

In order to return the surplus to the Crown as required by the terms of the Cabinet approval, KHL will purchase and the Crown will sell, an aggregate of 132,000,000 ordinary shares in KHL at a price of $1.00 per share, for an aggregate purchase price of $132.0m. The Board of KHL approved the share buy back on 31 August 2021 and KHL will request the buy back from Shareholding Ministers and execute the appropriate share documentation.

24. FAIR VALUE

(a) Classification of Financial Instruments

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

	GROUP 2021	GROUP 2020
FINANCIAL ASSETS	**$m**	**$m**
Loans and receivables		
Cash and cash equivalents	359.4	325.0
Trade and other receivables (excluding prepayments)	110.5	102.4
	469.9	**427.4**
Fair value through net surplus or deficit		
Derivative financial assets	**0.8**	**3.8**
FINANCIAL LIABILITIES		
Amortised cost		
Trade and other liabilities	365.5	140.6
Interest-bearing liabilities	48.6	252.0
	414.1	**392.6**
Fair value through net surplus or deficit		
Derivative financial liabilities	**6.1**	**10.5**

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

(b) Fair Value Hierarchy

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

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

The Group does not have any Level 1 and/or Level 3 financial instruments (2020: nil).

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

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

24. FAIR VALUE (continued)

(b) Fair Value Hierarchy (continued)

(i) Derivative financial instruments

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

	Level 2	
Financial instruments (Net Liability)/Net Asset	**GROUP 2021**	**GROUP 2020**
	$m	**$m**
Commodity forward contracts	(1.1)	(0.8)
Foreign currency forward contracts	(44.4)	(0.9)
Interest rate swaps	(1.2)	(4.9)
	(46.8)	**(6.6)**

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. 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 that are required to be reflected at fair value during the year was:

	Level 2	
Non-financial assets	**GROUP 2021**	**GROUP 2020**
	$m	**$m**
Investment property	95.4	87.3
Buildings	51.9	47.5
	147.3	**134.8**

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 2021 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

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

24. FAIR VALUE (continued)

(b) Fair Value Hierarchy (continued)

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 that have 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 that 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 2021**	**GROUP 2020**	**GROUP 2021**	**GROUP 2020**
	$m	**$m**	**$m**	**$m**
Investment properties	4.5	4.3	4.5	4.3
Buildings	2.6	3.0	1.2	0.8

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 the Group's financial risk management policies. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

(a) Market Risk

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

(i) Foreign Exchange Risk or Currency Risk

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

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

The New Zealand Dollar notional principal amounts of outstanding forward foreign exchange contracts as at 30 June 2021 were $983.3m (2020: $683.5m).

The Group has hedged 100% (2020: 100%) of committed foreign currency capital purchases.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

25. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

(a) Market Risk (continued)

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 2021 Equity	GROUP 2021 Profit	GROUP 2020 Equity	GROUP 2020 Profit
Foreign currency sensitivity analysis				
Impact of a 10% strengthening of the NZD	(82.8)	(7.1)	(61.7)	(61.7)
Impact of a 10% weakening of the NZD	101.2	8.7	75.4	75.4

(ii) Interest Rate Risk

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

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

The notional principal amounts of the outstanding interest rate swaps as at 30 June 2021 were $25.0m (2020: $51.0m), with average term to maturity of 1.02 years (2020: 1.41 years) and weighted average fixed interest rate of 4.76% (2020: 3.80%). As at 30 June 2021, after taking into account the effect of the interest rate swaps, approximately 52.8% of the Group's loans are at a fixed rate of interest (2020: 20.1%).

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:

In NZ $m	GROUP 2021 Profit	GROUP 2020 Profit
Impact of a 100 bp interest rate increase	(0.3)	(1.9)
Impact of a 100 bp interest rate decrease	0.2	1.7

(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.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

25. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

(a) Market Risk (continued)

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 (2020: $5.2m).

(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. The primary financial instruments that subject the Group to credit risk are 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 counterparty's. 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. 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 could incur losses up to the contract value of the instruments in the event of default by its counterparties, it does not expect such losses to occur. On-going credit evaluation is performed on the financial condition of accounts receivable and customers' compliance with credit terms.

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

Concentration of credit risk

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

(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.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

25. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

(c) Liquidity Risk (continued)

GROUP 2021	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	365.5	365.5	365.5	-	-	-
Net settled derivative liabilities	54.9	55.4	28.5	5.7	21.2	-
Leases	82.8	116.5	25.3	20.4	38.4	32.4
Loans	44.3	47.9	39.8	4.0	4.0	-
Total	**547.8**	**585.6**	**459.4**	**30.1**	**63.6**	**32.4**

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
Loans	249.3	240.3	196.3	40.0	4.0	-
Total	**501.0**	**505.2**	**370.9**	**62.0**	**45.0**	**27.3**

(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.

