

Independent Limited Assurance Report to the Directors of KiwiRail Limited

Assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention which causes us to believe that KiwiRail Limited's Use of Proceeds (the 'Subject Matter') has not been prepared, in all material respects, in accordance with the post-issuance requirements of the Climate Bond Initiative ("CBI") Climate Bond Standard Version 3.0 (December 2019) and the CBI's Shipping Criteria.

Other Matter

Our understanding of the subject matter is based upon evidence received that the second rail-enabled diesel-electric hybrid ferry will be delivered no later than the stated planned 2026 delivery date and KiwiRail's commitment to a minimum replacement battery size of at least 10MWH before the beginning of 2035. This increased battery size will take the total battery capacity of each ferry to 18.5MWH to ensure the ferries remain under the CBI carbon intensity metric, Annual Efficiency Ratio ("AER"), threshold until the end of the loan facility in 2036. A delay in the delivery of the second ferry beyond 2026 or a replacement battery size smaller than 10MWH, would inhibit KiwiRail's ability to meet the AER threshold and the criteria. Our opinion is not modified in respect of this matter.

Scope

We have been engaged by KiwiRail Limited ("KiwiRail") to perform a 'limited assurance engagement,' as defined by International Standards on Assurance Engagements (New Zealand) 3000 (Revised), here after referred to as the engagement, to report on KiwiRail's Use of Proceeds (the "Subject Matter") contained in KiwiRail's Integrated Report 2023 (the "Report").

Other than as described in the preceding paragraph, which sets out the scope of our engagement, we did not perform assurance procedures on the remaining information included in the Report, and accordingly, we do not express a conclusion on this information.

Criteria applied by KiwiRail

In preparing the Subject Matter, KiwiRail applies the Climate Bond Standard, Version 3.0 Post-Issuance requirements and the CBI's Shipping Criteria ("Criteria").

KiwiRail's Responsibilities

KiwiRail's management is responsible for selecting the Criteria, and for presenting the Subject Matter in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the subject matter, such that it is free from material misstatement, whether due to fraud or error.

EY's Responsibilities

Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.

We conducted our engagement in accordance with the *International Standard for Assurance Engagements (New Zealand) 3000 (Revised)* *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ("ISAE (NZ) 3000 (Revised)"), and the terms of reference for this engagement as agreed with KiwiRail on 16 June 2023. Those standards require that we plan and perform our engagement to express a conclusion on whether we are aware of any material modifications that need to be made to the Subject Matter in order for it to be in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

Our Independence and Quality Management

We are independent of KiwiRail in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.



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Ernst & Young applies Professional and Ethical Standard 3 which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Description of Procedures Performed

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the Use of Proceeds Statement, and related information, and applying analytical and other appropriate procedures.

Our Procedures Included:

- ▶ Understanding of KiwiRail use of funds of the green loan
- ▶ Assessing technical information on the iReX Project against the technical requirements of the CBI Shipping Criteria.
- ▶ Assessing the value of the eligible projects against the shipment contracts
- ▶ Assessing the value of the eligible projects against the value of the green loan
- ▶ Assessing the payment of the first instalment against the value of the green loan
- ▶ Requesting documentation supporting assertions made in the Subject Matter
- ▶ Seeking management representation on key assertions.

A summary of our assurance procedures and our key observations from can be found in Annex A of this statement.

Restricted use

This report is intended solely for the information and use of KiwiRail for the terms of reference for this engagement, as agreed with KiwiRail and is not intended to be and should not be used by anyone other than those specified parties.

Ernst & Young Limited
14 September 2023

Annex A

Observations on Particular Aspects of Our Engagement:

We provide selected observations aligning to the CBI Climate Bonds Standard Version 3.0 and the technical requirements of the CBI Shipping Criteria core components, to provide the reader with further understanding on how the Green Borrowing Framework and Use of Proceeds Statement meets the criteria. These observations are not intended to detract from our conclusion provided above.