Hedge Accounting

Derivatives are hedge accounted when they are designated into an effective hedge relationship as a hedging instrument. The nature and the effectiveness of the hedge accounting relationship will determine where the gains and losses on remeasurement are recognised. Derivatives are designated cash flow hedges, where the derivative is used to manage the variability in cash flows of highly probably forecast transactions.

At inception, each hedge relationship is formalised in hedge documentation. Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The Group determines the existence of an economic relationship between the hedging instrument and the hedged item based on the currency, amount and timing of the respective cash flows, reference interest rates, tenors (time to maturity), repricing dates, maturities and notional amounts. The Group assesses whether the derivative designated in each hedging relationship is expected to be, and has been, effective in offsetting the changes in cash flows of the hedge item.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

25. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

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

Derivatives in hedge relationships are designated based on a hedge ratio up to 1:1. In these hedge relationships the main source of ineffectiveness is the effect of the counterparty and the Group's own credit risk on the fair value of the derivatives, which is not reflected in the change in the fair value of the hedged item attributable to changes in foreign exchange and interest rates.

Cash flow hedges

The Group enters into forward exchange contracts to hedge forecast foreign currency purchases relating to significant capital projects, which are expected to be made over the next five years. When the forecast transaction occurs, the amount deferred in the cash flow hedge reserve is transferred to the carrying amount of the relevant asset.

At 30 June 2021, the Group held the following instruments to hedge exposures to changes in foreign currency.

GROUP 2021	Less than 1 year	1 to 3 years	3 to 5 years
Foreign Currency Risk			
Forward Exchange Contracts			
Net Exposure (in NZD$m)	328.9	103.7	469.2
Average NZD:USD forward contract rate	0.65	0.63	0.67
Average NZD:AUD forward contract rate	0.92	0.91	-
Average NZD:EUR forward contract rate	0.56	-	-

A reconciliation of movements in the cash flow hedge reserve is outlined below:

	GROUP 2021	GROUP 2020
	$m	$m
Opening balance at 1 July	(3.3)	-
Loss recognised in other comprehensive income	(38.2)	(3.3)
Total movements to other comprehensive income	**(38.2)**	**(3.3)**
Closing balance at 30 June	**(41.5)**	**(3.3)**

Other amounts deferred in equity will be transferred to the carrying amount of the relevant asset when it is recognised, which is expected to occur over the next five years (2020: four years).

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

25. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

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

The details of the hedging instruments are as follows:

GROUP 2021	Notional amount of hedging instrument	Statement of Financial Position line item	Carrying amount of the hedging instrument		Change in fair value used for calculating hedge ineffectiveness
			Assets	Liabilities	
			$m	$m	$m
Cash flow hedges					
Foreign Currency Risk					
Forward foreign exchange contracts	NZD 902m	Financial Assets/ Liabilities	7.3	(48.8)	(38.2)
GROUP 2020					
Cash flow hedges					
Foreign Currency Risk					
Forward foreign exchange contracts	NZD 586m	Financial Assets/ Liabilities	-	(3.3)	(3.3)

The details of the hedge items are as follows:

GROUP 2021	Change in fair value for calculating hedge ineffectiveness	Cash Flow Hedge Reserve
	$m	$m
Cash flow hedges		
Foreign Currency Risk		
Committed foreign exchange transactions	38.2	(41.5)
GROUP 2020		
Cash flow hedges		
Foreign Currency Risk		
Committed foreign exchange transactions	3.3	(3.3)

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

25. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

(e) Capital Risk Management

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

The capital structure of the Group consists of loans, 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. 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 2021

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 68 to 105, that comprise the statement of financial position as at 30 June 2021, 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 2021; 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 31 August 2021. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the uncertainties relating to the outcome of the rail review and carrying value of assets in future years. 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.

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

Without modifying our opinion, we draw your attention to Note 1(h) of the financial statements on pages 73 to 74 relating to the rail review. The rail review is defining and developing the future of rail in New Zealand, including the implementation of a new funding model from 1 July 2021 and the completion of a review of entity form. 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.

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 67 and page 108 but does not include the financial statements, and our auditor's report thereon.

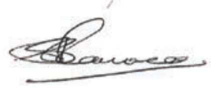
Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

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 tender process for the Picton Terminal Tender and 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

DIRECTORY

BANKERS

Bank of New Zealand
North End Branch, 100 Lambton Quay, Wellington
P.O. Box 1596, Wellington 6140

AUDITORS

Clint Ramoo, Audit New Zealand
On behalf of the Auditor–General
Level 2, 100 Molesworth Street, Wellington
Private Bag 99, Wellington 614

REGISTERED OFFICE

Level 3, 8–14 Stanley Street, Auckland 1010

FURTHER INFORMATION

For assistance, publications or information concerning KiwiRail please visit our website at www.kiwirail.co.nz or contact:

KiwiRail Communications
PO Box 593, Wellington, 6140
Telephone: 0800 801 070
Email: kiwirail@kiwirail.co.nz

KiwiRail