Use of Proceeds:

- ▶ Proceeds from green financial instruments issued under this framework are being applied to the iReX Project that promotes the transition to a low carbon and climate resilient economy.
- ▶ The value of any green financial instruments issued under the framework has been covered at least 1.0 times by the value of the assets/projects KiwiRail are financing.
- ▶ At present the only assets that are being considered to be financed by a green loan are two rail-enabled diesel-electric ferries.
- ▶ These ferries have the following features which meet both the CBI Taxonomy “waterborne” category the CBI Shipping Criteria:
 - ▶ Achieve a 40% reduction in CO₂e emissions compared to the FY12 baseline emissions figure for the current vessels
 - ▶ Will contain batteries for peak shaving, in port, while manoeuvring and sailing out of port
 - ▶ Will use diesel fuel with 0.1% SO_x content
 - ▶ Will provide alternative power production for public transport (electric batteries and alternative fuel cell).
 - ▶ Will upgrade battery capacity in the future to ensure the assets stay below the net zero emissions by 2050 trajectory defined for RoPax¹ ferries by the CBI Shipping Criteria.

Managed Reduction Plans

- ▶ KiwiRail has developed a managed reduction plan which shows how the ferries will remain below the CBI carbon intensity metric AER threshold for RoPAX ferries over the lifetime of the loan.
- ▶ The minimum increase in battery size that KiwiRail has committed to installing is 10MWH. This increase will take the total battery capacity of each ferry to 18.5MWH which will ensure it remains under the AER threshold until the end of the loan facility in 2036.

Process for Project Evaluation and Selection of Projects & Assets

- ▶ KiwiRail has developed a Green Borrowing Framework that describes how the process for project evaluation and selection aligns with their overarching objectives, strategy and policy relating to environmental sustainability, specifically, a low carbon and climate resilient economy.
- ▶ The framework highlights how the issuing of green financial instruments will be used to support KiwiRail's transition towards a low carbon and climate resilient economy.
- ▶ KiwiRail's framework ensures that nominated projects & assets are tested to ensure their compliance with Part C of the CBI standard, the CBI Taxonomy and any sector specific criteria.

Management of Proceeds

- ▶ KiwiRail has developed a Green Borrowing Committee to manage the allocation of proceeds from green financial instruments to ensure they are in line with the framework's criteria.
- ▶ The Green Borrowing Committee is required to report to the Risk and Audit Committee on the status of KiwiRail's Green Borrowing Framework.
- ▶ KiwiRail has implemented processes to manage proceeds received from green financial instruments and to monitor the on-going use of proceeds. These processes include:
 - ▶ A tracking process through existing internal systems to ensure funds are allocated or earmarked for nominated projects & assets.

¹ RoPax is an acronym used to describe ships that combine roll-on/roll-off features for the carriage of private cars and commercial vehicles with the provision of accommodation spaces for the carriage of large number of passengers, usually on short voyages.

- ▶ Establishing a green borrowing register to provide information on green financial instruments and assets issued under the framework.
- ▶ Facility agent will manage the green loan funds according to KiwiRail requirements and the existing green loan agreement.
- ▶ Manage unallocated funds in an appropriate way until such time as they can be allocated to a nominated project or asset.

KiwiRail is committed to seeking independent annual assurance over its reporting against the green financial instruments issued through the Green Borrowing Framework until their full allocation or in case of any material changes in their allocation.

Reporting and Disclosure

- ▶ KiwiRail will report to lenders, prior to the issuance of each subsequent loan drawing, the nominated projects & assets that have been put forward for financing or refinancing and the results of assessment against the Green Borrowing Framework Criteria.
- ▶ Pre-issuance reporting will also include the intended types of temporary investment to be used in the event any unallocated proceeds arise and the intended approach to reporting and assurance for the green financial instrument, including the chosen verifier for this assurance.
- ▶ KiwiRail will also report to lenders on an annual basis, the allocation of funds to the various eligible projects & assets, and the environmental impacts of these projects & assets through a selection of Key Performance Indicator ("KPIs"), including the methodology used to calculate them.